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: **HB196** by Metcalf (Relating to a limitation on increases in the appraised value of real property other than a residence homestead for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB196, As Introduced: a negative impact of ($3,145,000) through the biennium ending August 31, 2019, contingent upon passage of a constitutional amendment authorizing the exemption.

Additionally, there would be a negative impact of ($2,490,307,000) through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption.

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	$0
2019	($3,145,000)
2020	($794,841,000)
2021	($1,695,466,000)
2022	($2,704,049,000)

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*
2018	$0	$0	$0	$0
2019	($3,145,000)	($955,656,000)	($281,301,000)	($287,736,000)
2020	($794,841,000)	($1,272,559,000)	($603,844,000)	($611,210,000)
2021	($1,695,466,000)	($1,631,700,000)	($967,433,000)	($969,013,000)
2022	($2,704,049,000)	($2,044,265,000)	($1,374,424,000)	($1,362,297,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($212,293,000)
2020	($455,029,000)
2021	($727,923,000)
2022	($1,032,607,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding appraisal methods and procedures, to limit appraised value increases on real property (not including residence homesteads) to 5 percent per year. The limitation would take effect in the tax year following the first tax year in which the owner owns the property on January 1. New improvements would be excluded from the limitation, except that an improvement to real property that would otherwise constitute a new improvement is not treated as a new improvement if the improvement is a replacement structure for a structure that was rendered uninhabitable or unusable by a casualty or by wind or water damage. The bill would make other provisions for replacement structures.

The bill would make conforming changes elsewhere in the Tax Code, and in the Government Code.

The bill would take effect January 1, 2018, contingent on voter approval of a constitutional amendment (HJR 33).

Methodology

Contingent on the passage of a constitutional amendment, the bill would require appraisal districts to limit the growth in the appraised value of non-homestead real property 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 non-residence homestead real properties 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 non-homestead real properties that increased in value more than 5 percent. The results were extrapolated to all real property.

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 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 and is contingent upon passage of a constitutional amendment authorizing the exemption.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SJS