

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 11, 2021

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2535 by Sanford (Relating to the appraisal for ad valorem tax purposes of real property that includes improvements used for the noncommercial production of food for personal consumption.), **As Introduced**

Passage of the bill would exclude from real property the value of any improvements used for the noncommercial production of food for personal consumption. As a result, 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 amend Chapter 23 of the Tax Code, regarding appraisal methods and procedures, to exclude from real property the value of any improvements used for the noncommercial production of food for personal consumption.

The bill's exclusion of improvements used for noncommercial production of food for personal consumption would reduce taxable property values and related revenue and be a cost to local taxing units and to the state through the school funding formulas. The number of properties with qualifying improvements and corresponding values that would qualify to be excluded under the bill is unknown; consequently, the cost of the bill cannot be estimated. The bill does not define "noncommercial production of food" and it is unclear exactly which improvements would qualify and how the language would be interpreted and implemented in each appraisal district. It is likely a wide variety of improvements would qualify which would have a significant fiscal impact.

This fiscal analysis relied on remodel information from The National Kitchen and Bath Association, Home Advisor, and property value and tax rate information from appraisal districts. Kitchen remodels are the second most popular home improvement project with the standard remodel being valued between 5 to 15 percent of a home's value. Based on industry averages for kitchen remodels, 10 percent was assumed as the contributory value of a kitchen to a home. The value of homesteads and other single-family residential properties (Category A) were analyzed and the value loss from excluding the value of kitchen improvements were calculated to provide the total taxable value loss. 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. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. For informational purposes the initial loss to school districts is shown in the table below; however, a significant portion of that loss would be transferred to the state through the school funding formulas.

Local Government Impact

Passage of the bill would exclude from real property the value of any improvements used for the noncommercial production of food for personal consumption. As a result, taxable property values and the related ad valorem tax revenue for units of local government could be reduced.

For illustrative purposes, the example below demonstrates the impact if certain kitchen improvements would qualify. Kitchen improvements were chosen to give an example of potential fiscal impact; however, it should be noted that actual provisions of the bill would apply to more property categories, further reducing taxable values, and cause the fiscal impact to be significantly higher than the illustrative example below.

Fiscal Year	Possible Revenue Gain/ (Loss) from School Districts	Possible Revenue Gain/(Loss) Counties	Possible Revenue Gain/(Loss) from Cities	Possible Revenue Gain/(Loss) from Special District
2022	\$0	\$0	\$0	\$0
2023	(1,423,134,000)	(429,777,000)	(466,645,000)	(372,947,000)
2024	(1,495,236,000)	(454,177,000)	(491,666,000)	(398,329,000)
2025	(1,563,457,000)	(477,618,000)	(515,500,000)	(423,361,000)
2026	(1,650,983,000)	(507,199,000)	(545,795,000)	(454,382,000)

Source Agencies: 304 Comptroller of Public Accounts

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