

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 2, 2009**

**TO:** Honorable Steve Ogden, Chair, Senate Committee on Finance

**FROM:** John S. O'Brien, Director, Legislative Budget Board

**IN RE: SB700** by Patrick, Dan (Relating to ad valorem tax relief.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds for SB700, As Introduced: a negative impact of (\$31,001,000) through the biennium ending August 31, 2011 (related to immediate eligibility for the standard \$15,000 school district homestead exemption for taxpayers who acquire a residence homestead).**

**Other articles in the bill could result in additional indeterminate fiscal impacts to the state.**

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	\$0
2011	(\$31,001,000)
2012	(\$34,946,000)
2013	(\$39,911,000)
2014	(\$44,577,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193	Probable Revenue Gain/(Loss) from <i>School Districts - Net Impact</i>
2010	\$0	\$0
2011	(\$31,001,000)	(\$9,695,000)
2012	(\$34,946,000)	(\$7,375,000)
2013	(\$39,911,000)	(\$9,235,000)
2014	(\$44,577,000)	(\$10,517,000)

**Fiscal Analysis**

The bill would amend the Tax Code, regarding property taxation.

Article 1 would provide that all homestead exemptions would be effective for the full year in which the exemption is first qualified. The period for a late application for a homestead exemption is extended to five years. This article would take effect January 1, 2010.

Article 2 would provide that all appraisals be based on the current use of a property rather than its highest and best use. This article would take effect January 1, 2010.

Article 3 would add the requirement that the notice of appraised value include a disclosure of appraised value and percentage increase for each of the preceding five years. This article would take effect January 1, 2010.

Article 4 would change the roll back rate from 1.08 to 1.05. The provisions for a local option election for taxing units other than school districts to roll back tax increases would be replaced by the requirement that elections would be held in all taxing units when the roll back rate was exceeded. The election would be held within 30 to 90 days after a proposed tax rate exceeding the roll back rate was adopted. The mandatory election provisions would also apply to water districts. These provisions would apply to the 2009 tax year unless a unit had adopted a 2009 tax rate before the effective date of these provisions. This article would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect beginning with the 2010 tax year.

Article 5 would require appraisal districts in counties with a population of 500,000 or more to provide for electronic filing and communications regarding protest of appraised value of residence homesteads. The electronic communications would include filing notice of protest, receiving comparable sales data, and communications involving settlement offers. The article would also set requirements for communications and provide certain exceptions. This article would take effect January 1, 2010.

Article 6 would give property owners the option of appealing certain decisions of an appraisal review board to a small claims court instead of a district court if the amount in controversy did not exceed \$5,000. Venue for an appeal to a small claims court would lie with any justice of the peace court within the county. Decisions of the small claims court would be final. This article would take effect September 1, 2009.

## **Methodology**

Currently taxpayers who acquire a residence homestead must wait until January 1 of the following year to become eligible for the standard \$15,000 school district homestead exemption and any local optional percentage exemptions. The bill would make these exemptions available immediately after acquisition of the homestead creating a cost to school districts and the state.

Information from appraisal districts and the Real Estate Center at Texas A&M University was used to project home sales to persons that could qualify for a homestead exemption. The value loss to homestead exemptions retroactive to the beginning of the year was estimated by multiplying the number of homestead buyers by the average exemption value. By making homestead exemptions available one year earlier than under current law for taxpayers who acquire homesteads the bill would also make the ten percent limitation on homestead appraised value increases applicable one year earlier than under current law for the affected homesteads creating a cost to school districts and to the state. These provisions would create a similar cost for other taxing units, but this cost could not be estimated.

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the portion of the cost related to school district compressed rates is transferred to the state. A portion of the school districts' debt (facilities funding) and enrichment costs are also transferred to the state after a one-year lag because of the operation of the funding formulas. All costs were estimated over the five year projection period.

The bill's requirement that a property tax appraiser consider only the current use of a property and not the highest and best use would create a cost to taxing units and the state by lowering the appraised value from a value based on a more profitable use to a value based on current use. This provision would affect the value of any property in an area which is in transition from one use to another (residential to commercial for example). Information on the number or value of properties in transition to a higher and better use (a more profitable use) is currently unavailable, so the cost of this provision cannot be estimated.

The bill's provision that would enable late homestead exemption applications for up to five years, in comparison to the one year permitted under current law, would create a cost to taxing units and the state. Information related to the number of homestead exemption applications that would be submitted more than one year late is unavailable and the cost cannot be estimated.

The bill's provision that would lower the rollback rate for taxing units other than school districts from 108 to 105 percent of the effective rate could create a cost to these taxing units by making it more difficult to increase rates by more than 105 percent of the effective rate. (Higher proposed tax rates would be subject to a mandatory rate ratification election that could result in reducing the proposed rate to 105 percent of the effective rate). Future proposed tax rates and the outcome of any mandatory elections cannot be predicted and the cost of the provision cannot be estimated.

The bill's proposals to change the notice of appraised value, permit electronic filing of protests, and permit appeals of certain protests to small claims court would not have a significant effect on state or local tax revenues because they do not directly affect tax rates or taxable values; the changes would only affect notice and protest procedures.

### **Local Government Impact**

According to the Comptroller of Public Accounts, the fiscal impact to units of local government related to the various articles in the bill cannot be estimated.

**Source Agencies:** 212 Office of Court Administration, Texas Judicial Council, 304 Comptroller of Public Accounts, 701 Central Education Agency

**LBB Staff:** JOB, MN, SD, SJS