

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 21, 2003

TO: Honorable Burt R. Solomons, Chair, House Committee on Financial Institutions

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB1664 by Averitt (relating to private activity bonds.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1664, Committee Report 2nd House, Substituted: an impact of \$0 through the biennium ending August 31, 2005.

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
2004	\$0
2005	\$0
2006	\$0
2007	\$0
2008	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/ (Loss) from GENERAL REVENUE FUND 1	Probable Savings/(Cost) from GENERAL REVENUE FUND 1	Probable Savings/(Cost) from INTERAGENCY CONTRACTS 777
2004	\$0	\$0	\$0
2005	\$472,000	(\$472,000)	(\$472,000)
2006	\$472,000	(\$472,000)	(\$472,000)
2007	\$472,000	(\$472,000)	(\$472,000)
2008	\$472,000	(\$472,000)	(\$472,000)

Fiscal Analysis

The bill makes several changes to the state's private activity bond allocation program, a federal program that provides tax-exempt bonds for single-family housing mortgage revenue bonds, small issue industrial development bonds (enterprise and empowerment zones), certain state-voted bond issues, student loan bonds, multi-family housing, sewage facilities, and solid and hazardous waste disposal facilities. The amount of tax-exempt bonds allocated to Texas in calendar year 2003 was \$75 per capita or a maximum ceiling of \$225.0 million.

This bill would increase the private activity bond application fee for residential rental projects (i.e., multi-family housing) from \$500 to \$5,000. The Bond Review Board would retain \$1,000 of this

\$5,000 fee to offset the costs of program administration, and, the remainder of the fee (\$4,000) would be transferred to the Texas Department of Housing and Community Affairs (TDHCA) to establish and affordable housing research and information program. Through this program, TDHCA would contract for the following: market studies to determine the need for affordable housing throughout the state; research the effect of affordable housing projects on property values in surrounding neighborhoods; and public education and outreach for affordable housing programs.

Methodology

According to the Bond Review Board (BRB), the fee increase from \$500 to \$5,000 will cause the number of multi-family housing applications received from developers in each fiscal year to decline. Assuming 118 multi-family housing applications (or about one-half of the 235 applications received in 2003) are received each fiscal year, the higher application fee would generate \$590,000 in revenue per fiscal year. This represents an increase over revenue collections from the existing \$500 fee of approximately \$472,000 per fiscal year. (See the Fiscal Impact table.)

Based on the estimated 118 applications per year, \$472,000 per fiscal year (i.e., \$4,000 of each application fee collected) would be transferred to TDHCA from the BRB through an inter-agency agreement for affordable housing research, education and outreach programs . The BRB does not anticipate any additional administrative costs to result from passage of this bill.

Currently, the existing \$500 fee is deposited to the General Revenue Fund. Since the bill does not specify which account or fund should receive the \$5,000 fee, it is assumed that the higher application fees would be deposited to the General Revenue Fund. Since the BRB anticipates no additional administrative costs, it is assumed that the \$1,000 of each application fee designated for the BRB is deposited to the General Revenue Fund.

Since these changes to the private activity bond program will take effect on or after January 1, 2004, no additional expense or revenue collections are assumed to occur until fiscal year 2005.

Local Government Impact

The bill would save local housing finance corporations (HFCs) money they would otherwise pay to financial advisors and attorneys that would be preparing a new application on the HFC's behalf.

The bill would also allow local governments, such as non-profit water supply corporations, to potentially achieve savings if they access Texas Water Development Board (TWDB) programs that distribute the proceeds from the private activity bonds. The local governments will get lower interest rates on loans since the private activity bonds carry tax-exempt rates. Typically, a non-profit water supply corporation would only be eligible for taxable rates through TWDB's financing programs.

Source Agencies: 332 Department of Housing and Community Affairs, 352 Bond Review Board, 580 Water Development Board

LBB Staff: JK, JRO, WP, SD, KG, ZS