

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

May 5, 2023

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB1613 by Shine (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.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1613, Committee Report 1st House, Substituted : a negative impact of (\$400,458,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2024	(\$200,229,000)
2025	(\$200,229,000)
2026	(\$210,229,000)
2027	(\$220,729,000)
2028	(\$231,754,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Revenue (Loss) from General Revenue Fund 1	Probable Revenue Gain from Disabled Veteran Local Government Assistance Trust Fund	Probable (Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2023
2024	(\$200,000,000)	\$200,000,000	(\$229,000)	3.0
2025	(\$200,000,000)	\$200,000,000	(\$229,000)	3.0
2026	(\$210,000,000)	\$210,000,000	(\$229,000)	3.0
2027	(\$220,500,000)	\$220,500,000	(\$229,000)	3.0
2028	(\$231,525,000)	\$231,525,000	(\$229,000)	3.0

Fiscal Analysis

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 change the general fund revenue definition to only property tax revenue. The bill would lower the threshold of lost property tax revenue from 2% to 1% and expand eligibility for local governments to include any county or municipality.

The bill would establish the Disabled Veteran Local Government Assistance Trust Fund (fund) as a fund outside the state treasury and administered by the Comptroller. Money in the fund would consist of deposits made under Section 151.801 of the Tax Code, regarding the disposition of proceeds, and any other funds dedicated by the Legislature.

The bill would amend Section 151.801, Tax Code, directing the Comptroller, for state fiscal years 2024 and 2025, to deposit \$200 million to the fund established by the bill. In subsequent state fiscal years, the Comptroller would deposit to the fund the amount deposited the previous year adjusted by the annual rate of change in disabled veteran assistance payments made under Section 140.011, Local Government Code.

The bill would allow the Comptroller to make a payment from the fund to a qualified local government without an appropriation.

The bill provides that if the Comptroller determines that the balance of the trust fund is not sufficient to pay the full amount to qualified local governments, each payment must be reduced proportionately.

The bill provides that if the amount of money in the trust fund exceeds the amount necessary to pay the full amount of each disabled veteran assistance payment to qualified local governments in any year, the excess amount is to be transferred to General Revenue (GR).

The bill would apply to the eligibility of a qualified local government to apply for a disabled veteran assistance payment beginning with the fiscal year of the local government that ends in the 2023 tax year.

The bill would take effect September 1, 2023.

Methodology

The bill would provide that \$200 million be deposited to the disabled veteran local government assistance trust fund in fiscal years 2024 and 2025. The amount would grow each year thereafter, indexed to annual percentage growth in assistance payments, assumed here at 5 percent annually after 2025 for growth in appraised values alone.

In the four years from 2017 through 2021, the number of 100 percent disabled veteran property tax exemptions increased by about 63 percent. That growth combined with market value appreciation of the exempted homesteads, after adjustment for the 10 percent annual limit on growth in appraised value, resulted in average annual growth in city and county levy losses of about 21.1 percent. Should that rate of growth have moderated after 2021, the full amounts of deposits to the trust fund indicated below will not be required to make the assistance payment, and excess funds will be transferred to the general revenue fund; those amounts cannot be determined.

The bill would create or recreate a dedicated account in the General Revenue Fund, create or recreate a fund either in, with, or outside of the Treasury, or dedicate or rededicate a revenue source. The Legislature consolidated funds into the General Revenue Fund as of August 31, 1993 and eliminated all applicable statutory revenue dedications as of August 31, 1995. Each subsequent Legislature has enacted a funds consolidation bill. The dedication included in this bill, unless created by a constitutional amendment, would be subject to funds consolidation review by the current Legislature.

There would be effects on the Economic Stabilization Fund (ESF) balance limit and consequent effects for GR reserves and transfers to ESF. Because sales tax revenue is initially deposited to the general revenue fund, the deposit instead to the disabled veteran local government assistance trust fund in the 2024-25 biennium would reduce the 2026-27 ESF balance limit by ten percent of the reduction in general revenue deposits, reducing 2025 severance tax reserves for transfer to the ESF by the amount of the balance limit reduction, and increasing available GR in 2025 by the amount of reduction of the reserves, however this amount is not expected to be significant.

Local Government Impact

Lowering the threshold of lost property tax revenue from 2% to 1% to qualify for the assistance payments is estimated to result in over 500 additional taxing units qualifying for assistance payments relative to current law.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD