

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 1, 2015

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB758 by Bettencourt (Relating to the exemption from ad valorem taxation of certain tangible personal property used by the owner of the property to manufacture, process, or fabricate tangible personal property for ultimate sale.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB758, As Introduced: a negative impact of (\$270,947,000) through the biennium ending August 31, 2017.

The estimated net impact to General Revenue Related Funds would increase to a negative impact of (\$2,814,941,000) for the biennium ending August 31, 2019.

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
2016	\$0
2017	(\$270,947,000)
2018	(\$1,363,828,000)
2019	(\$1,451,113,000)
2020	(\$1,541,804,000)

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>
2016	\$0	\$0	\$0	\$0
2017	(\$270,947,000)	(\$1,379,041,000)	(\$501,670,000)	(\$495,098,000)
2018	(\$1,363,828,000)	(\$398,093,000)	(\$536,986,000)	(\$528,897,000)
2019	(\$1,451,113,000)	(\$426,842,000)	(\$573,712,000)	(\$563,945,000)
2020	(\$1,541,804,000)	(\$460,295,000)	(\$613,083,000)	(\$601,446,000)

Fiscal Year	Probable Revenue Gain/(Loss) from Other Special Districts
2016	\$0
2017	(\$348,722,000)
2018	(\$372,899,000)
2019	(\$398,006,000)
2020	(\$424,896,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, regarding taxable property and exemptions, to exempt tangible personal property that is exempted from the sales and use tax under Section 151.318 of the Tax Code from property taxation if the property is used by the owner to manufacture, process, or fabricate tangible personal property for ultimate sale. The bill would require a property owner to comply with a specified application process.

The bill would take effect on January 1, 2016, contingent on voter approval of a constitutional amendment (SJR 35).

Methodology

The bill's proposed property tax exemption of personal property that is exempt from the sales and use tax and is used by the owner to manufacture, process, or fabricate tangible personal property for ultimate sale would create a cost to school districts, other local taxing units, and to the state through the operation of the school funding formulas.

The value lost to the proposed exemption was based on information from appraisal districts and on information related to the existing sales and use tax exemption under Section 151.318 of the Tax Code.

Projected tax rates were applied through the five-year projection period to estimate the tax revenue loss to special districts, cities and counties, and to estimate the school district loss that would be partially transferred to the state. Under the hold harmless provisions of the Education Code, only a small portion of the first year school district loss related to the compressed rate would be transferred to the state while nearly 100 percent of the loss would be transferred to the state in later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state gain) in the first year of a taxable property value reduction. In the second and successive years the enrichment loss and a portion of the school district debt (facilities) loss are transferred to the state through the relevant funding formulas.

Local Government Impact

The estimated fiscal implication to units of local government is reflected in the above table.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS, AH