

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 3, 2013

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1943 by Bohac (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 HB1943, As Introduced: a negative impact of (\$23,497,000) through the biennium ending August 31, 2015.

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
2014	\$0
2015	(\$23,497,000)
2016	(\$77,549,000)
2017	(\$135,479,000)
2018	(\$201,221,000)

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</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2014	\$0	\$0	\$0	\$0
2015	(\$23,497,000)	(\$37,331,000)	(\$18,545,000)	(\$20,548,000)
2016	(\$77,549,000)	(\$49,973,000)	(\$38,740,000)	(\$42,998,000)
2017	(\$135,479,000)	(\$62,751,000)	(\$60,009,000)	(\$66,718,000)
2018	(\$201,221,000)	(\$84,534,000)	(\$86,201,000)	(\$96,001,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2014	\$0
2015	(\$13,555,000)
2016	(\$28,294,000)
2017	(\$43,792,000)
2018	(\$62,855,000)

Fiscal Analysis

This bill would amend Chapter 23 of the Tax Code, regarding property taxation, appraisal methods and procedures, and special appraisal provisions, 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.

This bill would take effect January 1, 2014, but only if the constitutional amendment proposed by the 83rd Legislature, Regular Session, 2013, to authorize the Legislature to limit the maximum appraised value of a residence homestead for ad valorem tax purposes to 105 percent or more of the appraised value of the property for the preceding tax year is approved by the voters. If that amendment is not approved by the voters, the bill would have no effect.

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.

Value losses would occur in proportion to future real property growth rates. Mathematical modeling supported by historical data from the existing 10 percent cap shows that, when property value growth rates are relatively stable, value losses increase substantially in the second year after the imposition of a value growth cap and then increase at a decreasing rate. The value loss was adjusted in the second and succeeding years of the analysis to reflect this growth pattern.

Projected tax rates were applied to estimate the levy loss to special districts, cities and counties, and to estimate the initial school district loss. Because of the operation of the hold harmless provisions of the Education Code, about 60 percent of the school district cost related to the compressed rate is transferred to the state in the first year the bill takes effect and 100 percent in year two and later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state savings) in the first year of a taxable property value reduction. In the second and successive years the enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state through the relevant funding formulas. All costs were estimated over the five year projection period.

Local Government Impact

The fiscal implication to units of local government is reflected in the table above and is contingent upon passage of a constitutional amendment.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS