

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 26, 2021

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB794 by Campbell (Relating to eligibility for the exemption from ad valorem taxation of the residence homestead of a totally disabled veteran.), **As Passed 2nd House**

Passage of the bill could increase the number of veterans who would be eligible for a total homestead property tax exemption. As a result, taxable property values could be reduced and the related costs to the Foundation School Fund could be increased through the operation of the school finance formulas.

Provisions in the bill related to expanding the definition of "local government" for the purpose of eligibility of local governments to receive certain veterans assistance payments from the state would have no fiscal impact to the state.

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to change the eligibility for a total property tax exemption for the homestead of a 100 percent or totally disabled veteran to a disabled veteran who has been awarded by (rather than receives) the United States Department of Veterans Affairs 100 percent disability compensation.

Under current law, a disabled veteran with a service-connected disability receiving 100 percent disability compensation and with a disability rating of 100 percent (or determination of individual unemployability) is eligible for a total exemption on a residence homestead. Removing the requirement that a veteran must receive 100 percent disability compensation could increase the number of veterans who would be eligible for a total homestead property tax exemption.

The language in award letters issued by the US Department of Veteran affairs with a veteran's disability rating and compensation vary among different regional offices and the amount of compensation received might not always be clear to appraisal districts. It is uncertain how many appraisal districts currently make this distinction and how many residence homestead exemptions have been denied to veterans meeting the 100 percent disability rating and 100 percent compensation requirement, but not necessarily receiving 100 percent compensation due to military retirement pay, disability severance pay, separation pay, or other various reasons.

To the extent that certain veterans awarded 100 percent disability compensation, but are not receiving 100 percent compensation are unable to claim a residence homestead exemption but would under the provisions of the bill, there would be a cost to local taxing units and the state through the school finance formulas. the taxable value and frequency of these instances is unknown, as well as the number of veterans who meet the disability rating and are awarded 100 percent compensation, but for various reasons are not receiving 100 percent compensation; consequently, the cost cannot be determined.

The bill would amend Section 140.011 of the Local Government Code, regarding local governments disproportionately affected by property tax relief for disabled veterans, to redefine "local government" to include as a local government a city with extraterritorial jurisdiction located within two miles of the boundary line of a United States military installation. The local governments as defined would be eligible to receive certain disabled veteran assistance payments from the state beginning with the fiscal year of the local government that ends in the 2021 tax year. Under current law, a "local government" includes a municipality adjacent to a U. S. military installation and a county in which a U.S. military installation is wholly or partly

located.

The funds for such payments are paid from General Revenue (GR) appropriations to GR-Dedicated Account 5160 – Disabled Veterans Local Government Assistance and are set by appropriation. The appropriations to the Comptroller of Public Accounts' Fiscal Programs include \$19 million in GR funds for the 2020-21 biennium (\$8.5 million in fiscal year 2020 and \$10.5 million in fiscal year 2021), or an average of \$9.5 million annually, for disabled veteran assistance payments to qualifying local governments. It is assumed that the costs associated with expanding eligibility of local governments that would be eligible to receive disabled veteran assistance payments paid from this account would result in a redistribution of payments across all eligible local governments.

Local Government Impact

To the extent that certain veterans awarded 100 percent disability compensation, but are not receiving 100 percent compensation are unable to claim a residence homestead exemption but would under the provisions of the bill, there would be a cost to local taxing units. the taxable value and frequency of these instances is unknown, as well as the number of veterans who meet the disability rating and are awarded 100 percent compensation, but for various reasons are not receiving 100 percent compensation; consequently, the cost cannot be determined.

Provisions in the bill related to expanding the definition of "local government" for the purpose of eligibility of local governments to receive certain veterans assistance payments from the state would likely result in a redistribution of payments across all eligible local governments.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD, BRI, SLE