

- SUBJECT:** Constitutional amendment to allow dollar-amount homestead exemption
- COMMITTEE:** Ways and Means — favorable, without amendment
- VOTE:** 7 ayes — Hilderbran, Otto, Bohac, Button, N. Gonzalez, Ritter, Strama  
0 nays  
2 absent — Eiland, Martinez Fischer
- WITNESSES:** For — (*Registered, but did not testify:* Hugh Brady, City of Austin; Deece Eckstein, Travis County Commissioners Court; Dick Lavine, Center for Public Priorities; Donald Lee, Texas Conference of Urban Counties; Mark Mendez, Tarrant County Commissioners Court)  
  
Against — (*Registered, but did not testify:* Brent Connett, Texas Conservative Coalition)
- BACKGROUND:** Texas Constitution, art. 8, sec. 1-b(e) allows the governing body of a political subdivision to exempt up to 20 percent of the market value of a residence homestead. The amount of an exemption authorized in no case may be less than \$5,000.  
  
In addition, school districts are required to provide an across-the-board tax exemption of \$15,000 on the appraised value of a residence homestead, as well as a \$10,000 school property tax exemption for those who are disabled or age 65 or older.
- DIGEST:** HJR 138 would propose an amendment to allow the governing body of a political subdivision to exempt a flat-dollar-amount of the market value of a person's residence homestead as an alternative to the existing percentage exemption. The amount of the alternative exemption could be no less than \$5,000.  
  
The Legislature could not provide formulas to protect a school district against all or part of the revenue loss incurred by the school district that resulted from the school board's adoption of an alternative exemption.  
  
The amendment would take effect on January 1, 2014.

The proposal would be presented to the voters at an election on Tuesday, November 5, 2013. The ballot proposal would read: “The constitutional amendment authorizing the governing body of a political subdivision to adopt a local option residence homestead exemption from ad valorem taxation of a portion, expressed as a dollar amount, of the market value of an individual’s residence homestead.”

**SUPPORTERS  
SAY:**

HJR 138 would provide the constitutional authorization necessary to give governing bodies of local entities (municipalities, counties, hospital districts, community colleges) the option of choosing between a homestead exemption based on a percentage or a dollar-amount. The amendment would increase local control and flexibility to make informed decisions on how to administer the optional residential homestead exemption.

Under the Constitution, local entities may adopt a percent exemption, capped at 20 percent, for residential homesteads. The exemption, if granted, must be no less than \$5,000. Many local entities, however, opt against offering this exemption, as it often has a significant fiscal impact that increases each year with rising property values. As a result, in many cases, homeowners receive no homestead exemption from taxing jurisdictions, except the \$15,000 exemption school districts are required to provide. Districts also must provide a \$10,000 homestead exemption for those who are disabled or 65 or older. Districts are not required to provide another residence homestead exemption, though they also have the option of a percentage exemption up to 20 percent.

Providing the option to choose a flat-dollar-amount or percentage exemption would allow local entities to tailor local tax policies to suit the unique needs of their communities. Allowing this option would allow local entities more flexibility to control the amount of property value subject to taxation. Revenue tied up with a fixed, dollar-amount exemption would increase with the number of residence homesteads, contributing to the steadiness and predictability of tax revenue. In contrast, the revenue lost due to a percent exemption would increase with the overall value of homesteads, magnifying the potential scope of the exemptions’ fiscal impact and reducing predictability.

A dollar-amount exemption would be more effective in providing property tax relief for targeted homeowners. Local entities could set these

exemptions to alleviate the tax burden on vulnerable populations.

The flexibility of greater taxing options afforded by the amendment would be naturally constrained by powerful checks in the form of local elections. Governing bodies that adopt tax exemptions are subject to popular elections. These elections provide important checks on any tendency to raise taxes or to disproportionately shift the tax burden from some groups onto others. If citizens are unhappy about changes to a tax exemption, they could make changes through the ballot box.

OPPONENTS  
SAY:

HJR 138 would sanction local decisions that could lead to shifting the property tax burden from some taxpayers onto others. Providing for a fixed dollar-amount exemption would disproportionately punish those with homes of higher value. For instance, a \$500,000 home with a 20 percent exemption would yield a \$100,000 homestead exemption. On the other hand, if the local entity adopted a fixed amount, say \$50,000, then the homeowner would be subject to a tax increase corresponding to \$50,000 of appraised value.

Under the amendment, some homeowners could be completely exempt from paying any tax to certain entities, and this tax burden would be shifted to others who would see a (potentially very significant) tax increase. Moving the tax burden from one class of taxpayers to another creates issues of equity and uniformity of taxation. A simple percentage exemption for all homeowners is the best approach, since all homeowners enjoy an equal share in the benefits of the public services provided through property tax collections.

OTHER  
OPPONENTS  
SAY:

Local entities should not be forced to choose between adopting a percent or dollar-amount exemption for residential homesteads. The amendment should make allowances for those jurisdictions that would like use a combination of dollar-amount and percentage exemptions for homeowners.

NOTES:

The Legislative Budget Board (LBB) estimates that the amendment would have no fiscal impact to the state, except \$108,921 for the cost of publishing the resolution.

The LBB notes that school districts are unlikely to make the switch from the optional percentage exemption in current law to the new dollar-amount exemption, as they would not be reimbursed for any costs through the

school finance formula. There would be a cost to local taxing units to the extent that the entities implemented provisions in the amendment.