

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 24, 2021

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1315 by Lucio (Relating to the determination that certain property is used as an aid or facility incidental to or useful in the operation or development of a port or waterway or in aid of navigation-related commerce for purposes of the application of certain ad valorem tax laws.), **As Passed 2nd House**

Passage of the bill would exempt property used as an aid or facility incidental to or useful in the operation or development of a port or waterway or in aid of navigation-related commerce for the purposes of a leasehold or other possessory interest in from ad valorem taxation and 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 and Harris counties. 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 25 of the Tax Code, regarding local appraisal, to define property used as an aid or facility incidental to or useful in the operation or development of a port or waterway or in aid of navigation-related commerce for the purposes of a leasehold or other possessory interest in as exempt property that could not be listed in the appraisal records as taxable property.

Under current law, leaseholds and other possessory interests in exempt property are taxable and must be listed in the appraisal records in the name of the owner of the possessory interest if the duration of the interest is at least one year. A leasehold or other possessory interest in exempt property used as an aid or facility incidental to or useful in the operation or development of a port or waterway or in aid of navigation-related commerce is exempt under Tax Code 25.07 (b)(6)(B); however those activities are not defined in statute. There could be an indeterminate cost to local taxing units and to the state through operation of the school funding formulas to the extent that local taxing units currently levy a property tax on leaseholds and possessory interests in property used in the activities as defined by the bill. Insufficient information is available about the extent of this practice and standards in determining qualification as navigation-related commerce vary across the state. As a result, the cost cannot be estimated.

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 and Harris 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.

Note: Authority for a city, county, or school district to adopt a limitation on the appraised value for residence homesteads as specified by the bill would likely require authority in the Texas Constitution to take effect.

Local Government Impact

Passage of the bill would exempt property used as an aid or facility incidental to or useful in the operation or development of a port or waterway or in aid of navigation-related commerce for the purposes of a leasehold or other possessory interest in from ad valorem taxation and 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 and Harris counties. 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

LBB Staff: JMc, LBO, SD, BRI, KK, AF