

**SUBJECT:** Increasing residence homestead exemption for the elderly and disabled

**COMMITTEE:** Local Government Ways and Means — favorable, without amendment

**VOTE:** 5 ayes — Hill, Hegar, Laubenberg, Mowery, Quintanilla

0 nays

2 absent — McReynolds, Puente

**WITNESSES:** None

**BACKGROUND:** Tax Code, sec. 11.13 sets forth exemptions from the appraised value of residence homesteads for ad valorem taxation purposes. For county tax purposes, each residence homestead is entitled to a \$3,000 exemption. For school tax purposes, an adult is entitled to a \$15,000 exemption for a residence homestead, and an elderly (age 65 or older) or disabled homeowner is entitled to an additional \$10,000 exemption.

**DIGEST:** HB 700 would increase to \$20,000 the additional property-value exemption for school tax purposes for a homeowner who is disabled or elderly.

This bill would take effect January 1, 2004, only if voters approved the proposed constitutional amendment (HJR 37 by Gutierrez) allowing the Legislature to authorize the additional exemption.

**SUPPORTERS SAY:** Additional exemptions worth \$10,000 first were extended to elderly and disabled homeowners in 1979. Since then, inflation and growth in property values have eroded the value of that exemption. Property values have increased at least 10 different times during that period, because appraisals generally must be performed at least every other year.

HB 700, together with HJR 37 if approved by voters, would help restore the value of the exemption for disabled and elderly homeowners, many of whom have paid off their long-term mortgages and own their homes outright. Property taxes remain one of their largest continuing expenses to maintain their homes. Those taxes are based on the current market, rather the original

purchase price of the house. The Constitution and the Tax Code provide for a limitation on the amount of taxes paid on homesteads owned by the elderly, but that amount still reflects the effect of increased appraisals since the homeowner bought the house. Significant numbers of elderly and disabled homeowners live on limited, fixed incomes, and property taxes based on higher current values — even at the frozen level — typically have risen disproportionately compared with those incomes.

Future development of both commercial and residential property will more than offset any losses to local school districts due to homestead exemptions. The addition of new businesses and new neighborhoods will increase overall tax values of school districts and ensure that the districts can meet current and future financial obligations.

In comparison with the billions of dollars the state provides for public schools, the fiscal impact of HB 700 to local districts would be relatively insignificant in the coming years. The state would reimburse school districts through the Foundation School Fund for revenue lost because of the increased exemptions.

**OPPONENTS  
SAY:**

According to the fiscal note, HB 700 would cost school districts \$139 million in 2005, when the higher exemption would be implemented fully. School districts eventually would be reimbursed by the Foundation School Fund, but they would have to make up the difference in the first year of the increased exemption. Their revenue losses would continue in subsequent years, though not at the initial level.

**NOTES:**

The bill's fiscal note projects that the state would gain \$2.1 million in general revenue in fiscal 2005 because of "dynamic" tax feedback effects estimated by the comptroller. School districts would lose \$139.4 million in fiscal 2005 and \$7 million or more in subsequent years. From fiscal 2006 through 2008, state costs to the Foundation School Fund would total \$427.5 million.

HJR 37 by Gutierrez, which would propose a constitutional amendment allowing the Legislature to authorize the additional exemption, is on today's Constitutional Amendments Calendar.