LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 16, 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: **HB4367** by Holland (Relating to an exemption from ad valorem taxation of the residence homesteads of certain disabled first responders and their surviving spouses.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB4367, As Introduced: a positive impact of $8,000 through the biennium ending August 31, 2021, contingent upon passage of a constitutional amendment authorizing the exemption. Additionally, there would be a negative impact of ($691,000) for 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	$8,000
2022	($330,000)
2023	($361,000)
2024	($394,000)

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	$8,000	($400,000)	($109,000)	($116,000)
2022	($330,000)	($102,000)	($118,000)	($126,000)
2023	($361,000)	($114,000)	($129,000)	($137,000)
2024	($394,000)	($125,000)	($139,000)	($148,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0
2021	($82,000)
2022	($90,000)
2023	($99,000)
2024	($108,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding property tax exemptions, to define "first responder", "qualifying disabled first responder", "residence homestead", and "surviving spouse". The bill would entitle a qualifying disabled first responder to an exemption from taxation of the total appraised value of the qualifying disabled first responder's residence homestead.

The surviving spouse of a qualifying disabled first responder who qualified for the proposed exemption when the qualifying disabled first responder died would be entitled to an exemption from taxation of the total appraised value of the same property to which the qualifying disabled first responder's exemption applied if:

- the surviving spouse has not remarried since the death of the qualifying disabled first responder; and
- the property was the residence homestead of the surviving spouse when the qualifying disabled first responder died, and remains the residence homestead of the surviving spouse.

If a surviving spouse who qualifies for the exemption subsequently qualifies a different property as the surviving spouse's residence homestead, the surviving spouse is entitled to an exemption from taxation of the subsequently qualified homestead in an amount equal to the dollar amount of the exemption from taxation of the former homestead in the last year in which the surviving spouse received the exemption if the surviving spouse has not remarried since the death of the qualifying disabled first responder.

The bill would make conforming changes elsewhere in the Property Tax Code.

The bill would take effect January 1, 2020, contingent on voter approval of a constitutional amendment (HJR 139).

Methodology

The bill's proposed total exemption for the residential homesteads of disabled first responders would create a cost for local taxing units, school districts and the state through the school finance formulas. The estimate was based on information from the U.S. Census Bureau, the Governor's Office, and appraisal districts. The projected number of disabled first responders and the projected median taxable value of residence homesteads were used to calculate the taxable value losses.

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