

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 1, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB2655 by Shaheen (Relating to the authority of an appraisal district to increase the appraised value of real property for ad valorem tax purposes following a specified period after a tax year in which the appraised value of the property is determined in an agreement, protest, or appeal.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2655, As Introduced : a negative impact of (\$231,066,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	<i>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</i>
2024	\$0
2025	(\$231,066,000)
2026	(\$625,015,000)
2027	(\$777,900,000)
2028	(\$1,510,438,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	<i>Probable Savings/(Cost) from Foundation School Fund 193</i>	<i>Probable Savings/(Cost) from Recapture Payments Atten Crdts 8905</i>	<i>Probable Revenue Gain/(Loss) from School Districts</i>
2024	\$0	\$0	\$0
2025	(\$231,066,000)	\$97,271,000	(\$344,611,000)
2026	(\$625,015,000)	\$244,316,000	(\$906,289,000)
2027	(\$777,900,000)	\$315,095,000	(\$1,120,253,000)
2028	(\$1,510,438,000)	\$616,146,000	(\$2,160,325,000)

Fiscal Analysis

The bill would amend Chapter 23 of the Tax Code to prohibit the chief appraiser from increasing the appraised value of a property for two subsequent years if the property's value was lowered in the current year as a result of an agreement, protest, or appeal, unless certain conditions are met.

The bill would allow the chief appraiser to increase the appraised value of a property that received a reduction in value on a protest or appeal related to unequal appraisal if the chief appraiser determines and can present clear and convincing evidence showing that the inequality in the appraisal of property has been corrected.

The bill would allow the chief appraiser to increase the appraised value in either or both of the subsequent years

only if the property owner agrees to the increase in writing or if, after physically inspecting the property, the chief appraiser can show, with clear and convincing evidence, that the appraised value of the property has increased as a result of a substantial improvement made to the property or there is an error in the appraisal records that results in an increase in the appraised value.

Methodology

The bill's proposed two-year freeze on increases in the appraised value of a property if the appraised value was lowered in the preceding year by agreement, protest or appeal would result in a cost to local taxing units and to the state through operation of the school funding formula. Because the appraised value freeze would prevent an appraisal district from appraising such a property at its market value for a period of two years, all value growth in that property (in an increasing market) would be lost from taxation during the two-year period.

The taxable value loss was based on information from appraisal districts regarding the number of protests and appeals and frequency of value reduction. The number of protests is expected to grow as an increasing number of taxpayers protest in attempt to obtain the two-year value freeze. Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts. The losses are cumulative during the two-year period.

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 (FSP) is \$231.1 million in fiscal year 2025, increasing to \$1.5 billion in fiscal year 2028. The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of \$97.3 million in fiscal year 2025, increasing to \$616.1 million in fiscal year 2028 as a result of school district tax revenue loss. The decrease in recapture is reflected as a savings in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

Local Government Impact

Passage of the bill would prohibit the chief appraiser from increasing the appraised value of a property for two subsequent years if the property's value was lowered in the current year as a result of an agreement, protest, or appeal, unless certain conditions are met. As a result, taxable property values would decrease. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code could be higher as a consequence of the reduction in taxable property value proposed by the bill. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI