

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 14, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1900 by Rodriguez, Eddie (Relating to the eligibility of land for appraisal for ad valorem tax purposes as qualified open-space land.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1900, As Engrossed: an impact of \$0 through the biennium ending August 31, 2017.

However, significant costs would begin to occur during the 2018-19 biennium.

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
2016	\$0
2017	\$0
2018	\$17,000
2019	(\$21,761,000)
2020	(\$46,557,000)

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>
2016	\$0	\$0	\$0	\$0
2017	\$0	\$0	\$0	\$0
2018	\$17,000	(\$26,552,000)	(\$8,088,000)	(\$7,966,000)
2019	(\$21,761,000)	(\$35,174,000)	(\$17,394,000)	(\$17,097,000)
2020	(\$46,557,000)	(\$45,064,000)	(\$28,056,000)	(\$27,524,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2016	\$0
2017	\$0
2018	(\$5,616,000)
2019	(\$12,067,000)
2020	(\$19,444,000)

Fiscal Analysis

The bill would amend Section 23 of the Tax Code, regarding property taxation and appraisal methods and procedures.

The bill would revise the definition of qualified open-space land to require a chief appraiser to distinguish between the degree of intensity required for various agricultural production methods, including organic, sustainable, pastured poultry, rotational grazing, and other uncommon production methods or systems. The bill would revise the definition of agricultural use to include the production of fruits and vegetables.

The Comptroller would be required to consult with the Texas A&M AgriLife Extension Service and selected stake-holders to develop guidelines for determining the conditions under which the cumulative effect of multiple agricultural uses of a tract of land meets the degree of intensity generally accepted in the area, and the conditions under which land under 10 acres in size used for the production of fruits, vegetables, poultry, hogs, sheep, or goats qualifies for special open space appraisal. In developing the guidelines, the Comptroller would be allowed to consider:

- 1) the financial investment of a producer in an agricultural use of a tract of land;
- 2) the degree of active management of a producer in the agricultural use of a tract of land;
- 3) the percentage of a tract of land used by a producer for agricultural uses; and
- 4) any other factor the Comptroller considers appropriate.

The Comptroller would be required to cooperate with appraisal districts to provide educational resources to help implement the guidelines. The Comptroller would be required to distribute the guidelines to appraisal districts not later than September 1, 2016.

This bill would take effect on September 1, 2015 but would apply only to the property tax appraisal of land for a tax year that begins on or after January 1, 2017.

Methodology

Qualified open space land is appraised according to a statutory formula that results in an appraised value that is significantly less than the market value. As a result, any changes in the law that increase the number of acres that are appraised according to this formula result in a fiscal impact to local taxing units and to the state through the school finance formulas. This fiscal impact is greatest when the affected land is near an urban area because the market values are relatively high and the difference between the market values and the reduced statutory appraised values are relatively large.

The bill's proposed changes to the definitions of qualified open space land and agricultural use would increase the number of acres subject to special open space land appraisal. This increase in the number of acres subject to special appraisal would create a cost to local taxing units and to the state through the operation of the school funding formulas.

The fiscal impact was estimated based on the results of a survey of appraisal districts. The first effect on taxing unit revenues would occur in fiscal 2018. It was assumed that only one-third of the affected taxpayers would apply and qualify for agricultural use appraisal in the first year the bill's appraisal provisions would be in effect, another third in the second year and the remainder in the third year as taxpayers become aware of the changes proposed by the bill and take the steps necessary to qualify.

Projected tax rates were applied through the five-year projection period to estimate the tax revenue loss to special districts, cities and counties, and to estimate the school district loss that would be partially transferred to the state. Under the hold harmless provisions of the Education Code, only a small portion of the each year's additional school district loss related to the compressed rate would be transferred to the state, while in subsequent years 100 percent of the loss would be transferred to the state. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (a state gain) in the first year of a taxable property value reduction. In the second and successive years the enrichment loss and a portion of the school district debt (facilities) loss are transferred to the state through the relevant funding formulas.

The Comptroller's office reports that there would be a one-time administrative cost in FY 2016 of \$150,000 which is not included in the table above. The administrative cost estimate reflects the funds that would be necessary to hire contract staff to produce the three sets of guidelines by September 1, 2016. The Comptroller's office currently employs only one agriculture appraiser who is responsible for producing the agriculture portion of the Property Value Study and managing any resulting protests. The bill requires significant interaction with various stakeholders and a relatively short turn-around time to produce the guidelines, necessitating contract staff.

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: UP, KK, SD, SJS, SZ