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: **HB3241** by Middleton (Relating to the system for appraising property for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3241, As Introduced: a positive impact of $18,912,000 through the biennium ending August 31, 2021 resulting from the bill's provision that would prohibit an appraisal district from appraising real or personal property more than once every two years. However, there would be a negative impact of ($1,273,003,000) through the biennium ending August 31, 2023.

Additionally, the bill's provision that would disallow the use of a sale that occurred more than 24 months from the appraisal date as a comparable sale in situations in which recent sales are scarce may cause appraisal districts to under or over appraise certain property because information about its market value cannot be used. The bill does not prohibit a property owner from using older sales in a protest which could cause taxable value losses in some instances and increased costs to the Foundation School Fund through operation of the school finance formulas.

The bill would require that a school district's taxable value be presumed to be the Comptroller's value in the most recent Property Value Study if: the value was found invalid in that year; and no Property Value Study was conducted in the current year. This would cause a cost to the state in instances in which property values are increasing because the current year's value growth would not be recognized in the funding formulas.

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	$18,912,000
2022	($774,651,000)
2023	($498,352,000)
2024	($514,833,000)

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	$18,912,000	($929,010,000)	($251,905,000)	($269,647,000)
2022	($774,651,000)	$179,741,000	($162,954,000)	($173,911,000)
2023	($498,352,000)	($124,882,000)	($168,940,000)	($179,761,000)
2024	($514,833,000)	($301,301,000)	($218,931,000)	($232,259,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($189,323,000)
2022	($123,778,000)
2023	($129,695,000)
2024	($169,868,000)

Fiscal Analysis

The bill would amend Section 23 of the Tax Code, regarding appraisal methods and procedures, to strike a provision allowing an appraisal district to use a sale that occurred more than 24 months from the appraisal date of a property as a comparable sale when a scarcity of more recent sales precluded a representative sample.

The bill would amend Section 25 of the Tax Code, regarding local appraisal, to prohibit an appraisal district from appraising real or personal property more than once every two years except that a property owner is entitled to a reappraisal upon written request, and an appraisal district may add the value of new improvements each year.

The bill would amend Chapter 403, Subchapter M of the Government Code, regarding the Comptroller's study of school district property values to require the Comptroller to conduct the Property Value Study (PVS) every two years and repeal language requiring the Comptroller to conduct the PVS each year if a school district's value in the preceding year was found to be invalid in that year's PVS. In a year in which the Comptroller did not conduct a PVS in a school district and the most recent PVS found that the district's taxable value was invalid, the district's taxable value would be presumed to be the Comptroller's value for the district in that most recent PVS.

The bill would take effect immediately upon enactment, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2019.

Methodology

The bill's provision that would disallow the use of a sale that occurred more than 24 months from the appraisal date as a comparable sale in situations in which recent sales are scarce may cause appraisal districts to under or over appraise certain property because information about its market value cannot be used. The bill does not prohibit a property owner from using older sales in a protest which could cause taxable value losses in some instances. The taxable value in these instances is unknown; consequently the cost cannot be estimated.

The bill would require that a school district's taxable value be presumed to be the Comptroller's value in the most recent PVS if: the value was found invalid in that year; and no PVS was conducted in the current year. This would cause a cost to the state in instances in which property values are increasing because the current year's value growth would not be recognized in the funding formulas. The number and value involved in these instances is unknown, consequently the cost cannot be estimated.

The bill's provision that would prohibit an appraisal district from appraising real or personal property more than once every two years would create a cost to local taxing units and to the state through the funding formulas. Under the bill, appraisal districts would only be able to capture the value growth every other year. The growth in property value was projected based on historical information from appraisal districts. For the purpose of this estimate it was assumed that in 2020 (fiscal 2021), the first year the bill would be in effect, only properties that had not been reappraised in 2019 would be reappraised. In 2021 and subsequent years, it was assumed that half of the properties would be reappraised each year. The state's tax base would lose the value growth on non-reappraised properties each year. This loss would be partially offset by the inclusion of new improvements at market value.

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-yeeflect 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).

Note: Limiting the reappraisal of homesteads to once every other year could conflict with the constitutional requirement of equal and uniform taxation.

Local Government Impact

The estimated fiscal implication to units of local government of the bill's provision that would prohibit an appraisal district from appraising real or personal property more than once every two years is reflected in the table above.

Additionally, the bill's provision that would disallow the use of a sale that occurred more than 24 months from the appraisal date as a comparable sale in situations in which recent sales are scarce may cause appraisal districts to under or over appraise certain property because information about its market value cannot be used. The bill does not prohibit a property owner from using older sales in a protest which could cause taxable value losses in some instances. The taxable value in these instances is unknown; consequently the cost cannot be estimated.

The bill would require that a school district's taxable value be presumed to be the Comptroller's value in the most recent PVS if: the value was found invalid in that year; and no PVS was conducted in the current year. This would cause a cost to the state in instances in which property values are increasing because the current year's value growth would not be recognized in the funding formulas. The number and value involved in these instances is unknown, consequently the cost cannot be estimated.

Source Agencies: 304 Comptroller of Public Accounts

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