LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 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: **SB1086** by Seliger (Relating to a limitation on increases in the appraised value of real property for ad valorem tax purposes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1086, As Introduced: a positive impact of $27,496,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. However, there would be a negative impact of ($3,436,830,000) 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	$27,496,000
2022	($1,080,003,000)
2023	($2,356,827,000)
2024	($3,798,202,000)

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	$27,496,000	($1,350,699,000)	($366,248,000)	($392,043,000)
2022	($1,080,003,000)	($1,782,842,000)	($784,174,000)	($836,900,000)
2023	($2,356,827,000)	($2,259,822,000)	($1,251,432,000)	($1,331,591,000)
2024	($3,798,202,000)	($2,799,217,000)	($1,769,781,000)	($1,877,524,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($275,259,000)
2022	($595,650,000)
2023	($960,724,000)
2024	($1,373,168,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding appraisal methods and procedures, to reduce the limitation on appraised value increases from 10 percent to 5 percent and to expand the type of property to which the limitation applies from a residence homestead to real property. For a residential property which the owner acquires and qualifies for a residence homestead exemption in the same year, the limitation would take effect in the tax year following the tax year in which the owner acquires the property. For other real property, the limitation would take effect in the tax year following the first tax year in which the owner owns the property on January 1. The residential homestead appraised value limitation would continue during ownership of the property by the owner's spouse or surviving spouse.

The bill would make conforming changes to the Tax Code and Government Code.

The bill would take effect January 1, 2020, contingent on voter approval of a constitutional amendment (SJR 46).

Methodology

Contingent on the passage of a constitutional amendment, the bill would require appraisal districts to limit the growth in the appraised value of real property to 5 percent per year creating a fiscal impact on the state and units of local government. The analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change in value for a large random sample of real properties listed on the appraisal roll in each of the two most recent years was calculated and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for real properties that increased in value more than five percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The results were extrapolated to all real property.

Value losses would occur in proportion to future real property growth rates. Mathematical modeling supported by historical data from the existing 10 percent cap shows that, when property value growth rates are relatively stable, 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.

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 exemption.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: WP, KK, SD, SJS