LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

May 7, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB683** by Sheets (relating to the exemption from ad valorem taxation of a percentage of the assessed value of a property owned by certain disabled veterans and the amount of the exemption for the surviving spouses and children of certain disabled veterans.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB683, Committee Report 1st House, Substituted: a negative impact of ($151,230,000) through the biennium ending August 31, 2017. The net impact to General Revenue Related Funds would increase to a negative impact of ($1,540,834,000) in the biennium ending August 31, 2019 and is contingent upon passage of a constitutional amendment authorizing the exemption.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	$0
2017	($151,230,000)
2018	($761,246,000)
2019	($779,588,000)
2020	($798,746,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*	Probable Revenue Gain/(Loss) from *Counties*	Probable Revenue Gain/(Loss) from *Cities*
2016	$0	$0	$0	$0
2017	($151,230,000)	($769,714,000)	($280,008,000)	($276,340,000)
2018	($761,246,000)	($185,174,000)	($288,443,000)	($284,098,000)
2019	($779,588,000)	($193,029,000)	($297,133,000)	($292,074,000)
2020	($798,746,000)	($200,809,000)	($306,084,000)	($300,274,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2016	$0
2017	($194,640,000)
2018	($200,304,000)
2019	($206,133,000)
2020	($212,131,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to change the partial property tax exemption for disabled veterans from a dollar amount varying by the veteran's disability rating to a percentage varying by the veteran's disability rating. The percentage exemption for each disability range would be:

1) 7.91 percent for a veteran having a disability rating of at least 10 percent but less than 30 percent, instead of the current exemption amount of $5,000;
2) 11.86 percent for a veteran having a disability rating of at least 30 percent but less than 50 percent, instead of the current exemption amount of $7,500;
3) 15.82 percent for a veteran having a disability rating of at least 50 percent but less than 70 percent, instead of the current exemption amount of $10,000; and
4) 18.98 percent for a veteran having a disability rating of at least 70 percent, instead of the current exemption amount of $12,000.

The exempt percentage could be applied to the appraised value of any property owned and designated by the veteran.

A disabled veteran would be entitled to an exemption of 18.98 percent of the value of a property the veteran owns and designates, instead of the current exemption amount of $12,000, if the veteran:

1) is 65 years of age or older and has a disability rating of at least 10 percent;
2) is totally blind in one or both eyes; or
3) has lost the use of one or more limbs.

The bill would take effect on January 1, 2016, contingent on voter approval of a constitutional amendment.

Methodology

The bill's proposed property tax exemption of a percentage of the appraised value of a property owned and designated by a disabled veteran would create a cost to local taxing units and to the state through the operation of the school funding formulas. This estimate assumes that the exempt percentage would be applied primarily to homesteads, but in some instances to more valuable properties (e.g. oil reserves, commercial properties, or industrial properties), creating a much larger cost than the application of the fixed dollar amount in current law. It is likely that ownership transfers to veterans would be arranged to take advantage of the percentage exemption.

The value loss estimate was based on information from the U.S. Census Bureau and appraisal districts. Projected tax rates were applied through the five-year projection period to estimate the tax revenue loss to special districts, cities and counties, and to estimate the school district loss that would be partially transferred to the state. Under the hold harmless provisions of the Education Code, only a small portion of each year's additional school district loss related to the compressed rate would be transferred to the state while in subsequent years 100 percent of the loss would be transferred to the state. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (a state gain) in the first year of a taxable property value reduction. In the second and successive years the enrichment loss and a portion of the school district debt (facilities) loss are transferred to the state through the relevant funding formulas.

Local Government Impact

The fiscal implication to units of local government is reflected in the table above and is contingent upon passage of a constitutional amendment authorizing the exemption.

Source Agencies: 304 Comptroller of Public Accounts

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