LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

July 24, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB72** by Bohac (Relating to an exemption from ad valorem taxation of the residence homestead of a Purple Heart recipient or the surviving spouse of a Purple Heart recipient.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB72, As Introduced: a negative impact of ($146,000) through the biennium ending August 31, 2019, contingent upon passage of a constitutional amendment authorizing the exemption.

Additionally, the bill would have a negative impact of ($76,087,000) through the biennium ending August 31, 2021.

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
2018	$0
2019	($146,000)
2020	($36,759,000)
2021	($39,328,000)
2022	($42,092,000)

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*
2018	$0	$0	$0	$0
2019	($146,000)	($44,252,000)	($13,026,000)	($13,324,000)
2020	($36,759,000)	($11,154,000)	($13,994,000)	($14,165,000)
2021	($39,328,000)	($12,379,000)	($15,035,000)	($15,059,000)
2022	($42,092,000)	($13,712,000)	($16,153,000)	($16,010,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($9,830,000)
2020	($10,546,000)
2021	($11,313,000)
2022	($12,136,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions, to provide a total property tax exemption for the residence homestead of a Purple Heart recipient. A surviving spouse of an individual receiving the proposed exemption would receive the exemption on the same property if:

1. the surviving spouse has not remarried;
2. the property was the residence homestead of the surviving spouse when the Purple Heart recipient died; and
3. the property remains the residence homestead of the surviving spouse.

A surviving spouse would receive the exemption in the same dollar amount on a subsequent residence homestead if the surviving spouse has not remarried.

The bill would amend Chapter 140 of the Local Government Code, regarding miscellaneous financial provisions, to include local governments' losses to the proposed exemption in the existing state assistance payment program for the purpose of offsetting part of the exemption's cost.

The bill would make conforming changes in the Tax Code, Government Code, and Local Government Code.

The bill would take effect January 1, 2018, contingent on adoption by the voters of a constitutional amendment (HJR 20).

Methodology

The bill's proposed exemption of a residence homestead of a Purple Heart recipient and extension of the exemption to the recipient's surviving spouse would create a cost to local governments and to the state through the school finance formulas.

The bill's proposed inclusion of local government losses to the proposed exemption in the existing state assistance payment program would reduce local government costs by transferring a portion of their costs to the state. The existing appropriation for this program has historically been insufficient to pay eligible costs and the payments have been prorated as a result. The table below does not reflect additional payments through this program. This part of the bill would not make an appropriation, but would establish the basis for an appropriation.

The estimated value loss to the proposed exemption was based on information from appraisal districts, the U.S. Census Bureau, and the U.S. Department of Veterans Affairs. Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts, special districts, cities and counties. Under provisions of the

Education Code, the school district tax revenue loss is partially transferred to the state. Projected school funding rates were applied to estimate the state loss and the net school district loss.

In the first year of a taxable value loss, state recapture is reduced (a state loss). Because of the use of lagged year property values, in the second and successive years of a taxable value loss, state recapture is further reduced and the previous year's school district loss related to the Tier 1 rate is generally transferred to the state through the Tier 1 funding formulas (a state loss).

In the school district enrichment formula (Tier 2), property values do not reflect the first-year value loss because of the one-year value lag. Because the formula does reflect a tax collections decline in that year, school districts lose Tier 2 funding creating a state gain. In the second and successive years a large portion of the previous year's enrichment loss is transferred to the state (a state loss).

The school district debt (facilities) funding formula does not reflect the first-year taxable value loss because of lagged property values. In the second and successive years a small portion of the previous year's school district facilities loss is transferred to the state (a state loss).

Local Government Impact

The estimated 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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