

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 18, 2021

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2311 by Krause (Relating to limitations on increases in the appraised value for ad valorem tax purposes of residence homesteads and single-family residences other than residence homesteads.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2311, As Introduced : a negative impact of (\$79,267,483) through the biennium ending August 31, 2023.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2022	\$0
2023	(\$79,267,483)
2024	(\$174,324,373)
2025	(\$256,946,987)
2026	(\$390,253,655)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from School Districts	Probable Revenue Gain/(Loss) from Cities	Probable Revenue Gain/(Loss) from Counties
2022	\$0	\$0	\$0	\$0
2023	(\$79,267,483)	(\$261,233,000)	(\$79,000,000)	(\$72,758,000)
2024	(\$174,324,373)	(\$555,743,000)	(\$165,821,000)	(\$153,177,000)
2025	(\$256,946,987)	(\$896,094,000)	(\$263,808,000)	(\$244,422,000)
2026	(\$390,253,655)	(\$1,269,780,000)	(\$368,834,000)	(\$342,752,000)

<i>Fiscal Year</i>	Probable Revenue Gain/(Loss) from Other Special Districts
2022	\$0
2023	(\$63,137,000)
2024	(\$134,342,000)
2025	(\$216,656,000)
2026	(\$307,060,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code, regarding property taxation appraisal methods and

procedures, to reduce the limitation on the annual increase in the appraised value of a residence homestead (appraisal cap) from 10 percent to 5 percent. The bill would limit increases on appraised value of a single-family residence other than residence homestead to 10 percent.

The bill would take effect on January 1, 2022, contingent on approval by the voters of a constitutional amendment (HJR 108).

Methodology

Contingent on voter approval of a constitutional amendment, the bill would require appraisal districts to reduce the limit on the growth in the appraised value of a homestead from 10 percent to 5 percent per year and cap the appraised value of a single-family residence other than residence homestead at 10 percent creating a fiscal cost to the state and units of local government. This analysis was based on appraisal roll information reported electronically by appraisal districts. The year to year percent change in value for a large sample of homesteads listed on the appraisal roll was calculated and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for homesteads that increased in value more than 5 percent. Value lost to the existing 10 percent value limitation on homestead property was excluded. The results were extrapolated to all Texas homesteads. Historical values for non-homestead single family residential properties, including mobile homes listed on the appraisal roll were analyzed, year over year percent changes calculated, and the results were sorted by percent change. The value loss resulting from the proposed limitation was calculated for non-homestead single family properties that increased in value more than ten percent.

Value losses would occur in proportion to future residential property growth rates. Historical data from the existing 10 percent cap shows that 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. For informational purposes the initial loss to school districts is shown; however, under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state.

The estimated cost to the Foundation School Program is an increase in state aid of \$79,267,483 in fiscal year 2023, \$174,324,373 in fiscal year 2024, \$256,946,987 in fiscal year 2025, and \$390,253,655 in fiscal year 2026.

Local Government Impact

The fiscal impact to units of local government is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI, CPA, AH