

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 23, 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: HB716 by Leach (Relating to the exemption from ad valorem taxation of part of the appraised value of the residence homestead of a severely disabled veteran or the surviving spouse of a severely disabled veteran based on the disability rating of the veteran.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB716, As Introduced: a positive impact of \$2,776,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. However, there would be a negative impact of (\$240,889,000) 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 | \$2,776,000 |
| 2022 | (\$112,147,000) |
| 2023 | (\$128,742,000) |
| 2024 | (\$143,617,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>Foundation School Fund 193</i> | Probable Revenue Gain/(Loss) from <i>School Districts</i> | Probable Revenue Gain/(Loss) from <i>Counties</i> | Probable Revenue Gain/(Loss) from <i>Cities</i> |
|-------------|--|---|---|---|
| 2020 | \$0 | \$0 | \$0 | \$0 |
| 2021 | \$2,776,000 | (\$136,348,000) | (\$36,971,000) | (\$39,575,000) |
| 2022 | (\$112,147,000) | (\$41,885,000) | (\$42,192,000) | (\$45,028,000) |
| 2023 | (\$128,742,000) | (\$43,950,000) | (\$46,812,000) | (\$49,810,000) |
| 2024 | (\$143,617,000) | (\$48,169,000) | (\$51,447,000) | (\$54,579,000) |

| Fiscal Year | Probable Revenue Gain/(Loss) from Other Special Districts |
|--------------------|--|
| 2020 | \$0 |
| 2021 | (\$27,786,000) |
| 2022 | (\$32,048,000) |
| 2023 | (\$35,937,000) |
| 2024 | (\$39,918,000) |

Fiscal Analysis

The bill would amend Chapter 11, Subchapter B of the Tax Code, regarding property tax exemptions, to add a new section that would 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.

The bill would amend Section 140.011 of the Local Government Code, regarding local governments disproportionately affected by property tax relief for veterans, to add a local government located within twenty miles of a military installation to the other local governments that are entitled to a disabled veteran assistance payment from the state. The bill would add the property tax levy lost to the bill's proposed percentage disabled veteran residence homestead exemption to the other veterans exemption levy losses that are subject to disabled veteran assistance payments.

The bill would take effect January 1, 2020, contingent on voter approval of a constitutional amendment (HJR 44).

Methodology

The bill would expand the number of cities that are eligible to apply for disabled veteran assistance payments. The funds for such payments are paid from GR Account 5160 - Disabled Veterans Local Government Assistance and are set by appropriation.

As such, this bill alone does not create a cost to the state or a gain to the affected cities.

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 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