

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

**FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017**

**August 2, 2017**

**TO:** Honorable Tracy O. King, Chair, House Committee on Agriculture & Livestock

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

**IN RE: HB92** by Rodriguez, Eddie (Relating to the eligibility of land for appraisal for ad valorem tax purposes as qualified open-space land.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB92, As Introduced: a negative impact of (\$150,000) through the biennium ending August 31, 2019.

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
2018	(\$150,000)
2019	\$0
2020	(\$9,000)
2021	(\$7,943,000)
2022	(\$15,938,000)

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

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from School Districts	Probable Revenue Gain/(Loss) from Counties
2018	(\$150,000)	\$0	\$0	\$0
2019	\$0	\$0	\$0	\$0
2020	\$0	(\$9,000)	(\$9,137,000)	(\$2,671,000)
2021	\$0	(\$7,943,000)	(\$11,418,000)	(\$5,630,000)
2022	\$0	(\$15,938,000)	(\$14,801,000)	(\$8,898,000)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from Cities</b>	<b>Probable Revenue Gain/(Loss) from Other Special Districts</b>
2018	\$0	\$0
2019	\$0	\$0
2020	(\$2,540,000)	(\$2,013,000)
2021	(\$5,297,000)	(\$4,236,000)
2022	(\$8,285,000)	(\$6,685,000)

## **Fiscal Analysis**

The bill would amend Chapter 23 of the Tax Code, regarding property tax 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 stakeholders 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 December 1, 2018.

The bill would take effect on December 1, 2017 but would apply only to the property tax appraisal of land for a tax year that begins on or after January 1, 2019.

## **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 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 2020. 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 to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts, special districts, cities and counties. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. Projected school funding rates were applied to estimate the state loss and the net school district loss.

In the first year of a taxable value loss, state recapture is reduced (a state loss). Because of the use of lagged year property values, in the second and successive years of a taxable value loss, state recapture is further reduced and the previous year's school district loss related to the Tier 1 rate is generally transferred to the state through the Tier 1 funding formulas (a state loss).

In the school district enrichment formula (Tier 2), property values do not reflect the first-year value loss because of the one-year value lag. Because the formula does reflect a tax collections decline in that year, school districts lose Tier 2 funding creating a state gain. In the second and successive years a large portion of the previous year's enrichment loss is transferred to the state (a state loss).

The school district debt (facilities) funding formula does not reflect the first-year taxable value loss because of lagged property values. In the second and successive years a small portion of the previous year's school district facilities loss is transferred to the state (a state loss).

The fiscal effect of the bill was implemented in increments of one-third per year. In 2022 the fiscal effect would be fully implemented and after 2022 the rate of growth would slow to reflect increases in the difference between the market value and the special appraised value of qualified agricultural land.

The Comptroller's Office reports that administrative costs to implement provisions of the bill would total \$150,000 in fiscal year 2018. The administrative cost estimate reflects the funds that would be necessary to hire contract staff to produce the two sets of guidelines by December 1, 2018. The Comptroller's office currently employs only one full-time 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, 555 Texas A&M AgriLife Extension Service

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