LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 22, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director   Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB275** by Miller (Relating to an exemption from ad valorem taxation of the residence homestead of the surviving spouse of a member of the armed services of the United States who is killed or fatally injured in the line of duty.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB275, As Introduced: a positive impact of $18,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. A negative impact of ($1,493,000) would occur through the biennium ending August 31, 2023.

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
2020	$0
2021	$18,000
2022	($731,000)
2023	($762,000)
2024	($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*
2020	$0	$0	$0	$0
2021	$18,000	($886,000)	($240,000)	($257,000)
2022	($731,000)	($179,000)	($249,000)	($266,000)
2023	($762,000)	($191,000)	($258,000)	($275,000)
2024	($795,000)	($203,000)	($268,000)	($284,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($181,000)
2022	($189,000)
2023	($198,000)
2024	($208,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to provide that the surviving spouse of a member of the armed services of the United States who is killed or fatally injured in the line of duty (rather than killed in action) is entitled to an exemption from taxation of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the death of the member of the armed services.

The bill would make conforming changes.

The bill would be effective January 1, 2020, contingent on approval by voters of a constitutional amendment (HJR 23).

Methodology

Contingent on adoption of a constitutional amendment (HJR 23), the bill's provision that increases the number of surviving spouses who would be eligible for a total residence homestead property tax exemption by changing the requirement that their deceased spouse, while serving as a member of the United States armed services, be killed in action to killed or fatally injured in the line of duty would create a cost to local taxing units and the state through the school funding formulas. The number of armed services members who are killed or fatally injured in the line of duty is greater that the number who are killed in action, which means that more surviving spouses would be eligible for the residence homestead exemption.

The estimate was based on information from appraisal districts, the Congressional Research Service and the United States Department of Defense. The number of armed services members who were killed in the line of duty since 2006 was compared to the number who were killed in action during the same period to develop a percentage. The percentage was applied to the reported value lost to the current exemption for spouses of military members who were killed in action to estimate the value loss. The loss was trended through the five-year projection period.

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 the previous year's enrichment loss is generally 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-year 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: WP, KK, SD, SJS