LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 8, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB2207** by Hancock (Relating to the appeal of a determination of the appraised value of certain property for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB2207, As Introduced: a negative impact of ($511,000) through the biennium ending August 31, 2019. However, there will be a General Revenue Related Funds cost of ($128,999,000) 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	($511,000)
2020	($128,999,000)
2021	($135,366,000)
2022	($142,098,000)

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	($511,000)	($155,300,000)	($45,713,000)	($46,759,000)
2020	($128,999,000)	($35,911,000)	($48,167,000)	($48,754,000)
2021	($135,366,000)	($39,179,000)	($50,752,000)	($50,835,000)
2022	($142,098,000)	($42,649,000)	($53,476,000)	($53,004,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($34,499,000)
2020	($36,296,000)
2021	($38,187,000)
2022	($40,177,000)

Fiscal Analysis

The bill would amend Chapter 42 of the Tax Code, regarding judicial property tax review, to provide that, notwithstanding any other law, a property owner is entitled to appeal an increase in the appraised value of the owner's property if the appraised value of the property was lowered in the preceding tax year by an appraisal review board, binding arbitration, or a court. The appeal would be for the limited purpose of determining whether the chief appraiser is able to meet the burden of proof required to increase the appraised value of the property (substantial evidence).

If the court determines that the burden of proof is not met, the court would be required to reduce the property value to the previous year's value, and the appraisal district to correct the appraisal records accordingly. Neither party would be permitted to conduct discovery. The court would be permitted to award costs and reasonable attorney's fees to a prevailing property owner subject to statutory limitation. A property owner would be permitted to protest the value of the property in the same tax year.

The bill would take effect September 1, 2017.

Methodology

Under this bill in an appeal regarding the appraisal district's burden of proof required to increase the value of a property for which the preceding year's appraised value was reduced by an appraisal review board, binding arbitration, or a court:

1. an appraisal district would not be able to conduct discovery to find information to help meet the substantial evidence burden of proof;
2. if a court determines that an appraisal district has not met its burden of proof, the property value would be reduced to the previous year's value; and
3. court costs and attorney's fees could be awarded to the property owner but not to the appraisal district.

In order to avoid the uncertainty of litigation and the potential costs under these circumstances, appraisal districts would tend not to increase the appraised value on properties for which, under current law, the appraised value would have been increased. This would create a cost to local taxing units, and the state through the school finance formulas.

The taxable value losses were estimated 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.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS