

BILL ANALYSIS

Senate Research Center
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S.B. 335
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AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Currently, Chapter 373B, Local Government Code, permits municipalities and counties to establish community land trusts. Community land trusts are used to expand homeownership opportunities for low-income and moderate-income families, especially in areas with rapidly rising property values. An eligible family purchases a home at an affordable price from the trust. The trust maintains ownership of the land and leases the land to the family under a long-term ground lease (typically 99 years). The ground lease restricts the resale of the home to another income-eligible family and caps the resale price of the home to preserve the long-term affordability of the home. The ground lease also ensures proper upkeep and use of the property.

Under current law, it is unclear whether a community land trust is able to enjoy the benefits of establishing a limited liability company, a common practice in both the for-profit development and non-profit affordable housing contexts. Additionally, whether such exemptions must be readopted annually is an unsettled question. Finally, the methodology for appraising community land trust property can be inconsistent around the state.

S.B. 335 clarifies that nonprofit community land trusts may form certain business entities, provides that, once adopted, a tax exemption applies until rescinded, and requires the use of the income method in appraising community land trust property.

As proposed, S.B. 335 amends current law relating to community land trusts.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 373B.003, Local Government Code, as follows:

Sec. 373B.003. NATURE OF TRUST. Requires a community land trust created or designated under Section 373B.002 to be a nonprofit organization that is:

(1) created to acquire and hold land for the benefit of developing and preserving long-term affordable housing in the municipality or county; and

(2) organized as:

(A) a nonprofit corporation that is exempt from federal income taxation under Section 501(a), Internal Revenue Code of 1986, by being listed as, rather than certified as, an exempt organization under Section 501(c)(3) of that code;

(B) a limited partnership of which a nonprofit corporation described by Paragraph (A) controls 100 percent of the general partner interest; or

(C) a limited liability company for which a nonprofit corporation described by Paragraph (A) serves as the only member.

SECTION 2. Amends Section 11.1827, Tax Code, by adding Subsection (g) to provide that, once adopted by the governing body of a taxing unit, the exemption provided by this section (Community Land Trust) continues to apply to property located in the taxing unit until the governing body rescinds the exemption in the manner provided by law for official action by the body.

SECTION 3. Amends Section 23.21, Tax Code, by amending Subsections (c) and (d) and adding Subsection (c-1), as follows:

(c) Requires the chief appraiser, in appraising land, rather than a housing unit, that is leased by a community land trust created or designated under Section 373B.002 (Creation or Designation), Local Government Code, to a family meeting the income-eligibility standards established by Section 373B.006 (Qualifications of Purchasers or Lessees of Housing Units) of that code under regulations or restrictions limiting the amount that the family may be required to pay for the rental or lease of the property, to use the income method of appraisal as described by Section 23.012 (Income Method of Appraisal) to determine the appraised value of the property. Requires the chief appraiser to use that method regardless of whether the chief appraiser considers that method to be the most appropriate method of appraising the property. Requires the chief appraiser, in appraising the property to:

(1) 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; and

(2) use the same capitalization rate that the chief appraiser uses to appraise other rent-restricted properties. Deletes existing text requiring the chief appraiser to take into account the extent to which that use and limitation reduce the market value of the property.

(c-1) Requires the chief appraiser, in appraising a housing unit that is leased by a community land trust created or designated under Section 373B.002, Local Government Code, to a family meeting the income-eligibility standards established by Section 373B.006 of that code under regulations or restrictions limiting the amount that the family may be required to pay for the rental or lease of the property, to use the income method of appraisal as described by Section 23.012 (Creation or Designation) to determine the appraised value of the property. Requires the chief appraiser to use that method regardless of whether the chief appraiser considers that method to be the most appropriate method of appraising the property. Requires the chief appraiser, in appraising the property to:

(1) 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; and

(2) use the same capitalization rate that the chief appraiser uses to appraise other rent-restricted properties.

(d) Prohibits the chief appraiser, if the sale of the housing unit is subject to an eligible land use restriction, from appraising the housing unit in a tax year for an amount that exceeds the price for which the housing unit may be sold under the eligible land use restriction in that tax year. Defines "eligible land use restriction," for purposes of this subsection.

SECTION 4. Amends Section 26.10, Tax Code, by amending Subsection (a) and adding Subsection (d), as follows:

(a) Provides that, if the appraisal roll shows that a property is eligible for taxation for only part of a year because an exemption, other than a residence homestead exemption or an exemption described by Subsection (d), applicable on January 1 of that year terminated during the year, the tax due against the property is calculated by multiplying the tax due for the entire year as determined as provided by Section 26.09 by a fraction, the denominator of which is 365 and the numerator of which is the number of days the exemption is not applicable. Makes a nonsubstantive change.

(d) Provides that Subsection (a) does not apply to an exemption for land received by an organization under Section 11.181 (Charitable Organizations Improving Property For Low-Income Housing), 11.182 (Community Housing Development Organizations Improving Property For Low-Income or Moderate-Income Housing: Property Previously Exempt), or 11.1825 (Organizations Constructing or Rehabilitating Low-Income Housing: Property Not Previously Exempt) that terminated during the year because of the sale by the organization of a housing unit located on the land if certain criteria is met.

SECTION 5. Makes application of this Act prospective.

SECTION 6. Effective date: September 1, 2019.