

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 21, 2007

TO: Honorable Tom Craddick, Speaker of the House, House of Representatives

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 Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB621, As Passed 2nd House: a negative impact of (\$25,215,000) 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	(\$25,215,000)
2010	(\$31,184,000)
2011	(\$32,429,000)
2012	(\$33,723,000)

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 - Initial Impact</i>	Probable Revenue Gain/(Loss) from <i>Counties</i>	Probable Revenue Gain/(Loss) from <i>Cities</i>
2008	\$0	\$0	\$0	\$0
2009	(\$25,215,000)	(\$30,221,000)	(\$9,419,000)	(\$6,552,000)
2010	(\$31,184,000)	(\$31,430,000)	(\$9,796,000)	(\$6,814,000)
2011	(\$32,429,000)	(\$32,687,000)	(\$10,188,000)	(\$7,087,000)
2012	(\$33,723,000)	(\$33,994,000)	(\$10,596,000)	(\$7,370,000)

Fiscal Analysis

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

To qualify for the exemption, personal property would have to be acquired in Texas or imported into Texas and stored at a Texas location 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.

The 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 "freepoint 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 approved of the amendment proposed in SJR 6, adding Article VIII, Section 1-n to the Texas Constitution. This amendment authorized the Legislature to exempt from ad valorem taxation "goods in transit."

The enabling legislation proposed in the bill would provide an exemption for property acquired in Texas or imported into Texas if the property is stored at a location in which the owner of the goods does not have a direct or indirect ownership interest and is 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 cities, counties, school districts, and junior college districts exempting goods in transit.

Because the state is constitutionally prohibited from imposing a state property tax, there would be no direct fiscal impact on the state. However, 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. Depending on the number of school districts allowing the exemption, the state would reimburse school districts an undetermined amount of funding for this exemption, after a one-year lag.

The bill is estimated to have an impact on the state aid districts receive based on the enrichment tier as tied to the yield of the Austin Independent School District (ISD). To the extent that the bill has the effect of lessening Austin ISD's revenue per weighted student per penny of tax effort, as determined by the Commissioner of Education, the equalized yield on those enrichment pennies would decrease, resulting in a decrease in state aid.

Local Government Impact

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

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.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, CT, SD, SJS