

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

March 18, 2011

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

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

IN RE: SB175 by Nichols (Relating to the limitation on increases in the appraised value of a residence homestead for ad valorem taxation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB175, As Introduced: a negative impact of (\$19,705,000) through the biennium ending August 31, 2013.

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
2012	\$0
2013	(\$19,705,000)
2014	(\$43,264,000)
2015	(\$114,359,000)
2016	(\$195,933,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>Foundation School Fund 193</i>	Probable Revenue Gain/(Loss) from <i>School Districts - Net Impact</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2012	\$0	\$0	\$0	\$0
2013	(\$19,705,000)	(\$6,902,000)	(\$7,677,000)	(\$8,567,000)
2014	(\$43,264,000)	(\$10,994,000)	(\$15,585,000)	(\$17,361,000)
2015	(\$114,359,000)	(\$33,153,000)	(\$42,183,000)	(\$46,911,000)
2016	(\$195,933,000)	(\$48,668,000)	(\$69,639,000)	(\$77,316,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property taxation, appraisal methods and procedures, to change the limit on the annual increase in appraised value for ad valorem taxation of a residence homestead from 10 percent to 5 percent and to authorize a local option election for the voters of a county to increase that limit to a percentage between 5 percent and 10 percent per year.

The local option limitation would apply to all taxing units in the county and would take effect in the tax year following the year in which the election is held, if approved by a majority of voters. A subsequent election to amend or repeal the new limit could not be held before the 10th year after the year in which the proposition establishing the limit was approved by voters.

The bill would be effective January 1, 2012, contingent on the passage of the corresponding constitutional amendment.

Methodology

Contingent on the passage of a constitutional amendment, the bill would require appraisal districts to reduce the limit on the growth in the appraised value of a homestead from 10 percent to 5 percent per year creating a fiscal impact on the state and units of local government. The analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change in value for a large random sample of homesteads that were listed on the appraisal roll in each of the two most recent years was calculated and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for homesteads that increased in value more than five percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The results were extrapolated to all Texas homesteads.

The value loss was adjusted in the second and succeeding years of the analysis to reflect multi-year appraisal cycles and the holdover of capped property from one year to the next based on historical data from the existing 10 percent cap. The value loss was also adjusted to reflect a moderate housing market recovery.

Projected tax rates were applied to estimate the levy loss to cities and counties, and to estimate the initial school district loss. Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, the school district cost related to the compressed rate is transferred to the state. The enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state after a one-year lag because of the operation of the enrichment and facilities funding formulas. All costs were estimated over the five year projection period.

The bill's provision that would authorize a local option election for the voters of a county to increase that limit to a percentage between 5 percent and 10 percent per year would offset a portion of the cost to the extent that voters approve higher appraisal limitations. The offset is not reflected in the table above. Because the actions of voters cannot be predicted, the gain from the local option election provision cannot be estimated.

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, KK, SD, SJS