

**LEGISLATIVE BUDGET BOARD
Austin, Texas**

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 9, 2023

TO: Honorable Morgan Meyer, Chair, House Committee on Ways & Means

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB623 by Harris, Cody (relating to an exemption from ad valorem taxation of tangible personal property consisting of animal feed held by the owner of the property for sale at retail.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB623, Committee Report 1st House, Substituted : a negative impact of (\$3,373,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2024	\$0
2025	(\$3,373,000)
2026	(\$3,694,000)
2027	(\$4,269,000)
2028	(\$4,346,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from School Districts
2024	\$0	\$0
2025	(\$3,373,000)	(\$4,906,000)
2026	(\$3,694,000)	(\$5,239,000)
2027	(\$4,269,000)	(\$5,787,000)
2028	(\$4,346,000)	(\$5,909,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code (Taxable Property and Exemptions) to exempt animal feed held for sale at retail and exempted from sales and use taxes under current law, from property tax.

Methodology

Assuming voter approval of an associated constitutional amendment, the bill would exempt animal feed held for sale at retail from property tax. The bill's proposed property tax exemption of animal feed that is exempt from the sales and use tax under Tax Code Section 151.316 (State Sales and Use Tax—exemptions for agricultural items) and is held by the owner for sale at retail 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, U.S. Census, and on information related to the existing sales and use tax exemption under Section 151.316 of the Tax Code from animal feed expenditures reported by United States Department of Agriculture.

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 initial school district loss each year that would subsequently be partially transferred to the state through the operation of the school funding formulas.

The estimated cost to the Foundation School Program is \$3.4 million in fiscal year 2025, \$3.7 million in fiscal year 2026, and \$4.3 million in fiscal years 2027 and 2028.

This bill would take effect on January 1, 2024, contingent on approval by the voters of a constitutional amendment (HJR 47).

Local Government Impact

Contingent upon passage of a constitutional amendment authorizing the exemption, passage of the bill would exempt the value of certain animal feed from the property tax. As a result, taxable property values for local governments could be reduced. However, the no-new-revenue and voter-approval tax rates as provided by Section 26.04, Tax Code could be higher as a consequence of the reduced taxable value.

The estimated fiscal implication to school districts is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts, 701 Texas Education Agency

LBB Staff: JMc, KK, SD, BRI