

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

March 28, 2021

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB1577 by Davis (Relating to a temporary limitation on the appraised value of certain real property in specified areas for ad valorem tax purposes.), **As Introduced**

Passage of the bill would authorize local governments to adopt a limitation on appraised value for residence homesteads and certain undeveloped lots located in specified census tracts in Dallas, Harris, and Lubbock counties. Contingent on adoption of a constitutional amendment, taxable property 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 add Tax Code Section 23.231, Temporary Limitation on Appraised Value of Certain Real Property in Specified Areas to allow a city, county, or school district adopt a limitation on the appraised value for residence homesteads and certain undeveloped lots located in specific census tracts in Dallas, Harris, and Lubbock counties. The bill sets the appraisal cap at the lower of appraised value of the property as otherwise determined by law or at the appraised value for the year before the cap first applies as adopted by a taxing unit. If a governing body adopts a limitation as provided, the bill would prohibit taxing units from repealing it later. The cap for vacant lots generally expires in 5 years except when certain development has occurred that change the expiration dates.

The fiscal impact of permitting a governing body of a city, county, or school district to limit the appraised value of certain property would depend on the decisions of each taxing unit to take official action. As a result, property values and the related revenue for local taxing units that choose to cap the appraised value would be reduced. This could vary greatly among taxing units and the market value of eligible property in a tract from year to year. In Harris County, 1,800 residential homestead accounts and 1,700 vacant lots with a market value of \$188 million and \$50 million, respectively, might be eligible should a taxing unit decide to adopt an appraisal cap. The total market value of residential property in the specified census tracts in Harris County is approximately \$419 million. Potential property value growth in these areas would be limited should an appraisal cap be adopted. The future actions of local taxing units cannot be predicted and the total appraised value of property that would be limited is unknown, but in view of the limited number of census tracts eligible for limitation the fiscal implications would be expected to be negligible.

The bill would take effect January 1, 2022, contingent on voter approval of a constitutional amendment (HJR 81).

Local Government Impact

Passage of the bill would authorize local governments to adopt a limitation on appraised value for residence homesteads and certain undeveloped lots located in specified census tracts in Dallas, Harris, and Lubbock counties. Contingent on adoption of a constitutional amendment, taxable property values could be reduced and the related ad valorem tax revenue for units of local government could be reduced.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI