

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 22, 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: SB894 by Creighton (Relating to the additional tax imposed on land appraised for ad valorem tax purposes as agricultural, open-space, or timber land if the land is sold or diverted to a different use.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB894, As Introduced: 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) | (\$61,286,000) | (\$17,489,000) | (\$3,676,000) |
| 2021 | (\$2,443,000) | (\$195,986,000) | (\$54,923,000) | (\$11,509,000) |
| 2022 | (\$1,920,000) | (\$206,431,000) | (\$57,070,000) | (\$11,924,000) |
| 2023 | (\$1,463,000) | (\$217,305,000) | (\$59,301,000) | (\$12,353,000) |
| 2024 | (\$997,000) | (\$228,710,000) | (\$61,620,000) | (\$12,797,000) |

| Fiscal Year | Probable Revenue Gain/(Loss) from <i>Other Special Districts</i> |
|--------------------|---|
| 2020 | (\$13,005,000) |
| 2021 | (\$41,278,000) |
| 2022 | (\$43,350,000) |
| 2023 | (\$45,526,000) |
| 2024 | (\$47,811,000) |

Fiscal Analysis

The bill would amend Chapter 23, Subchapters D, E and H of the Tax Code, to reduce the period of years for which an additional tax and interest are imposed on a taxpayer who changes the use of land qualified for special appraisal as open-space agricultural or timber land (rollback) from five years to three years, and would strike the rollback interest requirement in those subchapters and in similar Subchapter C, Section 23.46 of the Tax Code.

The bill would make conforming changes.

The bill would take effect on 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 deletion of the interest requirement 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.

The requirements to qualify as agricultural land under Subchapter C of Chapter 23 of the Tax Code are very stringent and include requirements that land must be owned by an individual, not a corporation, partnership, trust or other business entity. Agriculture must be the owner's primary occupation and source of income. Very few acres across the state qualify under this Subchapter. Eliminating the interest on the additional taxes under Subchapter C is not estimated to have a significant fiscal impact. 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 above. 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