

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 29, 2003

TO: Honorable Ron Wilson, Chair, House Committee on Ways & Means

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB2423 by McCall (Relating to the application of the sales and use tax to pharmaceutical biotechnology cleanrooms and equipment.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2423, Committee Report 1st House, Substituted: a negative impact of (\$9,166,000) through the biennium ending August 31, 2005, if the effective date of the bill is July 1, 2003; or a negative impact of (\$8,128,000) through the biennium ending August 31, 2005, if the effective date of the bill is September 1, 2003.

The following table assumes an effective date of July 1, 2003.

All Funds, Six-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>Cities</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>	Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i>
2003	(\$331,000)	\$0	\$0	\$0
2004	(\$4,240,000)	(\$780,000)	(\$281,000)	(\$97,000)
2005	(\$4,595,000)	(\$846,000)	(\$305,000)	(\$106,000)
2006	(\$4,953,000)	(\$911,000)	(\$328,000)	(\$114,000)
2007	(\$5,282,000)	(\$972,000)	(\$350,000)	(\$121,000)
2008	(\$5,617,000)	(\$1,034,000)	(\$372,000)	(\$129,000)

The following table assumes an effective date of September 1, 2003.

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>Cities</i>	Probable Revenue Gain/(Loss) from <i>Transit Authorities</i>	Probable Revenue Gain/(Loss) from <i>Counties/Special Districts</i>
2004	(\$3,533,000)	(\$650,000)	(\$234,000)	(\$81,000)
2005	(\$4,595,000)	(\$846,000)	(\$305,000)	(\$106,000)
2006	(\$4,953,000)	(\$911,000)	(\$328,000)	(\$114,000)
2007	(\$5,282,000)	(\$972,000)	(\$350,000)	(\$121,000)
2008	(\$5,617,000)	(\$1,034,000)	(\$372,000)	(\$129,000)

Fiscal Analysis

The bill would amend Section 151.318 of the Tax Code to include "pharmaceutical biotechnology cleanrooms and equipment" under the sales tax exemption for property used in manufacturing.

"Pharmaceutical biotechnology cleanrooms and equipment" would mean all tangible personal

property, without regard to whether the property was affixed to or incorporated into realty, used in connection with the manufacturing, processing, or fabrication in a cleanroom environment of a pharmaceutical biotechnology product, without regard to whether the property was actually contained in the cleanroom environment.

Pharmaceutical biotechnology cleanrooms would include lighting, fixtures, piping, and other property, machinery, and equipment necessary to reduce contamination or control environmental conditions or manufacturing tolerances. The term would not include the building or permanent components of the building that house the cleanroom environment. Pharmaceutical biotechnology cleanrooms would not be considered intraplant transportation equipment.

The use of a pharmaceutical biotechnology cleanroom and equipment to manufacture a pharmaceutical biotechnology product that is not sold would not be a divergent use if the use occurred during the certification process by the United States Food and Drug Administration.

The bill would amend Section 313.021(2) of the Tax Code to include pharmaceutical biotechnology cleanrooms and equipment under the definition of "qualified property" as it relates to the Texas Economic Development Act.

The bill would take effect July 1, 2003, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2003.

Methodology

Data on Texas expenditures for manufacturing machinery and equipment were obtained from the U.S. Census Bureau. Expenditures were adjusted to reflect items that could be incorporated into a pharmaceutical biotechnology cleanroom environment, multiplied by the state sales tax rate, adjusted for potential effective dates of July 1, 2003 and September 1, 2003, and extrapolated through 2008. The fiscal impact on units of local government were estimated proportionally.

Local Government Impact

Local units of government would have a corresponding fiscal impact from sales tax revenues, as indicated in the above tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, SD, WP, SM