

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 26, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB3975 by Ashby (Relating to qualification of land for appraisal for ad valorem tax purposes as timber land.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3975, As Introduced: a negative impact of (\$44,000) through the biennium ending August 31, 2019 as a result of the bill's provision that would include real property associated with the production of timber or forest products as land that may qualify for timber land special appraisal. The cost of this provision would increase to (\$10,967,000) beginning in fiscal year 2020.

Additionally, the bill's inclusion of roads, rights of way, buffer areas, fire breaks, and property taken through eminent domain as timber land that may qualify for special appraisal would create a cost to state through the school finance formulas by increasing the amount of land subject to special timber appraisal.

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	(\$44,000)
2020	(\$10,967,000)
2021	(\$12,036,000)
2022	(\$13,213,000)

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	(\$44,000)	(\$13,203,000)	(\$3,886,000)	(\$3,735,000)
2020	(\$10,967,000)	(\$3,696,000)	(\$4,283,000)	(\$4,073,000)
2021	(\$12,036,000)	(\$4,199,000)	(\$4,721,000)	(\$4,442,000)
2022	(\$13,213,000)	(\$4,765,000)	(\$5,204,000)	(\$4,846,000)

Fiscal Year	Probable Revenue Gain/(Loss) from Other Special Districts
2018	\$0
2019	(\$2,933,000)
2020	(\$3,227,000)
2021	(\$3,552,000)
2022	(\$3,910,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to specify that land that may qualify for timber land special appraisal includes roads, rights-of-way, buffer areas, fire breaks, property taken through eminent domain, and other real property associated with the production of timber or forest products. This land would be subject to the qualification requirements in current law. The bill would apply only to the appraisal of land for a tax year that begins on or after January 1, 2018.

The 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 September 1, 2017.

Methodology

Timber land special appraisal results in an appraised value for property tax purposes that is significantly less than the land's market value. The bill's inclusion of roads, rights of way, buffer areas, fire breaks, and property taken through eminent domain as timber land that may qualify for special appraisal would create a cost to local taxing units and the state through the school finance formulas by increasing the amount of land subject to special timber appraisal. The value of roads, rights of way, buffer areas, fire breaks, and property taken through eminent domain that would receive a special appraised value under the bill, and is not already receiving such appraisal is unknown; consequently the cost of this portion of the bill cannot be estimated.

The term "real property" is defined in the Tax Code as:

1. land;
2. an improvement;
3. a mine or quarry;
4. a mineral in place;
5. standing timber;
6. an estate or interest, other than a mortgage or deed of trust creating a lien on property or an

interest securing payment or performance of an obligation, in a property enumerated above.

Under current law, only timber producing land may qualify for special timber appraisal; the bill's provision that would include real property associated with the production of timber or forest products as land that may qualify for timber land special appraisal would create a cost to local taxing units and the state through the school finance formulas by including certain land that is not producing timber, and by including improvements (e.g. buildings) by virtue of association. The taxable value losses for this portion of the bill were estimated based on information from the Primary Forest Products Network, the U.S. Census Bureau, the Texas Comptroller of Public Accounts, and 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

Passage of the bill would include real property associated with the production of timber or forest products as land that may qualify for timber land special appraisal. The estimated fiscal implication to units of local government of this provision is reflected in the table above.

Additionally, the bill's inclusion of roads, rights of way, buffer areas, fire breaks, and property taken through eminent domain as timber land that may qualify for special appraisal would increase the amount of land subject to special timber appraisal. As a result, taxable property values and the related ad valorem tax revenue for units of local government could be reduced.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS