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| BILL ANALYSIS |

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| C.S.H.B. 1613 |
| By: Shine |
| Ways & Means |
| Committee Report (Substituted) |

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| **BACKGROUND AND PURPOSE** 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.C.S.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. |
| **CRIMINAL JUSTICE IMPACT**It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision. |
| **RULEMAKING AUTHORITY** It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution. |
| **ANALYSIS** C.S.H.B. 1613, the State Economic Reimbursement for Veterans Exemption (SERVE) Act, amends the Local Government Code to revise provisions governing the disabled veterans assistance payments provided by the state to certain qualified local governments for purposes of offsetting the cost of the residence homestead property tax exemption for 100 percent or totally disabled veterans. The bill makes all municipalities and counties eligible for the payments for a given fiscal year and, accordingly, removes the provision currently limiting eligibility to a municipality adjacent to a U.S. military installation and a county in which such an installation is wholly or partly located.C.S.H.B. 1613 creates a new disabled veteran local government assistance trust fund as a trust fund outside the state treasury in the general revenue fund to replace the current account used for the purpose of reimbursement for lost property tax revenue. The bill requires the comptroller of public accounts to administer the fund as trustee on behalf of qualified local governments and to allocate the money deposited to the credit of the fund for the purpose of making payments to which qualified local governments are entitled. The bill authorizes the comptroller to make a payment from the fund to a qualified local government without the necessity of an appropriation. The trust fund consists of certain sales tax revenue and other money deposited to the credit of the account at the direction of the legislature. In addition, the bill does the following:* requires the comptroller to proportionately reduce the amount of each payment made in the event the trust fund balance is not sufficient to pay the full amount of each payment due in a year as necessary to prevent the trust fund from becoming insolvent; and
* requires the comptroller to transfer any amount of money in the trust fund that exceeds the amount necessary to pay the full amount of each disabled veteran assistance payment to qualified local governments in a given state fiscal year to the general revenue fund not later than the last day of that year.

C.S.H.B. 1613, with respect to the amount of property tax revenue lost in a given fiscal year as a result of the exemption that qualifies a municipality or county for a payment for that fiscal year, changes the current qualifying amount as follows: from an amount lost that is equal to or greater than two percent of the municipality's or county's general fund revenue to an amount lost that is greater than one percent of the municipality's or county's property tax revenue.C.S.H.B. 1613, for purposes of its Local Government Code provisions, applies only to the eligibility of a municipality or county to apply for, and the calculation of, a payment beginning with the fiscal year of the municipality or county that ends in the 2023 tax year.C.S.H.B. 1613 amends the Tax Code to require the comptroller to determine each state fiscal year an amount of the proceeds from the collection of the sales and use tax and deposit that amount to the credit of the disabled veteran local government assistance trust fund. The bill establishes mandatory deposits to the credit of the trust fund for state fiscal years 2024 and 2025 of $200 million each and establishes that, for state fiscal year 2026 and each subsequent state fiscal year, the amount deposited to the credit of the trust fund 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. The bill establishes that the annual rate of change in disabled veteran assistance payments is equal to the percentage increase, if any, in the amount of payments made 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. The bill prohibits the comptroller from considering the amount by which a disabled veteran assistance payment was reduced when computing the annual rate of change in those payments. |
| **EFFECTIVE DATE** September 1, 2023. |
| **COMPARISON OF INTRODUCED AND SUBSTITUTE**While C.S.H.B. 1613 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.Whereas the introduced created the disabled veterans local government assistance account as an account in the general revenue fund, the substitute instead creates the disabled veteran local government assistance trust fund as a trust fund outside the state treasury. The substitute requires the comptroller to allocate the money deposited to the credit of the fund, whereas the introduced included a limit on the use of the money on the account. The substitute includes a provision not present in the introduced clarifying that the comptroller is responsible for making payments from the fund and includes another provision also absent from the introduced authorizing the comptroller to make a payment from the fund to a qualified local government without the necessity of an appropriation. The substitute provides for the transfer of excess money in the trust fund in a given state fiscal year to the general revenue fund, whereas the introduced did not provide for any transfers to the general revenue fund. The substitute omits provisions present in the introduced providing for the deposit of sales and use tax proceeds from U.S. military bases to the credit of the account and providing for the manner in which the comptroller must determine the amount of those proceeds to deposit. The substitute requires the comptroller instead to determine the amount of proceeds collected from the sales and use tax to deposit to the credit of the fund each state fiscal year and provides for the following with respect to the amount to be deposited: * $200 million must be deposited to the credit of the trust fund in each of state fiscal years 2024 and 2025; and
* the amount deposited in each subsequent state fiscal year is the amount deposited in the preceding state fiscal year, adjusted by the annual rate of change in disabled veteran assistance payments.

Accordingly, the substitute provides for the calculation of the annual rate of change in disabled veteran assistance payments, whereas the introduced did not.The substitute includes a provision absent from the introduced providing a short title for the bill, which is the State Economic Reimbursement for Veterans Exemption (SERVE) Act. |