LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 13, 2017

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB2** by Bettencourt (Relating to ad valorem taxation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB2, As Introduced: a negative impact of ($494,000) 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.

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	($242,000)	$0	$0	$0
2019	($242,000)	($10,000)	($536,000)	($160,000)
2020	($242,000)	($2,428,000)	$1,884,000	($159,000)
2021	($242,000)	($2,475,000)	$1,934,000	($157,000)
2022	($242,000)	($2,525,000)	$1,987,000	($156,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Cities*	Probable Revenue Gain/(Loss) from *Other Special Districts*	Change in Number of State Employees from FY 2017
2018	$0	$0	2.0
2019	($164,000)	($121,000)	2.0
2020	($161,000)	($120,000)	2.0
2021	($158,000)	($118,000)	2.0
2022	($154,000)	($117,000)	2.0

Hypothetical Fiscal Impact of Lowering the Rollback Rate from 108 to 104 Percent of the Effective Rate Plus the Current Debt Rate:
The table below was provided by the Comptroller's office and is for illustrative purposes only. It addresses the bill's provision that would lower the rollback rate from 108 to 104 percent of the effective rate plus the current debt rate. The fiscal effects of this provision cannot be estimated; however, the table below is a hypothetical example of potential costs of the bill to counties, cities, and special districts assuming:
1) no proposed tax rate in excess of the reduced rollback rate proposed by the bill would be sustained in a rollback election;
2) future taxing unit rate setting practices would be similar to the rate setting practices demonstrated in the available historical tax rate data; and
3) the tax rate data, which is not available for all taxing units, is representative of all taxing units and is accurate.

Fiscal Year	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0	$0	$0
2019	($144,374,000)	($114,730,000)	($139,337,000)
2020	($151,593,000)	($120,467,000)	($146,304,000)
2021	($159,173,000)	($126,490,000)	($153,619,000)
2022	($167,131,000)	($132,814,000)	($161,300,000)

Fiscal Analysis

The bill would amend Chapter 5 of the Tax Code, regarding state property tax administration, to require the Comptroller to appoint a property tax administration advisory board to advise the Comptroller on various matters for which the Comptroller has property tax responsibilities. The advisory board would be required to make recommendations regarding a variety of property tax, appraisal district and tax office matters related to rules, procedures, forms, standards, Comptroller personnel, publications, guidelines, communications, property value studies, reviews, computer hardware and software, and other property tax operational matters. The bill would prescribe the composition, qualifications, and other requirements and restrictions related to the advisory board. The bill would require an appraisal district to appraise property in accordance with any appraisal manuals prepared and issued by the Comptroller and require the Comptroller to review compliance with the appraisal manuals.

The bill would amend Chapter 6 of the Tax Code, regarding local property tax administration, to require that a member of the board of directors of an appraisal district be an elected county officer or an elected official of a political subdivision all or part of the territory of which is located in the county. The bill would modify the size of an appraisal review board under certain circumstances and would establish special review board panels for each specified property category in counties with a population of 120,000 or more. The bill would prescribe the size, member qualifications, and other matters related to the special appraisal review board panels.

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to increase the taxable value below which tangible personal property held or used for the production of income is exempt from property taxation from $500 to $2,500.

The bill would amend Chapter 22 of the Tax Code, regarding renditions and other reports, to require a March 15 (rather than April 15) filing deadline for property renditions and reports, and to require an extended deadline upon request of the property owner of April 15 (rather than May 15).

The bill would amend Chapter 26 of the Tax Code, regarding property taxation and assessment, to reduce the percentage by which the effective tax rate is increased in the rollback tax rate calculation for taxing units other than school districts from 8 percent to 4 percent. Local officials, however, would still be permitted to use 8 percent in the rollback tax rate calculation if the taxing unit is located in a disaster area. All local taxing units would be required to hold an automatic election to ratify a tax rate that exceeds the rollback rate. Currently, only school districts must hold the automatic election, and other taxing units hold an election only if a specified percentage of registered voters petition for the election before the 90th day after the tax rate is adopted. The election would be required to be held on the uniform election date that occurs in November of the applicable tax year and the deadline for the order calling the election would be August 15. Section 26.07, regarding tax rate rollback elections by petition, would be repealed.

The bill would amend Chapter 41 of the Tax Code, regarding local review, to strike the provision permitting a taxing unit to challenge before the appraisal review board the level of appraisals of any category of property in the district or in any territory in the district.

The bill would amend Chapter 41A of the Tax Code, regarding property tax appeal through binding arbitration, to increase the appraised or market value, as applicable, of a property for which the owner is entitled to appeal through binding arbitration from $3 million or less to $5 million or less. The arbitration deposit would be increased to $1,250 and the arbitration fee would be increased to $1,200 for a non-residence homestead property valued at more than $3 million but not more than $5 million.

The bill would adjust several deadlines, adjust the scheduling of appraisal review board hearings, increase the maximum value and fee of certain properties for which the owner is permitted to go to binding arbitration, and make conforming repeals and conforming changes in various sections of the Tax Code, Education Code, Government Code, Health and Safety Code, Local Government Code, Special District Local Laws Code, and Water Code.

With certain specified exceptions, the bill would take effect on January 1, 2018 and apply beginning with the 2018 tax year.

Methodology

The bill's provision that would increase the taxable value threshold below which tangible personal property held or used for the production of income is exempt from $500 to $2,500 would create a cost to school districts, other local taxing units, and to the state through the school funding formula.

Information from appraisal districts on the statewide number and value of tangible personal property parcels was used to estimate the value loss from the proposed new exemption of tangible personal property parcels valued from $500 to $2,500. Tangible personal property parcels valued at less than $500 were excluded because they are exempt under current law.

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).

Note: The constitutional authorization for this exemption would presumably be Article VIII, Section 1(g), of the Texas Constitution. That section provides that "The Legislature may exempt from ad valorem taxation tangible personal property that is held or used for the production of income and has a taxable value of less than the minimum amount sufficient to recover the costs of the administration of the taxes on the property, as determined by or under the general law granting the exemption." The estimated costs in the table above are net of the estimated local taxing unit administrative savings that would result from the bill.

The Comptroller's office estimates that its total administrative costs to implement the provisions of the bill would increase by $242,000 per year. These additional administrative costs are included in the table above.

Relating to the implementation of the Chapter 5 provision, the administrative cost estimate of $192,000 reflects the funds that would be necessary to hire a program specialist V and a systems analyst V to support the work of the Property Tax Administration Advisory Board. The board would provide recommendations on the daily functions of the Property Tax Administration Division, including personnel decisions, IT needs, rulemaking, communications, forms, publications, guidelines, and the administration of the Methods and Assistance Program and Property Value Study. The program specialist would serve as the primary associate to the board. The systems analyst would provide technological expertise to implement board recommendations and support for the hundreds of appraisal districts and local tax offices, many of whom have their own unique appraisal and tax systems.

Relating to the implementation of the Chapter 41A provision, the administrative cost also includes $50,000 to employ seasonal workers to input binding arbitration information during peak periods. The Property Tax Assistance Division experienced a 400 percent increase in binding arbitration requests from 2015 to 2016, prompting the need for seasonal staff. The Comptroller's office anticipates requests to continue to grow, in part due to the increased eligibility limit for binding arbitration.

The bill's provision that would lower the rollback rate from 108 to 104 percent of the effective rate plus the current debt rate could create a cost to local taxing units other than school districts by making it more difficult to increase maintenance and operations tax rates by more than 104 percent of the effective rate. If these taxing units propose a tax rate higher than the rollback rate, the automatic rollback election might result in reducing the proposed rate to 104 percent of the effective rate plus the current debt rate. Future proposed tax rates and the outcome of any elections cannot be predicted and the increase in cost attributable to the proposed provision to units of local government cannot be estimated. There would be no cost to school districts or to the state through the school funding formula.

Local Government Impact

The bill's provision that would increase the taxable value threshold below which tangible personal property held or used for the production of income is exempt from $500 to $2,500 would create a cost to local taxing units. The fiscal impact is included in the All Funds, Five-Year Impact table above.

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The table above titled "Hypothetical Fiscal Impact of Lowering the Rollback Rate from 108 to 104 Percent of the Effective Rate Plus the Current Debt Rate" was provided by the Comptroller's office and is for illustrative purposes only. It addresses the bill's provision that would lower the rollback rate from 108 to 104 percent of the effective rate plus the current debt rate. The fiscal effects of this provision cannot be estimated; however, the table is a hypothetical example of potential costs of the bill to counties, cities, and special districts assuming:
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Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS