LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 28, 2021

TO: Honorable Harold V. Dutton, Jr., Chair, House Committee on Public Education

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB1568** by Middleton (relating to the school district property value study conducted by the comptroller of public accounts.), **Committee Report 1st House, Substituted**

Passage of the bill would lower the required level of appraisal for all categories of property sampled from 90 percent to 85 percent and increase from five percent to 7.5 percent the margin of error the Comptroller's office may apply in determining the validity of school district taxable values for use in school funding formulas. As a result taxable values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.

The bill would amend Chapter 403, Subchapter M of the Government Code, regarding the Comptroller's study of school district property values, to modify the eligibility for a school district with an invalid local value to receive a grace period by lowering the required level of appraisal for all categories of property sampled from 90 percent to 85 percent of the lower limit of the margin of error. The bill would increase the maximum margin of error the Comptroller may apply in determining the validity of school district taxable values reported to the Commissioner of Education for use in school funding formulas from five percent to 7.5 percent.

The bill would apply to the annual school district property value study (PVS) for the 2022 tax year (reported to the Commissioner of Education, August 2023).

The Comptroller's Property Value Study (PVS) employs a statistical sampling procedure to estimate the taxable value in each Texas school district for use in school funding formulas to ensure equitable distribution of state funding for public education. As in any sample, the result has a margin of error, a statistic that indicates the reliability of the estimate. In general, larger samples and greater uniformity in local appraisals result in smaller margins of error. Under current law, the margin of error used by the Comptroller may not exceed five percent unless not feasible given the size of the sample of properties in which case the Comptroller may use a larger margin. As such, the Comptroller's school district property samples are sized to provide a plus or minus 5 percent margin of error, or lower, in the great majority of Texas school districts. The bill would increase the maximum target margin of error used in the Comptroller's Property Value Study (PVS) to 7.5 percent.

The PVS indirectly encourages appraisal districts to keep values above 95 percent of the market value standard set by state law for most kinds of property. This is a result of current law requiring that if a school district's value falls below 95 percent of the state's estimate for property categories included in the PVS, the school district's value is deemed "invalid." If certain conditions are met the school district is granted a two year grace period and an appraisal standards review is triggered for the appraisal district. If the school district values are not at or above 95 percent of the state's estimate in the third year the school district could receive less than their expected amount of funding.

Any increase in the allowed margin of error would reduce this pressure, and values could drop below the amounts that are currently projected in each year by approximately one-half percent per year. The first effect on appraisal district values would be in the 2022 tax year, which affects 2023 fiscal year. Because the bill would not require the Comptroller to increase the target margin of error, the cost of the proposed legislation cannot be estimated.

However, strictly for purposes of illustration, a hypothetical fiscal impact was estimated, under the following assumptions. The target margin of error used in the PVS increased to 7.5 percent from 5 percent. If this were to occur, some of the incentive for appraisal districts to keep property values at or near market value would be lost. It was assumed that the statewide average percentage of market value at which properties are appraised would fall below current projections by one-half percent per year until values were just above the new 7.5 percent target margin of error threshold as provided in the bill. The value loss would cause corresponding levy losses to cities, counties, special districts, and school districts. The mechanics of the school finance system would transfer a portion of the fiscal impact to school districts to the state. Projected school district, special district, city, and county tax rates were applied to the appropriate value loss in each year through the five-year projection period to estimate tax revenue losses.

The following table reflects the potential fiscal impact if the Comptroller applied the proposed maximum 7.5 percent margin of error in conducting the annual school district property value study:

Fiscal Year	Possible Revenue Gain/(Loss) from School Districts	Possible Revenue Gain/(Loss) from Counties	Possible Revenue Gain/(Loss) from Cities	Possible Revenue Gain/(Loss) from Special Districts
2022	-	-	-	-
2023	(197,413,000)	(59,617,000)	(64,731,000)	(51,734,000)
2024	(410,874,000)	(124,803,000)	(135,104,000)	(109,456,000)
2025	(641,419,000)	(195,946,000)	(211,488,000)	(173,687,000)
2026	(890,146,000)	(273,462,000)	(294,271,000)	(244,985,000)

The estimated cost to the Foundation School Program in this hypothetical would be an increase in state aid of $21.1 million in fiscal year 2023, $67.8 million in fiscal year 2024, $109.1 million in fiscal year 2025, and $184.0 million in fiscal year 2026.

Local Government Impact

Passage of the bill would lower the required level of appraisal for all categories of property sampled from 90 percent to 85 percent and increase from five percent to 7.5 percent the margin of error the Comptroller's office may apply in determining the validity of school district taxable values for use in school funding formulas. As a result taxable values and the related ad valorem tax revenue for units of local government could be reduced.

The potential fiscal impact to units of local government if the Comptroller applied the proposed maximum 7.5 percent margin of error in conducting the annual school district property value study are shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

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