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TO: The Honorable Phillip R. DeVillier, Speaker of the House

FROM: Benjamin Vincent, Chief Legislative Economist
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DATE: October 7, 2024

SUBJECT: Preliminary Analysis of Draft Legislation – Ad Valorem Tax

Summary

Expenditures	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
State General Fund	0	0	0	0	0
Self-Generated Revenues	0	0	0	0	0
Dedications/Other	0	0	0	0	0
Federal Funds	0	0	0	0	0
Local Funds	0	0	0	0	0
Annual Total	0	0	0	0	0

Revenues	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**2028-29**
State General Fund	See Below	See Below	See Below	See Below	See Below
Self-Generated Revenues	0	0	0	0	0
Dedications/Other	0	0	0	0	0
Federal Funds	0	0	0	0	0
Local Funds	See Below	See Below	See Below	See Below	See Below
Annual Total	See Below	See Below	See Below	See Below	See Below

Expenditure Explanation and Assumptions

No material increase in agency expenditures is anticipated due to the referenced proposal.

Revenue Explanation and Assumptions

Proposed bill generally replaces existing constitutional provisions with statutory provisions, typically utilizing identical language. Additionally, proposed law establishes an optional local ad valorem tax exemption, provided that multiple local participants including sheriffs, school boards, and parish governing authorities all assent to the exemption.

For political subdivisions opting into the exemption, the proposal partially offsets potential local revenue reductions with payments apparently from the Revenue Stabilization Fund (RSF), although further unspecified legislation would be required to enable such payments. The proposed bill specifies payment amounts for each parish based on estimates of recent-year inventory tax collections, providing an option for political subdivisions that either immediately fully exempt inventory from tax, or phase-in the exemption over a period not to exceed five years.

The amounts specified for each parish are designed in an effort to, on average for parishes enacting a full exemption, offset three typical years' worth of recent inventory tax collections. For parishes phasing-in the exemption, the bill specifies eligibility for a payment that is equal to the actual prior year's collections. Over a five-year horizon, the proposal would reduce local revenues for any political subdivision that would opt in.

The **magnitude of any fiscal impact is indeterminable**, as the number of political subdivisions that may opt to utilize the provisions of this proposal ad valorem tax exemptions is speculative. For illustrative purposes, in a scenario where each parish opted to receive their one-time payment authorized via full exemption, approximately $563 million in payments out of the RSF would be made to political subdivisions.

For any given political subdivision, the net revenue impact of the proposed bill would be determined by its own decision to either retain the inventory tax, grant the exemption immediately, or phase it in.

As interest earned on RSF monies accrue to the general fund under current law, decisions made by political subdivisions to receive the payment would mechanically reduce the amount of interest-earning money in the fund. For illustrative purposes, **in a scenario where interest earnings were approximately 3%, removing $543 million from the RSF would reduce interest earnings to the general fund by approximately $16 million annually**.