

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 18, 2013

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HJR133 by Harper-Brown (Proposing a constitutional amendment to authorize a political subdivision of this state to extend the number of days that certain tangible personal property that is exempt from ad valorem taxation due to its location in this state for a temporary period may be located in this state for purposes of qualifying for the tax exemption.), **As Introduced**

The proposed amendment to Section 1-j, Article VIII, of the Texas Constitution, to authorize the governing body of certain political subdivisions to extend by official action the number of days that qualifying personal property may remain in this state (currently 175 days) before losing eligibility for a property tax exemption is self-enabling and, to the extent that taxing units choose to make the extension, would create a cost to the state through the operation of the school finance formula.

The table below is an illustrative example of the cost if ten percent of the taxing units currently granting the freeport exemption chose to extend the number of days that qualifying personal property may remain in this state from 175 to 730 under the resolution.

In addition, the table below includes the cost to the state for publication of the resolution which totals \$108,921.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	(\$108,921)
2015	(\$4,832,000)
2016	(\$11,077,000)
2017	(\$12,018,000)
2018	(\$12,951,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue Gain/(Loss) from School Districts	Probable Revenue Gain/(Loss) from Counties
2014	(\$108,921)	\$0	\$0	\$0
2015	\$0	(\$4,832,000)	(\$7,675,000)	(\$3,813,000)
2016	\$0	(\$11,077,000)	(\$2,449,000)	(\$4,109,000)
2017	\$0	(\$12,018,000)	(\$2,611,000)	(\$4,428,000)
2018	\$0	(\$12,951,000)	(\$2,869,000)	(\$4,772,000)

Fiscal Year	Probable Revenue Gain/(Loss) from Cities	Probable Revenue Gain/(Loss) from Other Special Districts
2014	\$0	\$0
2015	(\$4,225,000)	(\$2,787,000)
2016	(\$4,561,000)	(\$3,001,000)
2017	(\$4,924,000)	(\$3,232,000)
2018	(\$5,315,000)	(\$3,480,000)

Fiscal Analysis

This resolution would propose a constitutional amendment to Section 1-j, Article VIII, of the Texas Constitution, to authorize the governing body of certain political subdivisions to extend by official action the number of days that qualifying personal property may remain in this state (currently 175 days) before losing eligibility for a property tax exemption. This exemption is commonly referred to as a "freoport exemption". Many taxing units took action to tax this personal property under previous constitutional authority to do so, and the exemption does not apply in those districts. The maximum number of days that a governing body may permit property to remain in this state and remain eligible for a freoport exemption under the resolution is 730.

The proposed constitutional amendment would also amend Section 1-n, Article VIII, of the Texas Constitution, to authorize the governing body of a political subdivision to extend by official action the number of days that certain personal property may remain at a particular defined location (currently 270 days) before losing eligibility for a property tax exemption. This exemption is commonly referred to as a "goods in transit exemption". The exemption does not apply in a taxing unit that took action to tax the property. The maximum number of days that a governing body may permit property to remain at a particular location and remain eligible for a goods in transit exemption under the resolution is 730.

The proposed amendment would be submitted to voters at an election to be held November 5, 2013.

Methodology

The proposed amendment to Section 1-j, Article VIII, of the Texas Constitution, to authorize the governing body of certain political subdivisions to extend by official action the number of days that qualifying personal property may remain in this state (currently 175 days) before losing eligibility for a property tax exemption is self-enabling and, to the extent that taxing units choose to make the extension, would create a cost to units of local government and to the state through the operation of the school finance formula.

The proposed amendment to Section 1-n, Article VIII, of the Texas Constitution, to authorize the governing body of a political subdivision to extend by official action the number of days that certain personal property may remain at a particular defined location (currently 270 days) before losing eligibility for a property tax exemption is dependent on the enabling legislation (HB 3121).

The table above is an example of the cost of the amendment to Section 1-j, Article VIII, of the Texas Constitution if ten percent of the taxing units currently granting the freeport exemption chose to extend the number of days that qualifying personal property may remain in this state from 175 to 730 under the resolution. The actual number of taxing units that would extend the number of days cannot be predicted. Consequently the cost of the resolution cannot be estimated.

The fiscal impact was estimated based on a survey of appraisal districts and limited to taxing units that have not chosen to tax the eligible personal property. The applicable projected tax rates were applied to estimate the levy loss to special districts, cities and counties, and to estimate the initial school district loss. Because of the operation of the hold harmless provisions of the Education Code, about 60 percent of the school district cost related to the compressed rate would be transferred to the state in the first year of a taxable property value loss and 100 percent in later years. Because lagged year property values are used in the enrichment formula, school districts lose enrichment funding (state savings) in the first year of a taxable property value reduction. In the second and successive years the enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state through the relevant funding formulas. All costs were estimated over the five year projection period.

Local Government Impact

The proposed amendment to Section 1-j, Article VIII, of the Texas Constitution, to authorize the governing body of certain political subdivisions to extend by official action the number of days that qualifying personal property may remain in this state (currently 175 days) before losing eligibility for a property tax exemption is self-enabling and, to the extent that taxing units choose to make the extension, would create a cost to units of local government.

The table above is an example of the cost of the amendment to Section 1-j, Article VIII, of the Texas Constitution if ten percent of the taxing units currently granting the freeport exemption chose to extend the number of days that qualifying personal property may remain in this state from 175 to 730 under the resolution.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS