

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 30, 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:** **SB657** by Creighton (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 SB657, As Introduced: a positive impact of \$5,520,000 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 (\$705,376,000) 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	\$5,520,000
2022	(\$216,359,000)
2023	(\$489,017,000)
2024	(\$805,960,000)

**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	\$0	\$0	\$0	\$0
2021	\$5,520,000	(\$271,165,000)	(\$73,528,000)	(\$78,706,000)
2022	(\$216,359,000)	(\$378,317,000)	(\$162,890,000)	(\$173,843,000)
2023	(\$489,017,000)	(\$491,402,000)	(\$265,762,000)	(\$282,785,000)
2024	(\$805,960,000)	(\$618,296,000)	(\$382,062,000)	(\$405,321,000)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from <i>Other Special Districts</i></b>
2020	\$0
2021	(\$55,261,000)
2022	(\$123,730,000)
2023	(\$204,025,000)
2024	(\$296,441,000)

## **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:

- 3 percent if the homestead's preceding year appraised value is \$1 million or less; or
- 5 percent, if the homestead's preceding year appraised value is more than \$1 million.

The bill would take effect on January 1, 2020, contingent on voter approval of a constitutional amendment authorizing the limitation.

## **Methodology**

Contingent on voter approval of a constitutional amendment, the bill would require appraisal districts to reduce the homestead appraisal cap from 10 percent to 3 percent per year if the preceding year appraised value is \$1 million or less, or from 10 percent to 5 percent per year if the preceding year appraised value is more than \$1 million, 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 three percent or 5 percent as applicable. 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 real 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).

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### **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 limitation.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** WP, KK, SD, SJS