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| BILL ANALYSIS |

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| C.S.H.B. 3694 |
| By: Shaheen |
| Ways & Means |
| Committee Report (Substituted) |

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| **BACKGROUND AND PURPOSE** There have been many attempts over the last few legislative sessions to find a solution for displacement of longtime homeowners due to rapidly rising property taxes. Many of these attempts have failed as they were not good fiscal policy and in some cases "taxed" economic development incentives to developers. C.S.H.B. 3694 seeks to fix the problem instead of simply paying year after year for the negative effects of gentrification and continued rising property taxes by resetting the appraised value of certain rapidly appreciating residence homesteads located in Dallas County to the lesser of the market value of the current tax year or the appraised value of the property in 2017.  |
| **CRIMINAL JUSTICE IMPACT**It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision. |
| **RULEMAKING AUTHORITY** It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution. |
| **ANALYSIS** C.S.H.B. 3694 amends the Tax Code to establish a limitation on the appraised value of rapidly appreciating residence homesteads located in Dallas County census tract 004300, 010101, 010102, 010500, 010601, 010602, or 020500. The bill prohibits an appraisal office from increasing the appraised value of such a property for a tax year to an amount that exceeds the lesser of:* the property's market value for the most recent tax year that the market value was determined by the appraisal office; or
* the sum of the property's appraised value for the 2017 tax year and the market value of all new improvements to the property.

The bill defines "rapidly appreciating residence homestead" as real property that is a residence homestead for which the owner was granted a residence homestead exemption in the 2017, 2018, 2019, 2020, 2021, 2022, 2023, and 2024 tax years and for which the market value for the 2024 tax year is at least 25 percent higher than the market value of the property for the 2017 tax year. The bill specifies what constitutes a "new improvement."C.S.H.B. 3694 requires the chief appraiser, when appraising an applicable rapidly appreciating residence homestead, to appraise the property at its market value and include in the appraisal records both the market value of the property and the sum of the appraised value of the property for the 2017 tax year and the market value of all new improvements to the property.C.S.H.B. 3694 establishes that the appraisal limitation expires on January 1 of the first tax year that neither the owner of the property when the limitation took effect nor the owner's spouse or surviving spouse qualifies for a residence homestead exemption. The bill establishes that the limitation does not apply to property that qualifies for special appraisal based on its use.C.S.H.B. 3694 establishes that an improvement to property that would otherwise constitute a new improvement is not treated as a new improvement if the improvement is a replacement structure for a structure that was rendered uninhabitable or unusable by a casualty or by wind, fire, or water damage. The bill provides for the manner in which property with such an improvement is appraised and specifies situations in which a replacement structure would qualify as a new improvement. C.S.H.B. 3694 requires a notice of appraised value of real property to include a statement of whether the property qualifies for the limitation on appraised value under the bill's provisions. The bill entitles a property owner to protest before the appraisal review board (ARB) a determination that the owner's property does not qualify for the limitation.C.S.H.B. 3694 establishes that, for purposes of determining a median level of appraisal, the appraisal ratio of a homestead to which the appraisal limitation applies is the ratio of the property's market value as determined by the appraisal district or ARB, as applicable, to the property's market value according to law. The bill establishes that, for purposes of determining whether a property subject to the bill's provisions has been appraised unequally, the value of the property subject to the suit and the value of a comparable property or sample property that is used for comparison must be the market value determined by the appraisal district when the property is subject to the limitation under the bill's provisions. |
| **EFFECTIVE DATE** January 1, 2024, if a constitutional amendment proposed by the 88th Legislature, Regular Session, 2023, to authorize the legislature to limit the maximum appraised value of certain rapidly appreciating residence homesteads in specified areas for property tax purposes is approved by the voters.  |
| **COMPARISON OF ORIGINAL AND SUBSTITUTE**While C.S.H.B. 3694 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.The substitute limits the applicability of the original's provisions establishing a limitation on the appraised value of rapidly appreciating residence homesteads to residence homesteads located in certain Dallas County census tracts.The substitute postpones the bill's effective date from January 1, 2022, contingent on voter approval of an applicable constitutional amendment, as in the original, to January 1, 2024, contingent on such voter approval. Accordingly, the substitute updates the definition of "rapidly appreciating residence homestead" as provided in the original. The substitute revises provisions of the original relating to an improvement to property that would otherwise constitute a new improvement but that is not treated as such for purposes of the appraisal limit to include an improvement to replace a structure that was rendered uninhabitable or unusable by fire.  |
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