# LEGISLATIVE BUDGET BOARD
## Austin, Texas

## FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

**April 15, 2013**

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

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** **HB3570** by Hilderbran (Relating to limiting the frequency of reappraisals of real property for ad valorem tax purposes.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3570, As Introduced: a negative impact of ($114,925,000) 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 | ($114,925,000) |
| 2016 | ($332,221,000) |
| 2017 | ($452,042,000) |
| 2018 | ($496,007,000) |

### All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from *Foundation School Fund* 193 | Probable Revenue Gain/(Loss) from *School Districts* | Probable Revenue Gain/(Loss) from *Counties* | Probable Revenue Gain/(Loss) from *Cities* |
|---|---|---|---|---|
| 2014 | $0 | $0 | $0 | $0 |
| 2015 | ($114,925,000) | ($182,578,000) | ($90,703,000) | ($100,500,000) |
| 2016 | ($332,221,000) | ($168,711,000) | ($152,181,000) | ($168,907,000) |
| 2017 | ($452,042,000) | ($116,001,000) | ($171,959,000) | ($191,184,000) |
| 2018 | ($496,007,000) | ($109,361,000) | ($182,616,000) | ($203,376,000) |

| Fiscal Year | Probable Revenue Gain/(Loss) from *Other Special Districts* |
|---|---|
| 2014 | $0 |
| 2015 | ($66,299,000) |
| 2016 | ($111,145,000) |
| 2017 | ($125,488,000) |
| 2018 | ($133,158,000) |

## Fiscal Analysis

This bill would amend Section 25.18, of the Tax Code, regarding periodic reappraisals, to restrict the reappraisal of real property by an appraisal district to not more than once in any three-year period except in the year following the sale of a real property.

This bill 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 September 1, 2013.

Notes:
1) Limiting the reappraisal of real property to once every third year could conflict with the constitutional requirement of equal and uniform taxation. HJR 144, if adopted, would provide constitutional authorization, but this bill is not contingent on such adoption.

2) The Comptroller is required by law to perform a property value study in each school district at least once every other year to determine if the district's taxable property values are valid for use in the school funding formula. The bill's restriction on an appraisal district appraising property more than once in any three year period could create a timing conflict with the biennial property value study. A situation could arise in which the Comptroller finds that a school district's taxable values are invalid through no fault of the appraisal district or the school district.

## Methodology

The growth in real property value was projected based on historical information from appraisal districts. Under the bill, appraisal districts would only be able to capture the value growth every third year. The lost growth in non-reappraisal years would translate into taxing unit revenue losses and increased state funding to school districts. For the purpose of this estimate it was assumed that beginning in tax year 2014 (fiscal 2015), only one-third of the state's real property would be reappraised each year. The state's tax base would lose the real property value growth on non-reappraised real property each year from fiscal 2015 forward.

Under current law, an appraisal district is permitted to increase the appraised value of a residence homestead up to 10 percent in a non-reappraisal year if the homestead's appraised value is below the market value because of the previous operation of the annual 10 percent limit on residence homestead appraised value increases (Section 23.23, Tax Code). The bill would not amend that section of the Tax Code, so these appraised value increases in non-reappraisal years would reduce the cost of the bill. The bill's provision that newly constructed real property would be appraised and added to the appraisal roll each year would also reduce the cost.

The applicable 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 would be transferred to the state in the first year of a taxable property value loss and 100 percent in 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 included in the tables above.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** UP, KK, SD, SJS