

## **BILL ANALYSIS**

S.B. 113  
By: West  
Ways & Means  
Committee Report (Unamended)

### **BACKGROUND AND PURPOSE**

A community land trust (CLT) is an important tool for expanding homeownership opportunities for low- and moderate-income families, especially in areas with rapidly rising property values. A CLT operates by building homes, typically on vacant lots, and selling them to families with a qualifying income. The CLT maintains ownership of the land and leases the land to the family under a long-term ground lease, which is typically 99 years in length, that restricts the resale of the home to another income-eligible family and caps the resale price of the home to preserve its long-term affordability. Under current law, there is confusion as to how appraisal districts should appraise these homes and land for purposes of assessing property taxes. This has reportedly made it difficult for nonprofit housing developers to develop new projects because they are unable to estimate what the property tax burden will be. S.B. 113 seeks to address this issue by requiring the use of the income method in appraising CLT property and the same capitalization rate that is used to appraise other rent-restricted properties. S.B. 113 also provides that subsidiaries of a CLT may also qualify as a CLT, thus allowing CLTs to set up a subsidiary to own certain land, which is a common practice in the real estate industry.

### **CRIMINAL JUSTICE IMPACT**

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

S.B. 113 amends the Local Government Code to authorize a nonprofit organization that is organized as a limited partnership of which a 501(c)(3) tax-exempt nonprofit corporation controls 100 percent of the general partner interest or a limited liability company for which such a nonprofit corporation serves as the only member and that is created to acquire and hold land for the benefit of developing and preserving long-term affordable housing in a municipality or county to be designated as a community land trust (CLT).

S.B. 113 amends the Tax Code to require a chief appraiser, in appraising land or a housing unit that is leased by a CLT to a family meeting applicable income-eligibility standards under regulations or restrictions limiting the amount that the family may be required to pay for the rental or lease of the property, to do the following:

- use the income method of appraisal to determine the property's appraised value, regardless of whether the chief appraiser considers that method to be the most appropriate; and
- use the same capitalization rate used to appraise other rent-restricted properties.

The bill replaces the requirement for the chief appraiser, in appraising the property, to take into account the extent to which that use and limitation reduce the property's market value with a requirement for the chief appraiser to take into account the uses and limitations applicable to the property, including the terms of the lease applicable to the property, for purposes of computing the actual rental income from the property and projecting future rental income.

S.B. 113 prohibits a chief appraiser from appraising a housing unit the owner of which or a predecessor of the owner acquired from a CLT and that is located on land owned by the CLT and leased by the owner subject to an eligible land use restriction in a tax year for an amount that exceeds the price for which the housing unit may be sold under that restriction in that tax year. For this purpose, the bill defines "eligible land use restriction" as an agreement, deed restriction, or restrictive covenant applicable to the housing unit that:

- is recorded in the real property records;
- has a term of at least 40 years;
- restricts the price for which the housing unit may be sold to a price that is equal to or less than its market value; and
- restricts the sale of the housing unit to a family meeting applicable income-eligibility standards.

S.B. 113 establishes that prorated property taxes are not due against land received by a charitable organization for improving property for low-income housing, by a community housing development organization improving property for low or moderate-income housing, or by an applicable organization constructing or rehabilitating low-income housing on the basis of the corresponding property tax exemption for that land terminating during the year because of the sale by the organization of a housing unit located on the land if the following conditions are satisfied:

- the housing unit is sold to a family meeting applicable income-eligibility standards;
- the organization retains title to the land on which the housing unit is located; and
- before the date on which the housing unit is sold, the organization is designated a CLT by the governing body of a municipality or county.

S.B. 113 applies only to property taxes imposed for a tax year that begins on or after the bill's effective date.

### **EFFECTIVE DATE**

September 1, 2021.