

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

May 8, 2019

TO: Honorable Paul Bettencourt, Chair, Senate Committee on Property Tax

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

IN RE: HB1743 by King, Tracy O. (Relating to the additional ad valorem tax and interest imposed as a result of a change of use of certain land.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1743, As Engrossed: a negative impact of (\$3,686,000) through the biennium ending August 31, 2021.

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	(\$1,243,000)
2021	(\$2,443,000)
2022	(\$1,920,000)
2023	(\$1,463,000)
2024	(\$997,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund 193</i>	Probable Revenue Gain/(Loss) from <i>School Districts</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2020	(\$1,243,000)	(\$47,085,000)	(\$13,517,000)	(\$2,841,000)
2021	(\$2,443,000)	(\$150,921,000)	(\$42,449,000)	(\$8,895,000)
2022	(\$1,920,000)	(\$159,112,000)	(\$44,109,000)	(\$9,216,000)
2023	(\$1,463,000)	(\$167,620,000)	(\$45,833,000)	(\$9,547,000)
2024	(\$997,000)	(\$176,541,000)	(\$47,625,000)	(\$9,891,000)

Fiscal Year	Probable Revenue Gain/(Loss) from <i>Other Special Districts</i>
2020	(\$10,052,000)
2021	(\$31,903,000)
2022	(\$33,505,000)
2023	(\$35,186,000)
2024	(\$36,952,000)

Fiscal Analysis

The bill would amend Chapter 23, Subchapters D and E of the Tax Code, regarding property tax appraisal methods and procedures, to provide that if the use of qualified open-space land or timber land changes to a non-qualifying use, an additional tax is imposed equal to the difference in the taxes that would have been paid at market value and the taxes that were actually paid over the past three years (rather than five years) plus interest calculated at 5 percent (rather than 7 percent).

The bill would take effect September 1, 2019.

Methodology

Under Chapter 23 of the Tax Code, qualified land is appraised at a value much lower than its market value. Generally, when the use of the land changes to a non-qualifying use, Chapter 23 requires that landowners pay the difference between the market value and the productivity value of qualified agricultural or timber land plus interest for each of the five years preceding a change in the use of the land (rollback). The bill's change in the rollback period from five years to three years would create a cost to local taxing units and to the state through the operation of the school funding formulas because the taxing units would no longer receive the revenue from the full five years. The bill's change in the rate at which interest is charged from 7 percent to 5 percent would create a cost to school districts and other local taxing units but not to the state because the interest on rollbacks is not included in the state's school funding formula. No timber rollback information is available; consequently the effect of the proposed rollback changes on taxing units containing qualified timber land is unknown.

The estimated costs were based on rollback information from a sample of appraisal districts. Information from responding appraisal districts was extrapolated to other districts and the results were projected through the five-year period in the table below. Because of the bill's September 1, 2019 effective date, only one-third of the annual cost was included in fiscal 2020. Under provisions of the Education Code, only a small portion of the school district loss would be transferred to the state because there would be a collections loss, but no corresponding value 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: WP, KK, SD, SJS