LEGISLATIVE BUDGET BOARD
Austin, Texas

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

July 24, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB155** by Phelan (Relating to the authority of an appraisal review board to direct changes in the appraisal roll and related appraisal records if a residence homestead is sold for less than the appraised value.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB155, As Introduced: a negative impact of ($5,130,000) 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	($34,000)
2019	($5,096,000)
2020	($5,351,000)
2021	($5,588,000)
2022	($5,838,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *Foundation School Fund* 193	Probable Revenue (Loss) from *School Districts*	Probable Revenue (Loss) from *Counties*	Probable Revenue (Loss) from *Cities*
2018	($34,000)	($6,072,000)	($1,800,000)	($1,860,000)
2019	($5,096,000)	($1,367,000)	($1,896,000)	($1,939,000)
2020	($5,351,000)	($1,457,000)	($1,988,000)	($2,013,000)
2021	($5,588,000)	($1,583,000)	($2,085,000)	($2,089,000)
2022	($5,838,000)	($1,716,000)	($2,187,000)	($2,167,000)

Fiscal Year	Probable Revenue (Loss) from *Other Special Districts*
2018	($1,360,000)
2019	($1,431,000)
2020	($1,498,000)
2021	($1,569,000)
2022	($1,643,000)

Fiscal Analysis

This bill would amend Chapter 25 of the Tax Code, regarding local property tax appraisal, to provide that an appraisal review board, on motion of the chief appraiser or of a property owner, may order the appraised value of the owner's property in the current tax year and either of the two preceding tax years changed to the sales price of the property in the current tax year if, for each tax year for which the change is to be made:

1. the property qualifies as the owner's residence homestead;
2. the sales price of the property is at least 10 percent less than the appraised value of the property; and
3. the board makes a finding that the sales price represents the market value of the property.

The appraisal roll or related records would be changed to reflect the reduced sales price upon a written order by the appraisal review board.

This bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day of the last day of the legislative session.

Methodology

The bill's proposed grant of authority to an appraisal review board to lower certain residence homestead appraised values to the sales price on a motion from a homestead owner or chief appraiser would create a cost to local taxing units and to the state through the school finance formulas by allowing the use of sales that occur after the filing deadline for protests (before June 1). The bill would use the error correction process which has a later deadline to make reductions in the appraised value of certain residence homestead that are appraised at or above 10 percent over the sales price. This would result in value reductions that would not occur until the following year under current law.

Multiple Listing Service residential sales totals, residential sales reported to the Comptroller, and corresponding appraisal district residential appraised values were used to estimate the taxable value loss. The value loss was reduced to account for sales occurring before June 1. 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).

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