LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 16, 2019

TO: Honorable Dustin Burrows, Chair, House Committee on Ways & Means

FROM: John McGeady, Assistant Director   Sarah Keyton, Assistant Director
Legislative Budget Board

IN RE: **HB1068** by Ashby (Relating to strategies for railroad relocation and improvement, including a franchise tax credit for certain railroad reconstruction or replacement expenditures.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1068, As Introduced: an impact of $0 through the biennium ending August 31, 2021.

However, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($12,983,000) for the 2020-21 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	$0
2021	$0
2022	$0
2023	$0
2024	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Property Tax Relief Fund* 304
2020	($6,451,000)
2021	($6,532,000)
2022	($6,593,000)
2023	($6,641,000)
2024	($6,693,000)

Fiscal Analysis

The bill would amend Chapter 171 of the Tax Code, regarding the franchise tax, to add a tax credit for qualified railroad reconstruction or replacement expenditures. The bill would define "class II railroad" and "class III railroad" by reference to the U.S. Surface Transportation Board. The bill would define "qualified railroad expenditure" as an amount spent on a railroad to reconstruct or replace railroad infrastructure that was owned or leased by the taxable entity on January 1, 2019 and for new construction of certain railroad infrastructure.

The amount of credit would be equal to the lesser of 50 percent of the qualified railroad expenditures during the period or the product of $3,500 and the number of miles of railroad track owned or leased in this state by the entity on the last day during the accounting period on which the report is based. The total credit claimed may not exceed the amount of tax due for a report. Credits that could not be applied due to the limitation could be carried forward for not more than five consecutive reports.

A taxable entity that earns a credit may sell or assign the credit to one or more taxable entities. Additional sales of the credit could occur without limit. The sale of the credit must be reported to the Comptroller within 30 days of the sale or transfer and contain specified information regarding the transaction.

The Comptroller would adopt rules to implement the credit. The Texas Department of Transportation would adopt rules to verify qualified railroad expenditures and allow taxable entities to obtain preapproval that a proposed expenditure would qualify for the credit.

The bill would take effect on January 1, 2020, and only apply to reports due on or after that date.

Methodology

The estimated fiscal impact of the bill is based on information in the Texas Department of Transportation's *2016 Texas Rail Plan Update*, data from Biz Stats on railroad income-expense statements, and on Comptroller franchise tax data files.

The Texas Department of Transportation indicates there would be a cost to compile applications and verify qualified expenditures. This estimate assumes the agency could absorb the cost utilizing existing resources.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts, 601 Department of Transportation

LBB Staff: WP, KK, SD