LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 25, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3002** by Miller (Relating to the exemption from ad valorem taxation of part of the appraised value of the residence homestead of a partially disabled veteran or the surviving spouse of a partially disabled veteran based on the disability rating of the veteran.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3002, As Introduced: a negative impact of ($401,000) through the biennium ending August 31, 2019, contingent upon passage of a constitutional amendment authorizing the exemption.

The cost will increase to ($101,142,000) beginning in fiscal year 2020.

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	($401,000)
2020	($101,142,000)
2021	($111,424,000)
2022	($122,795,000)

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	($401,000)	($121,755,000)	($35,839,000)	($36,659,000)
2020	($101,142,000)	($34,612,000)	($39,651,000)	($40,134,000)
2021	($111,424,000)	($39,445,000)	($43,868,000)	($43,940,000)
2022	($122,795,000)	($44,878,000)	($48,534,000)	($48,106,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2018	$0
2019	($27,047,000)
2020	($29,879,000)
2021	($33,007,000)
2022	($36,464,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions, to entitle a disabled veteran who has a disability rating of at least 80 percent but less than 100 percent to an exemption from property taxation of a percentage of the appraised value of the disabled veteran's residence homestead equal to the disabled veteran's disability rating. Certain surviving spouses of deceased disabled veterans would be entitled to the same percentage of the appraised value of the same property to which the disabled veteran's exemption applied. A qualifying surviving spouse would receive an exemption of a subsequent residence homestead equal to the dollar amount of the exemption of the former residence homestead in the last year in which the surviving spouse received the exemption for the former homestead.

The bill would define "disability rating", "disabled veteran", "residence homestead", and surviving spouse", and would make conforming changes elsewhere in this code.

This bill would take effect January 1, 2018, contingent on voter approval of a constitutional amendment.

Methodology

The bill's proposed property tax exemption of a percentage of the appraised value of residence homesteads owned by certain disabled veterans equal to the disabled veteran's disability rating would create a cost to local taxing units and to the state through the operation of the school funding formulas.

The value loss estimate was based on information from the U.S. Census Bureau and appraisal districts. 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

LBB Staff: UP, KK, SD, SJS