

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**April 25, 2021**

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

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: HB3694** by Shaheen (Relating to a limitation on the appraised value of certain rapidly appreciating residence homesteads for ad valorem tax purposes.), **As Introduced**

**Passage of the bill would provide a limitation on the value of residence homesteads for which the owner received a residence homestead exemption from 2017 through 2022 and for which the market value in 2022 is at least 250 percent higher than in 2017. 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 amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to provide a limitation on the value of residence homesteads for which the owner received a residence homestead exemption from 2017 through 2022 and for which the market value in 2022 is at least 250 percent higher than in 2017. The bill defines disaster recovery program, new improvement, rapidly appreciating residence homestead, and references Section 11.13 of the Tax Code for the definition of residence homestead. The bill would allow for a rapidly appreciating residence homestead to increase in value by the lesser of the market value of the most recent tax year or the market value as of the 2017 tax year plus the market value of all new improvements.

The bill would require the chief appraiser to include in the appraisal records the market value and the allowable increase amount for a rapidly appreciating residence homestead. The bill allows for the limitation to stay effective until January 1 of the first tax year that property owner or surviving spouse no longer qualifies for a homestead exemption under Section 11.13. This section does not apply to property designated for agriculture use, agriculture land, timber land, recreational, park and scenic land or public access airport property.

The bill would bill require the property value notice include a statement whether the property qualifies for the limitation provided by new Section 23.231. The bill allows a property owner to appeal a decision of qualification for the limitation before the appraisal review board and district court.

Contingent on voter approval of a constitutional amendment, the bill would require appraisal districts to limit the value of a rapidly appreciating residence homestead, as defined, to the lesser of its market value or the sum of the appraised value in 2017 and the market value of new improvements creating a fiscal cost to units of local government and to the state through operation of the school funding formula. The fiscal impact of limiting the value of a rapidly appreciating residence homestead would depend on local market conditions and the number of homesteads that would qualify under the provisions in the bill. Property values and the related revenue for local taxing units would be reduced depending on the number and value of qualifying homesteads. The proposed limit would cause significant levy losses over time, especially in market conditions with increasing values. The number of homesteads and associated values are unknown; consequently, the fiscal impact of this provision cannot be determined.

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

## **Local Government Impact**

Passage of the bill would provide a limitation on the value of residence homesteads for which the owner received a residence homestead exemption from 2017 through 2022 and for which the market value in 2022 is at least 250 percent higher than in 2017. Contingent on adoption of a constitutional amendment, taxable property values 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