LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 25, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB301** by Larson (Relating to the authority of an appraisal district to increase the appraised value of property for ad valorem tax purposes in the tax year following a year in which the appraised value of the property is lowered as a result of an agreement, protest, or appeal.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB301, As Introduced: a negative impact of ($653,000) through the biennium ending August 31, 2019, contingent upon passage of a constitutional amendment authorizing the exemption.

The cost will increase to ($164,885,000) beginning in fiscal year 2020.

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	($653,000)
2020	($164,885,000)
2021	($173,025,000)
2022	($181,630,000)

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	($653,000)	($198,503,000)	($58,430,000)	($59,767,000)
2020	($164,885,000)	($45,902,000)	($61,566,000)	($62,317,000)
2021	($173,025,000)	($50,077,000)	($64,871,000)	($64,977,000)
2022	($181,630,000)	($54,514,000)	($68,353,000)	($67,750,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($44,096,000)
2020	($46,394,000)
2021	($48,811,000)
2022	($51,354,000)

Fiscal Analysis

The bill would amend Chapter 23, of the Tax Code, regarding property tax appraisal methods and procedures, to limit an appraised value increase to five percent for a property for which the value was reduced by agreement between the property owner and the appraisal district, or as a result of a protest or appeal. The limitation would apply only in the year following the year of the value reduction, and would not apply to an appraised value increase resulting from a new improvement, a loss of special appraisal eligibility, or the expiration of a residence homestead appraisal cap applicable to the property.

The bill would take effect on January 1, 2018, contingent on voter approval of a constitutional amendment (HJR 30).

Methodology

The bill's proposed one-year five percent cap on increases in the appraised value of a property if the appraised value was lowered in the preceding year by agreement, protest or appeal would result in a cost to local taxing units, and to the state through the school funding formulas.

The taxable value loss was based on information from appraisal districts. 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, SD, SJS