

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 12, 2023

TO: Honorable Will Metcalf, Chair, House Committee on House Administration

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3455 by Harrison (Relating to the abolition of ad valorem taxes and the creation of a joint interim committee on the abolition of those taxes.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3455, As Introduced : an impact of \$0 through the biennium ending August 31, 2025.

However, there would be a negative impact to General Revenue Related Funds of (\$34,488,107,000) in fiscal year 2030, continuing in subsequent years.

General Revenue-Related Funds, Eleven- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2024	\$0
2025	\$0
2026	\$0
2027	\$0
2028	\$0
2029	\$0
2030	(\$34,488,107,000)
2031	(\$35,384,689,000)
2032	(\$37,666,698,000)
2033	(\$39,364,219,000)
2034	(\$41,138,242,000)

All Funds, Eleven-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from Property Tax Loss - School Districts	Probable Revenue Gain/(Loss) from State Aid - School Districts	Probable Revenue Gain/(Loss) from Cities
2024	\$0	\$0	\$0	\$0
2025	\$0	\$0	\$0	\$0
2026	\$0	\$0	\$0	\$0
2027	\$0	\$0	\$0	\$0
2028	\$0	\$0	\$0	\$0
2029	\$0	\$0	\$0	\$0
2030	(\$34,488,107,000)	(\$54,019,862,000)	\$34,488,107,000	(\$18,561,542,000)
2031	(\$35,384,689,000)	(\$55,819,121,000)	\$35,384,689,000	(\$19,185,896,000)
2032	(\$37,666,698,000)	(\$57,677,548,000)	\$37,666,698,000	(\$19,831,252,000)
2033	(\$39,364,219,000)	(\$59,598,242,000)	\$39,364,219,000	(\$20,498,316,000)
2034	(\$41,138,242,000)	(\$61,582,896,000)	\$41,138,242,000	(\$21,187,818,000)

<i>Fiscal Year</i>	<i>Probable Revenue Gain/(Loss) from Counties</i>	<i>Probable Revenue Gain/(Loss) from Other Special Districts</i>
2024	\$0	\$0
2025	\$0	\$0
2026	\$0	\$0
2027	\$0	\$0
2028	\$0	\$0
2029	\$0	\$0
2030	(\$16,588,993,000)	(\$16,150,327,000)
2031	(\$17,198,298,000)	(\$16,922,313,000)
2032	(\$17,829,983,000)	(\$17,731,200,000)
2033	(\$18,484,869,000)	(\$18,578,751,000)
2034	(\$19,163,809,000)	(\$19,466,815,000)

Fiscal Analysis

The bill would repeal Title 1 of the Tax Code, relating to Property Tax Code, on January 1, 2029, contingent on the approval by voters of a constitutional amendment prohibiting the imposition of property taxes. This change would not affect tax liability accruing before January 1, 2029, and former law would continue in effect.

The bill would create a joint interim committee to conduct a comprehensive study to determine how to replace local tax revenue that will be lost when ad valorem taxes abolished with local sales and use tax revenue. The joint interim committee would be required to report their findings to the legislature, no later than December 1, 2024.

Methodology

It is assumed that the work of the joint interim committee could be absorbed within existing resources.

The bill would abolish ad valorem taxation, effective January 1, 2029. As a result, there would be a cost to the Foundation School Fund associated through the operation of the school finance formulas. The preliminary 2022 school district taxable property value total was used as an approximation of the total taxable value in the state and projected forward. The tax rates for city, county, special district, and independent school districts were extrapolated based on current law and applied to eliminated taxable value to estimate levy losses.

This analysis assumes that increased state aid through the Foundation School Program would offset the loss of school district maintenance and operations (M&O) tax revenue. Additionally, school districts would lose interest and sinking (I&S) tax revenue which is used to support school district debt service. It is unknown what revenue source would be used to fund school district debt service.

The estimated cost to the Foundation School Program of eliminating property taxes is an increase of state aid of \$34,488,107,000 in fiscal year 2030, increasing to \$41,138,242,000 in fiscal year 2034. For illustrative purposes, the table above includes the school district levy loss and the increased state aid to school districts in separate columns.

Local Government Impact

Contingent on the passage of a constitutional amendment, units of local government would be prohibited from levying a property tax, effective January 1, 2029.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KDw, SD, BRI, CMA