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: **HB4494** by Toth (Relating to the limitation on increases in the appraised value of a residence homestead for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4494, As Introduced: a positive impact of $99,784,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the limitation. However, there would be a negative impact of ($8,181,843,000) 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	$99,784,000
2022	($4,045,565,000)
2023	($4,136,278,000)
2024	($4,322,582,000)

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	$99,784,000	($4,901,676,000)	($1,329,111,000)	($1,422,720,000)
2022	($4,045,565,000)	($892,680,000)	($1,352,656,000)	($1,443,605,000)
2023	($4,136,278,000)	($1,055,144,000)	($1,407,235,000)	($1,497,373,000)
2024	($4,322,582,000)	($1,257,773,000)	($1,496,950,000)	($1,588,084,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($998,911,000)
2022	($1,027,462,000)
2023	($1,080,334,000)
2024	($1,161,480,000)

Fiscal Analysis

The bill would amend Section 23 of the Tax Code, regarding appraisal methods and procedures, to provide that the appraised value of a residence homestead is equal to the market value of the property for the first tax year that the owner received a residence homestead exemption. If a property qualified as a residence homestead sells in a bona fide sale, however, the appraised value is equal to the purchase price paid by the owner, with certain exceptions.

The Comptroller would adopt rules to provide criteria for a chief appraiser's use in determining whether a purchaser was a bona fide purchaser for value.

The bill would provide for a confidential application prescribed by Comptroller rule that would be required for a residence homestead owner to receive the bill's proposed appraisal limitation.

The bill would provide that the appraisal limitation would not expire if a change in ownership of the property occurs by inheritance or under a will as long as the person who acquires the property qualifies for a residence homestead exemption.

The bill would repeal certain Tax Code subsections related to the current 10 percent appraisal growth limit.

The bill would take effect January 1, 2020 and apply to tax years beginning on or after that date, but only if a constitutional amendment authorizing these changes is approved by the voters. If the constitutional amendment were not approved, this bill would have no effect.

Note: There does not appear to be an associated constitutional amendment.

Methodology

The bill's proposed appraisal limitation would set the appraised value of a residence homestead at the market value in the year the property owner first qualified for a residence homestead exemption, or at the bona fide purchase price. This new limitation would reduce the appraised value of homesteads and thereby create a cost to local taxing units and the state through the school funding formulas.

The fiscal analysis relied on mortality information from the Centers for Disease Control and Prevention, National Center for Health Statistics, and property value and tax rate information from appraisal districts. Mortality and turnover rates were used to estimate the number of residence homestead owners that are still alive and in their homesteads and first qualified for a homestead exemption in each year beginning in 1990. The tax year 2020 market value and the historical market value in the year of qualification was estimated for these homesteads. The difference between the current market value and the historical market value equals the taxable value loss for that year. An absorption factor was applied to account for the fact that some homesteads are already largely or completely exempted under the current homestead exemption and tax ceiling provisions. The taxable value losses were summed to provide the total taxable value loss.

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, contingent upon passage of a constitutional amendment authorizing the limitation.

Source Agencies: 304 Comptroller of Public Accounts

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