

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 11, 2007

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB621 by Chavez (Relating to the exemption from ad valorem taxation of tangible personal property held temporarily at a location in this state for assembling, storing, manufacturing, processing, or fabricating purposes.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB621, As Engrossed: a negative impact of (\$845,000) through the biennium ending August 31, 2009.

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
2008	\$0
2009	(\$845,000)
2010	(\$887,000)
2011	(\$931,000)
2012	(\$978,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND 193</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>
2008	\$0	\$0	\$0	\$0
2009	(\$845,000)	(\$845,000)	(\$288,000)	(\$255,000)
2010	(\$887,000)	(\$887,000)	(\$302,000)	(\$268,000)
2011	(\$931,000)	(\$931,000)	(\$317,000)	(\$281,000)
2012	(\$978,000)	(\$978,000)	(\$333,000)	(\$295,000)

Fiscal Analysis

The bill would add a new section to Chapter 11 of the Tax Code to provide an exemption from ad valorem taxation for certain "goods in transit."

The exemption only would apply to property located in a county with a population of 650,000 or more and adjacent to an international border.

To qualify for the exemption, personal property would have to be acquired in or imported into Texas and stored at a location in Texas in which the owner of the goods did not have a direct or indirect

ownership interest.

Oil and gas and their immediate derivatives, aircraft, and dealer's special inventories would not qualify for the exemption. In addition, the inventory would have to be transported or distributed to another location no later than 175 days after the property was acquired in, or imported into, the state.

The exemption would have to be granted by all taxing units unless the governing body of a taxing unit proposed by official action to tax goods in transit. Before acting to tax goods in transit, the governing body of a taxing unit would have to conduct a public hearing where the public would be allowed to speak for or against the action to tax the property.

This bill would take effect January 1, 2008.

Methodology

Currently, Article VIII, Section 1-j of the Texas Constitution and Section 11.251 of the Tax Code provide for a "freeport exemption." This exemption, which can be granted at the option of each city, county, school district, or junior college district, exempts goods, wares, ores, raw materials, and other types of inventory that are brought into, or acquired in, the state and transported out of the state within 175 days of acquisition.

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."

This proposed enabling legislation would provide an exemption for property acquired in or imported into Texas, stored at a location in El Paso County in which the owner of the goods did not have a direct or indirect ownership interest, and transported to another location either inside or outside of the state within 175 days. The bill would provide a local option procedure to continue taxing the property.

The proposed exemption could cause an undetermined revenue loss to El Paso County and the municipalities, school districts, and junior college districts therein should they decide to exempt goods in transit.

Because it is not known how many taxing unit governing bodies in El Paso County might vote to continue taxing the covered items, the fiscal impact cannot be determined.

Note: Because the exemption would be optional, the fiscal impact table provides an illustrative example only. Appraisal district information about the potential value loss to the proposed bill was trended over the projection period to estimate the value loss in each year. The appropriate taxing unit rates were applied to estimate the levy loss. Information was not available to estimate special district losses.

Note: In addition, with respect to school districts, the mechanics of the school finance system would likely transfer the initial fiscal impacts to the state, resulting in a zero or negligible fiscal impact to the school districts. Initial school district losses are shown, even though the operation of the "hold harmless" feature of HB 1, 79th Legislature, Third Called Session (2006), would likely transfer the losses to the state causing a net school district loss of zero.

Local Government Impact

Because the exemption would be optional, the fiscal impact table above provides an illustrative example only.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, SJS