LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 1, 2025

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB3557** by Raymond (Relating to the exclusion from the market value of real property for ad valorem tax purposes of the value of any incomplete structure located on the property.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3557, As Introduced: a negative impact of ($511,296,000) through the biennium ending August 31, 2027.

In addition, there would be a negative impact of ($1,209,382,000) in the biennium ending August 31, 2029.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	**Probable Net Positive/(Negative) Impact to** ***General Revenue Related Funds***
2026	$0
2027	($511,296,000)
2028	($516,819,000)
2029	($692,563,000)
2030	($900,423,000)

All Funds, Five-Year Impact:

Fiscal Year	**Probable Savings/(Cost) from** ***Foundation School Fund*** **193**	**Probable Revenue Gain/(Loss) from** ***Recapture Payments Atten Crdts*** **8905**	**Probable Revenue Gain/(Loss) from** ***School Districts Levy Loss***
2026	$0	$0	$0
2027	($511,296,000)	($140,799,000)	($607,346,000)
2028	($516,819,000)	($130,146,000)	($590,959,000)
2029	($692,563,000)	($147,979,000)	($645,458,000)
2030	($900,423,000)	($136,993,000)	($714,596,000)

Fiscal Analysis

The bill would require the chief appraiser to exclude the value of an incomplete structure intended for human occupancy from the determination of the market value of real property. The bill would provide definitions and criteria.

Methodology

The bill would exclude the value of incomplete structures intended for human occupancy from the determination of the market value of real property. This analysis assumes that this exemption would not be limited to structures intended for permanent residence, but could include other structures occupied by humans such as hotels, office buildings, or shopping malls. The value of incomplete construction for applicable properties reported to the Comptroller by appraisal districts was extracted and forecast based on estimated rate of growth in gross state product in the construction sector.

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 $511.3 million in fiscal year 2027, $516.8 million in fiscal year 2028, increasing to $900.4 million in fiscal year 2030. The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of $140.8 million in fiscal year 2027, $130.1 million in fiscal year 2028, increasing to $137.0 million in fiscal year 2030 as a result of school district tax revenue loss. The decrease in recapture is reflected as a revenue loss in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

Note: Excluding the value of the incomplete structure equates to an exemption of real property. All property is taxable unless required or permitted to be exempt by the Texas Constitution. Without appropriate constitutional authorization, there may be inconsistent decisions among appraisal districts across the state as to whether to implement or not implement the provision.

Local Government Impact

The bill would exclude the value of incomplete structures intended for human occupancy from the determination of the market value of real property, which would reduce taxable value. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code would be higher as a consequence of the reduced taxable property value proposed by the bill. If cities, counties, and special districts did not adopt higher rates, local levies would be reduced by $760.0 million in fiscal year 2027. If those jurisdictions adopted higher tax rates, the initial revenue loss from the exemption would be offset by increased tax levies from owners of non-exempt property and slightly reduced tax savings from owners of exempt property.

The fiscal impact to school districts is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI