

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 18, 2017

TO: Honorable Eddie Lucio, Jr., Chair, Senate Committee on Intergovernmental Relations

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB1931 by West (Relating to community land trusts.), As Introduced

Passage of the bill would increase the amount of property that may be eligible for a community land trust exemption, create appraisal restrictions, and place a prohibition on the termination of an existing exemption. As a result, taxable property values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.

The bill would amend Chapter 373B of the Local Government Code, regarding community land trusts, to add as alternative requirements for a community land trust that the trust may be organized as:

1. a limited partnership of which a specified type of nonprofit corporation that is exempt from federal income taxation (a 501(c)(3) corporation) controls 100 percent of the general partner interest; or
2. a limited liability company for which a 501(c)(3) corporation serves as the only member.

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions, to provide that an exemption for certain community housing development organization property does not terminate because the organization receives a community land trust exemption for the same property.

The bill would strike the requirement that a community land trust meet the specified requirements of a charitable organization to receive an exemption of land. Once adopted by a taxing unit, a community land trust exemption would continue to apply to property until officially rescinded. A community land trust would be permitted to apply for an exemption for the year of acquisition not later than the 30th day after the date the organization acquires the property (rather than before May 1).

The bill would amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to require a chief appraiser to use the income method of appraisal as described, to determine the appraised value of certain community land trust property regardless of whether the chief appraiser considers that method to be the most appropriate method for appraising the property. In appraising the property, the chief appraiser would be required to:

1. take into account the use and limitation applicable to the property for purposes of computing the actual rental income from the property and projecting future rental income; and
2. use the same capitalization rate that the chief appraiser uses to appraise other rent-restricted properties.

If a sale of certain community land trust housing units is subject to an eligible land use restriction, the chief appraiser may not appraise the housing unit for an amount that exceeds the price for which the housing unit may be sold under the eligible land use restrictions. "Eligible land use restriction" means an agreement or restrictive covenant applicable to a housing unit that:

1. is recorded in the real property records;
2. has a term of at least 40 years;
3. restricts the price for which the housing unit may be sold to a price that is or may be less than the market value of the housing unit; and
4. restricts the sale of the housing unit to a family meeting the specified income-eligibility standards.

The bill increases the amount of property that may be eligible for a property tax exemption by:

1. increasing the specified entities that may qualify as a community land trust; and
2. striking the requirement that a community land trust meet the specified requirements of a charitable organization to receive an exemption of land.

The bill would restrict a chief appraiser's choices regarding:

1. the appraisal method used by requiring an income method;
2. the method for calculating the income and capitalization rate used in the appraisal;
3. consideration of land use restrictions.

The bill also would prevent a specified existing exemption (if any) from terminating upon receiving the community land trust exemption.

The bill's proposed increase in the amount of property that may be eligible for a community land trust exemption, appraisal restrictions, and prohibition on the termination of an existing exemption would create a cost to local taxing units, and to the state through the school finance formulas.

The number and value of community land trust exemptions that would be granted under the bill's increase in the amount of property that may be eligible for a property tax exemption are unknown. Similarly, the amount of value reduction that would be caused by the proposed appraisal restrictions and the value loss to the proposed prohibition of the termination of a specified existing exemption upon receiving the community land trust exemption are unknown. Consequently, the cost of the bill cannot be estimated.

The bill would take effect September 1, 2017.

Local Government Impact

Passage of the bill would increase the amount of property that may be eligible for a community land trust exemption, create appraisal restrictions, and place a prohibition on the termination of an existing exemption. 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, 332 Department of Housing and Community Affairs

LBB Staff: UP, JGA, SD, SJS