**BILL ANALYSIS**

|  |  |
| --- | --- |
| Senate Research Center | H.B. 1613 |
| 88R25618 CJC-F | By: Shine et al. (Flores) |
|  | Finance |
|  | 5/17/2023 |
|  | Engrossed |

**AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

The state-granted 100 percent disabled veteran resident homestead property tax exemption was established by the legislature in 2009. In 2011, surviving spouses were added to the exemption and, in 2015, surviving spouse retroactive treatment was added. Over time, this mandate has created significant losses to city and county tax revenue due to the substantial increase in disabled veteran tax exemptions occurring in local governments near any of the 15 federal military installations in Texas where veterans choose to retire from public service.

According to 2021 state property tax collection data, of the more than 1,200 cities in Texas, just 29 of the most impacted cities account for 20 percent of the statewide property tax levy loss for all Texas cities and 170 cities account for 50 percent of the statewide property tax levy loss. Similarly, that same 2021 data showed that, of the 254 counties in Texas, the 27 most impacted counties account for 50 percent of the statewide property tax levy loss.

The 100 percent disabled veterans and surviving spouses' residence homestead exemption is an important and meaningful benefit that should be honored and protected. That said, this exemption is threatening the quality of life in the areas where veterans live, the very veterans the exemption is supposed to benefit. This also directly impacts active-duty military personnel and other property owners.

In 2015, the legislature passed the disabled veteran assistance payment program, and reimbursements to qualified local governments impacted by the homestead exemption began in 2016. Currently, there are five local governments receiving reimbursement payments that comprise some of the total losses of tax revenue. Cities with large disabled veteran populations that do not physically border a military installation are not eligible for any reimbursement for the tax revenue loss under current law.

H.B. 1613, the State Economic Reimbursement for Veterans Exemption (SERVE) Act, seeks to ensure that the communities where veterans live are able to provide the essential services and quality of life that those veterans and their families deserve by expanding the local governments eligible for reimbursement payments and reimbursing, if only partially, the cities and counties most disproportionately impacted.

H.B. 1613 amends current law relating to the provision of state aid to certain local governments to offset the cost of the exemption from ad valorem taxation of the residence homestead of a 100 percent or totally disabled veteran.

**RULEMAKING AUTHORITY**

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

**SECTION BY SECTION ANALYSIS**

SECTION 1. Authorizes this Act to be cited as the State Economic Reimbursement for Veterans Exemption (SERVE) Act.

SECTION 2. Amends Sections 140.011(a)(1) and (2), Local Government Code, to define "ad valorem tax," rather than "general fund revenue," and to redefine "local government."

SECTION 3. Amends Section 140.011, Local Government Code, by amending Subsections (b), (d), (h), and (i) and adding Subsections (j) and (k), as follows:

(b) Provides that a local government is a qualified local government for a fiscal year if a certain amount of lost ad valorem tax revenue for that fiscal year is greater than one percent of the local government's ad valorem tax revenue, rather than equal to or greater than two percent of the local government's general fund revenue, for that fiscal year.

(d) Provides that a disabled veteran assistance payment made to a qualified local government for a fiscal year, subject to Subsection (i), is calculated in a certain manner. Makes conforming and nonsubstantive changes.

(h) Provides that the disabled veteran local government assistance trust fund (fund) is established as a trust fund outside the state treasury. Provides that the fund consists of money deposited to the credit of the fund under Section 151.801 (Disposition of Proceeds), Tax Code, and other money deposited to the credit of the fund at the direction of the legislature. Requires the Comptroller of Public Accounts of the State of Texas (comptroller) to administer the fund as trustee on behalf of qualified local governments. Requires the comptroller to allocate the money deposited to the credit of the fund for the purpose of making payments to which qualified local governments are entitled under Section 140.011 (Local Governments Disproportionately Affected by Property Tax Relief for Disabled Veterans), rather than to transfer funds to a newly created account in the state treasury for the purpose of reimbursement of local governments under this section. Authorizes the comptroller to make a payment from the fund to a qualified local government without the necessity of an appropriation.

(i) Requires the comptroller, if the comptroller determines that the balance of the fund in a state fiscal year is not sufficient to pay the full amount of each disabled veteran assistance payment to qualified local governments in that year, to proportionately reduce the amount of each payment made to the qualified local governments that year as necessary to prevent the fund from becoming insolvent.

(j) Requires the comptroller, if in a state fiscal year the amount of money in the fund exceeds the amount necessary to pay the full amount of each disabled veteran assistance payment to qualified local governments in that year, to transfer the excess amount to the general revenue fund not later than the last day of that year.

(k) Creates this subsection from existing text.

SECTION 4. Amends Section 151.801, Tax Code, by amending Subsection (a) and adding Subsection (g), as follows:

(a) Creates an exception under this section, rather than under certain subsections. Makes nonsubstantive changes.

(g) Requires the comptroller, each state fiscal year, to determine in the manner prescribed by this subsection an amount of the proceeds from the collection of the taxes imposed by Chapter 151 (Limited Sales, Excise, and Use Tax) and deposit that amount to the credit of the fund established under Section 140.011, Local Government Code. Provides that the amount to be deposited to the credit of the fund, for the state fiscal years beginning September 1, 2023, and September 1, 2024, is $200 million. Provides that the amount to be deposited to the credit of the fund, in the state fiscal year beginning September 1, 2025, and each subsequent state fiscal year, is an amount equal to the amount deposited to the credit of the fund in the preceding state fiscal year, adjusted by the annual rate of change in disabled veteran assistance payments made under Section 140.011, Local Government Code. Provides that the annual rate of change in disabled veteran assistance payments, for purposes of this subsection, is equal to the percentage increase, if any, in the amount of disabled veteran assistance payments made under Section 140.011, Local Government Code, in the preceding state fiscal year as compared to the amount of those payments made in the state fiscal year preceding that state fiscal year. Prohibits the comptroller, when computing the annual rate of change in disabled veteran assistance payments for purposes of this subsection, from considering the amount by which a disabled veteran assistance payment was reduced under Section 140.011(i), Local Government Code.

SECTION 5. Provides that Section 140.011, Local Government Code, as amended by this Act, applies to the eligibility of a local government to apply for, and the calculation of, a disabled veteran assistance payment beginning with the fiscal year of the local government that ends in the 2023 tax year.

SECTION 6. Effective date: September 1, 2023.