

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 88TH LEGISLATIVE REGULAR SESSION

April 2, 2023

TO: Honorable Joan Huffman, Chair, Senate Committee on Finance

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB2289 by Huffman (Relating to the exemption from ad valorem taxation of certain tangible personal property held by a manufacturer of medical or biomedical products as a finished good or used in the manufacturing or processing of medical or biomedical products.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB2289, As Introduced : a negative impact of (\$28,826,000) 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	(\$28,826,000)
2026	(\$33,299,000)
2027	(\$38,277,000)
2028	(\$41,147,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from Foundation School Fund 193	Probable Savings/(Cost) from Recapture Payments Atten Crdts 8905	Probable Revenue Gain/(Loss) from School Districts
2024	\$0	\$0	\$0
2025	(\$28,826,000)	\$12,199,000	(\$43,093,000)
2026	(\$33,299,000)	\$13,695,000	(\$49,136,000)
2027	(\$38,277,000)	\$15,736,000	(\$55,488,000)
2028	(\$41,147,000)	\$16,953,000	(\$60,076,000)

Fiscal Analysis

The bill would amend Chapter 11 of the Tax Code, relating to Taxable Property and Exemptions, to provide a property tax exemption for certain tangible personal property held by a manufacturer of medical or biomedical products as a finished good or used in the manufacturing or processing of medical or biomedical products. The bill would add definitions and make conforming changes.

The bill would take effect January 1, 2024, contingent on the approval by voters of a constitutional amendment authorizing the exemption (SJR 87).

Methodology

The bill would, after approval of a constitutional amendment, exempt from property tax certain tangible personal property held or used by a manufacturer of medical or biomedical products. The property tax data available via the school district property value study are not industry specific.

The Annual Survey of Manufacturing data on inventory and capital expenditures on machinery and equipment for the U.S. in pharmaceutical and medical manufacturing industries were adjusted using the ratio of Texas to US production employment for those industries to obtain representative data for Texas. Ratio of effective capital stock to capital expenditures for industrial production was used to estimate machinery and equipment exempt from sales and use tax under Sec. 151.318, and then reduced for depreciation to represent value on property tax rolls. As a result, taxable property value would decrease which would represent a cost to the state through the school finance formulas.

Under provisions of the Education Code, the school district tax revenue loss is partially transferred to the state. The cost to the Foundation School Program (FSP) due to exempting certain tangible personal property held by a manufacturer of medical or biomedical products as a finished good or used in the manufacturing or processing of medical or biomedical products is estimated to be \$28.8 million in fiscal year 2025, increasing to \$41.1 million in fiscal year 2028.

The cost to the FSP includes estimated decreases in Recapture Payments - Attendance Credits of \$12.2 million in fiscal year 2025, increasing to \$17.0 million in fiscal year 2028 as a result of the reduction in school district taxable value. The decrease in recapture is reflected as a savings in the table above because recapture is appropriated as a method of finance for the FSP in the General Appropriations Act.

Local Government Impact

Contingent upon passage of a constitutional amendment authorizing the exemption, the bill would exempt from property tax certain tangible personal property held or used by a manufacturer of medical or biomedical products which could reduce taxable value. 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 additional exemption proposed by the bill.

The fiscal impact to school districts is shown in the table above.

Source Agencies: 304 Comptroller of Public Accounts

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