

**LEGISLATIVE BUDGET BOARD**

**Austin, Texas**

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

**April 26, 2021**

**TO:** Honorable Paul Bettencourt, Chair, Senate Committee on Local Government

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

**IN RE: SB113** by West (Relating to community land trusts.), **As Introduced**

**Passage of the bill would increase the amount of property that may be eligible for a community land trust exemption. 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 373B of the Local Government Code, regarding community land trusts, to modify the qualifications for a community land trust to include limited partnerships and limited liability companies in which a nonprofit corporation controls or serves as the only member, as appropriate.

The bill would amend Chapter 23 of the Tax Code, regarding property tax appraisal methods and procedures, to require a chief appraiser to use the income method of appraisal, as described, to determine the appraised value of certain community land trust property regardless of whether the chief appraiser considers that method to be the most appropriate method for appraising the property. In appraising the property, the chief appraiser would be required to:

- consider the uses and limitations applicable to the property for purposes of computing the actual rental income from the property and projecting future rental income; and
- use the same capitalization rate that the chief appraiser uses to appraise other rent-restricted properties.

A chief appraiser is prohibited from appraising a housing unit owned by a community land trust above the price for which it could be sold under an eligible land use restriction in that tax year. The use restriction would have to be recorded in real property deeds, have a term of at least 40 years, restrict the sales price to at or below market value, and restrict the sale to low income families.

The bill would amend Chapter 26 of the Tax Code, regarding property tax assessment, to except from the proration for exemptions which are in effect for only part of a year because the exemption terminated during the year because of the sale by the organization of a housing unit located on the land:

- an exemption for land received by a charitable organization improving property for low-income housing (Section 11.181 of the Tax Code);
- a community housing development organization improving property for low income and moderate-income housing (Section 11.182 of the Tax Code); and
- an organization constructing or rehabilitating low-income housing (Section 11.1825 of the Tax Code)

The exception would apply to these organizations only in certain specified circumstances. Otherwise, the proration would apply.

The bill may increase the amount of property that may be eligible for a property tax exemption by increasing the specified entities that may qualify as a community land trust.

The bill would restrict a chief appraiser's choices regarding:

- the appraisal method used by requiring an income method; and
- the method for calculating the income and capitalization rate used in the appraisal;
- the consideration of land use restrictions.

The bill's proposed increase in the amount of property that may be eligible for a community land trust exemption and appraisal restrictions would create a cost to local taxing units, and to the state through the school finance formulas.

The number and value of additional community land trust exemptions that would be granted under the bill's provisions are unknown. Similarly, the amount of value reduction that would be caused by the proposed appraisal restrictions is unknown. Consequently, the cost of the bill cannot be estimated.

The bill would take effect September 1, 2021.

### **Local Government Impact**

Passage of the bill would increase the amount of property that may be eligible for a community land trust exemption. As a result, 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, 332 Dept Housing-Comm Affairs

**LBB Staff:** JMc, AF, SD, BRI