

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 17, 2023

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

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: HB3894 by Shine (Relating to an exemption from sales and use taxes for battery energy storage systems.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3894, As Introduced : a negative impact of (\$77,593,000) through the biennium ending August 31, 2025.

General Revenue-Related Funds, Five- Year Impact:

| <i>Fiscal Year</i> | Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i> |
|------------------------|---|
| 2024 | (\$36,424,000) |
| 2025 | (\$41,169,000) |
| 2026 | (\$52,891,000) |
| 2027 | (\$67,949,000) |
| 2028 | (\$87,295,000) |

All Funds, Five-Year Impact:

| <i>Fiscal Year</i> | Probable Revenue (Loss) from <i>General Revenue Fund</i> 1 |
|------------------------|--|
| 2024 | (\$36,424,000) |
| 2025 | (\$41,169,000) |
| 2026 | (\$52,891,000) |
| 2027 | (\$67,949,000) |
| 2028 | (\$87,295,000) |

Fiscal Analysis

The bill would amend Section 151.318, Tax Code (relating to the state sales and use tax; property used in manufacturing) by including battery energy storage systems in the items eligible for exemption.

The bill would define a battery energy storage system as an electrochemical device that processes, stores, and transforms electrical energy into chemical energy and processes and transforms chemical energy back into electrical energy for distribution and sale.

The bill would take effect September 1, 2023

Methodology

The estimate above is based on information from the U.S. Energy Information Agency regarding the amount of installed cumulated capacity of battery storage in Texas. This figure was grown forward by expected megawatts installed in Texas annually through 2028 to yield yearly incremental increases in battery storage that would be subject to this bill's provisions.

Services performed on battery energy storage systems would be exempt from sales and use tax under 151.3111 of the Tax Code (services on certain exempted personal property). Those amounts are also included in the estimated revenue loss.

There would be effects on the Economic Stabilization Fund (ESF) balance limit and consequent effects for GR reserves and transfers to ESF. Because sales tax revenue is initially deposited to the general revenue fund, the reduction in sale tax revenue in the 2024-25 biennium would reduce the 2026-27 ESF balance limit by 10 percent of the reduction in tax, reducing 2025 severance tax reserves for transfer to the ESF by the amount of the balance limit reduction, and increasing available GR in 2025 by the amount of reduction of the reserves, however those amounts are not expected to be significant.

Local Government Impact

Effects on local sales tax revenues would be expected to be negligible as most of the equipment exempted by the bill would be for installation in unincorporated areas.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, KK, SD