LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 30, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director   Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB383** by Bohac (Relating to the limitation on increases in the appraised value of a residence homestead for ad valorem taxation.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB383, As Introduced: a positive impact of $2,884,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. However, there would be a negative impact of ($368,554,000) through the biennium ending August 31, 2023.

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
2020	$0
2021	$2,884,000
2022	($113,046,000)
2023	($255,508,000)
2024	($421,108,000)

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*
2020	$0	$0	$0	$0
2021	$2,884,000	($141,682,000)	($38,418,000)	($41,123,000)
2022	($113,046,000)	($197,668,000)	($85,109,000)	($90,831,000)
2023	($255,508,000)	($256,754,000)	($138,858,000)	($147,753,000)
2024	($421,108,000)	($323,055,000)	($199,624,000)	($211,777,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($28,873,000)
2022	($64,648,000)
2023	($106,602,000)
2024	($154,888,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property taxation and appraisal methods and procedures, to reduce the limitation on the annual increase in the appraised value of a residence homestead (appraisal cap) from 10 percent to 5 percent.

This bill would take effect on January 1, 2020, contingent on approval by the voters of a constitutional amendment (HJR 28).

Methodology

Contingent on voter approval of a constitutional amendment, the bill would require appraisal districts to reduce the limit on the growth in the appraised value of a homestead from 10 percent to 5 percent per year creating a fiscal impact on the state and units of local government. The year to year percent change in value for a large random sample of homesteads listed on the appraisal roll was calculated and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for homesteads that increased in value more than 5 percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The results were extrapolated to all Texas homesteads.

Value losses would occur in proportion to future residential property growth rates. Historical data from the existing 10 percent cap shows that value losses increase substantially in the second year after the imposition of a value growth cap and then increase at a decreasing rate. The value loss was adjusted in the second and succeeding years of the analysis to reflect this growth pattern.

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 the previous year's enrichment loss is generally 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-year 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: WP, KK, SD, SJS