

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**February 24, 2003**

**TO:** Honorable Fred Hill, Chair, House Committee on Local Government Ways and Means

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB104** by Chavez (Relating to the exemption from ad valorem taxation of tangible personal property held at certain locations only temporarily for assembling, manufacturing, processing, or other commercial purposes.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB104, As Introduced: an impact of \$0 through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$0
2005	\$0
2006	(\$35,900,000)
2007	(\$36,977,000)
2008	(\$38,086,300)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain/(Loss) from <i>School Districts</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2004	\$0	\$0	\$0	\$0
2005	\$0	(\$35,900,000)	(\$7,800,000)	(\$11,200,000)
2006	(\$35,900,000)	(\$1,077,000)	(\$8,034,000)	(\$11,536,120)
2007	(\$36,977,000)	(\$1,109,000)	(\$8,275,134)	(\$11,882,244)
2008	(\$38,086,300)	(\$1,142,600)	(\$8,523,500)	(\$12,238,753)

**Fiscal Analysis**

In November 2001, Texas voters passed SJR 6 to add Article VIII, Section 1-n to the Texas Constitution, thereby authorizing the Legislature to exempt from ad valorem taxation "goods in transit."

The proposed enabling legislation would provide an exemption for property acquired or imported into Texas, stored at a location in the state not owned or under the control of the property owner, and transported to another location either inside or outside of the state within 270 days. The proposed bill would provide a local option procedure to continue taxing the property.

## **Methodology**

It is not known how many jurisdictions might hold an election and vote to continue taxing the covered items. For purposes of this analysis, it's assumed that all taxing jurisdictions would provide the exemption. The Comptroller's Property Tax Division estimated the losses for fiscal 2005. These amounts were trended upward based on historical property tax levy increases, to reflect losses to local governments for fiscal years 2005-2008.

It was assumed that taxation of aircraft and special vehicle inventories such as those maintained by automobile dealerships would be unaffected, and that no taxpayer behavior relating to intra-corporate restructuring to avoid taxation would result. If any such behavior were to materialize, additional revenue reductions would occur.

Section 403.302 of the Government Code requires the Comptroller to conduct a property value study to determine the total taxable value for each school district. Total taxable value is an element in the state's school funding formula. The cost to the state was estimated by assuming that the state would reimburse school districts for their total levy losses, including losses for this exemption, after a one-year lag.

## **Local Government Impact**

The tax revenue losses to units of local government are reflected in the above tables.

**Source Agencies:** 304 Comptroller Of Public Accounts, 701 Central Education Agency

**LBB Staff:** JK, JO, SD, WP, BR