LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 7, 2005

TO: Honorable John Carona, Chair, Senate Committee on S/C on Emerging Technologies & Economic Dev.

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **SB559** by Brimer (Relating to the limitation on appraised value of certain property under the Texas Economic Development Act and to the continuation of that Act.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB559, As Introduced: an impact of $0 through the biennium ending August 31, 2007.

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
2006	$0
2007	$0
2008	$0
2009	$0
2010	($266,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *FOUNDATION SCHOOL FUND* 193
2006	$0
2007	$0
2008	$0
2009	$0
2010	($266,000,000)

Fiscal Analysis

This bill would repeal several provisions in Tax Code Chapter 313, the Texas Economic Development Act.

The bill would repeal Section 313.007, to remove the December 31, 2007 expiration date for Subchapters B, C, and D, concerning property value limitations and school tax credits granted by school districts to certain property owners.

The bill would repeal subsections (b) and (e) of Section 313.024, to remove language limiting the granting of value limitations and school tax credits to only property used in connection with manufacturing, research and development; and renewable energy electric production. As a result, property used for any purpose would be eligible for property tax relief under Subchapters B, C, and D.

The bill would repeal Subchapter E , to eliminate savings provisions relative to the December 31, 2007 expiration date.

Methodology

The current cost of the Chapter 313, Tax Code, value limitation was projected by the Comptroller's office based on applications received from school districts. The cost under this bill was projected, taking into account the proposed deletion of the requirement that the qualifying property be used for manufacturing, research and development, or alternative energy generation. This would expand the value limitation program to any corporation or limited liability company that met the other requirements of Chapter 313. The projected current cost was subtracted from the projected cost under the bill, resulting in an estimate of the cost attributable to the bill.

The bill's proposed deletion of the December 31, 2007 sunset provision would increase the state cost but, because of the delayed effect caused by the current law's two-year qualifying time period, and the one-year funding lag, this cost is not in the five-year projection period.

The bill would take effect immediately if it received a two-thirds vote of both houses, or on September 1, 2005, if it passed with less than a two-thirds vote. The deadline for applications for the value limitation is September 3 of each year. These applications, if approved by the school districts, would be effective as of January 1, 2006, so the first effect of the bill would be an increase in tax limitation agreements for tax (calendar) year 2006. The law requires a two-year qualifying time period (tax years 2006 and 2007 in this instance) in which the applicant receives no tax benefit. The first tax benefit would occur for tax year 2008. Tax year 2008 taxes are paid in fiscal 2009. Because of the one-year lag in the state's school funding formula, the state reimbursement would not occur until fiscal 2010.

This analysis reflects the additional costs to the Foundation School Fund. The estimated dynamic tax feedback effects that would be created by the decrease in school property taxes are shown in the "Supplemental Information Regarding Economic Effects of Tax Changes" statement.

Local Government Impact

Normally, school districts would incur the initial cost and the state would assume the cost through the operation of the school funding formula after a one-year lag. Current practice, however, is for the qualifying taxpayer to reimburse school districts for their funding loss after state reimbursements. For this reason, school districts would not incur a cost under the bill. Chapter 313 only applies to school districts, so no other taxing unit would incur a cost.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, JRO, WP, DLBe