

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 24, 2025

TO: Honorable Cecil Bell, Chair, House Committee on Intergovernmental Affairs

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB3016 by Creighton (Relating to state preemption of municipal and county regulation on land use, structures, businesses, and related activities and municipal boundaries and annexation.), **As Engrossed**

No significant fiscal implication to the State is anticipated.

However, the revenue impact would be dependent on the number of violations resulting in attorney general action, the disposition of those actions, and the amount of interest earned from any withheld municipal and county sales tax distributions.

The bill would prohibit a municipality or county from adopting, enforcing, or maintaining an ordinance, order, or rule regulating conduct in a field of regulation that is occupied by certain provisions of the Local Government Code. The bill would establish liability for regulation in violation of those prohibitions and would authorize the attorney general to investigate an alleged violation of preempted local regulation and bring a related action. During the pendency of the action, the comptroller would be required to withhold the amount of local sales and use taxes due to the municipality or county involved in the action, the municipality or county may not adopt an ad valorem tax rate that exceeds the municipality or county's no-new-revenue tax rate, the municipality or county may not adopt a budget exceeding the total expenditures of the budget used at the time the attorney general brings the action, and the municipality or county may not receive state grant funds with some exceptions for disasters provided by the bill. If the attorney general prevails in the action, the municipality or county defending the action may not, during the five state fiscal years following the year in which the judgment becomes final, adopt an ad valorem tax rate that exceeds the municipality or county's no-new-revenue tax rate or receive state grant funds, and the state would be entitled to a penalty equal to the balance of the suspense account holding the withheld local tax revenue. If the municipality or county prevails, the comptroller would be required to return to the municipality or county the balance of the suspense account and any interest that accrued on the balance of the suspense account while it was withheld.

It is assumed that any costs associated with the bill could be absorbed using existing resources. Any interest earned on the withheld municipal and county sales tax distribution would be deposited to the General Revenue Fund as would the penalty equal to the balance of the suspense account holding the withheld tax revenue if the attorney general prevails. The revenue impact would be dependent on the number of violations resulting in attorney general action, the disposition of those actions, and the amount of interest earned from any withheld municipal and county sales tax distributions.

Local Government Impact

A municipality or county defending an action brought by the attorney general would be subject to the comptroller withholding the municipality's or county's sales and use tax distribution, would be prohibited from adopting an ad valorem tax rate that exceeds the local government's no-new-revenue tax rate, would be prohibited from adopting a budget that exceeds the total expenditures of the budget used at the time the attorney general brings the action, and would be prohibited from receiving state grant funds. Should the attorney general prevail, the city or county would be prohibited from adopting an ad valorem tax rate that exceeds the local government's no-new-revenue tax rate or receiving state grant funds during the five state fiscal years following the year in which the judgement becomes final and would owe a penalty to the state equal to the balance of the suspense account holding the withheld tax revenue.

Source Agencies: 212 Office of Court Administration, Texas Judicial Council, 302 Office of the Attorney General, 304 Comptroller of Public Accounts

LBB Staff: JMc, SZ, CWi, RStu, BC