LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 26, 2019

TO: Honorable Paul Bettencourt, Chair, Senate Committee on Property Tax

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

IN RE: **SJR43** by Bettencourt (Proposing a constitutional amendment to extend the number of days that certain tangible personal property that is exempt from ad valorem taxation due to its location in this state for a temporary period may be located in this state for the purpose of qualifying for the tax exemption.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SJR43, As Introduced: a positive impact of $2,557,711 through the biennium ending August 31, 2021, including the cost to the state for publication of the resolution of ($177,289). A negative impact of ($110,815,000) would occur in fiscal year 2022.

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
2020	($177,289)
2021	$2,735,000
2022	($110,815,000)
2023	($115,491,000)
2024	($120,369,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *School Districts*	Probable Revenue Gain/(Loss) from *Counties*
2020	($177,289)	$0	$0	$0
2021	$0	$2,735,000	($134,336,000)	($36,426,000)
2022	$0	($110,815,000)	($27,052,000)	($37,764,000)
2023	$0	($115,491,000)	($28,940,000)	($39,151,000)
2024	$0	($120,369,000)	($30,938,000)	($40,589,000)

Fiscal Year	Probable Revenue Gain/(Loss) from *Cities*	Probable Revenue Gain/(Loss) from *Other Special Districts*
2020	$0	$0
2021	($38,991,000)	($27,376,000)
2022	($40,303,000)	($28,685,000)
2023	($41,658,000)	($30,056,000)
2024	($43,060,000)	($31,493,000)

Fiscal Analysis

The proposed constitutional amendment would amend Section 1-j(a), Article VIII, of the Texas Constitution, to extend the number of days within which certain qualifying tangible personal property must be transported outside of this state before losing eligibility for the "freeport" property tax exemption from 175 to 365. Many taxing units took action to tax this personal property under previous constitutional authority to do so, and the exemption does not apply in those districts.

The cost to the state for publication of the resolution is $177,289.

The proposed amendment would be submitted to voters at an election to be held November 5, 2019 and if adopted would take effect for the tax year beginning January 1, 2020.

Methodology

The proposed amendment is self-enabling and would extend the number of days within which certain tangible personal property must be transported outside of this state before losing eligibility for a property tax exemption. The amendment would create a cost to units of local government and to the state through the operation of the school finance formula.

The taxable value loss estimate was based on information from appraisal districts. Projected tax rates were applied to the taxable value losses through the five-year projection period to estimate tax revenue losses to school districts, special districts, cities and counties. Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. Projected school funding rates were applied to estimate the state loss and the net school district loss.

In the first year of a taxable value loss, state recapture is reduced (a state loss). Because of the use of lagged-year property values, in the second and successive years of a taxable value loss, state recapture is further reduced and the previous year's school district loss related to the Tier 1 rate is generally transferred to the state through the Tier 1 funding formulas (a state loss).

In the school district enrichment formula (Tier 2), property values do not reflect the first-year value loss because of the one-year value lag. Because the formula does reflect a tax collections decline in that year, school districts lose Tier 2 funding creating a state gain. In the second and successive years the previous year's enrichment loss is generally transferred to the state (a state loss).

The school district debt (facilities) funding formula does not reflect the first-year taxable value loss because of lagged-year property values. In the second and successive years, a small portion of the previous year's school district facilities loss is transferred to the state (a state loss).

Local Government Impact

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

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: WP, KK, SD, SJS