

## **BILL ANALYSIS**

C.S.H.B. 3240  
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Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Properties located within a municipality are often abandoned due to nonpayment of taxes or for other reasons. Abandoned properties impact the quality of life and lower the value of other properties within a neighborhood.

C.S.H.B. 3240 allows a municipality to foreclose on a piece of property, convert the property to affordable housing, and sell the property to a state or federally recognized affordable housing program. The bill requires the proceeds to be used to pay taxes owed on the property in an amount negotiated by the municipality and the other taxing entities. Penalties and interest are not required to be paid if the sale of the property as affordable housing provides a public benefit to the taxpayers of another taxing entity, and the taxes are paid on a pro rata basis if the proceeds are not sufficient to pay each taxing entity in its entirety. If the property is not sold into an affordable housing program, but to another purchaser, the municipality is responsible for the negotiated amount of taxes owed to each taxing entity, as well as penalties and interest owed.

### **RULEMAKING AUTHORITY**

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

### **ANALYSIS**

C.S.H.B. 3240 amends the Tax Code to add provisions relating to the distribution of proceeds from the resale of property purchased by a taxing unit at a tax foreclosure sale. The bill authorizes a municipality, if the municipality forecloses on a property, improves the property, and sells the property to a state or federally recognized affordable housing program under a program established by the bill's provisions, to retain an amount from the sale that is equal to the increase in value of the property from improvements made by the municipality for the sale to the affordable housing program. The bill makes a conforming change relating to the amount from the proceeds of the sale retained by the purchasing taxing unit.

C.S.H.B. 3240 amends the Local Government Code to authorize a municipality by ordinance to adopt a program to allow the municipality to foreclose on certain properties and delay the payment of back taxes to other taxing entities until the property has been improved and sold as affordable housing. The bill requires the ordinance to provide criteria for determining the kinds of properties that would be eligible for the program, including a requirement that a property be located in the municipality's corporate boundaries; require the municipality to sell a property under the program to a state or federally recognized affordable housing program, except as provided by the bill's provisions; require the municipality to make a reasonable effort to maximize the sales price of the property; allow the municipality to negotiate with another taxing entity to establish an amount to be paid for back taxes owed to the other entity on the property; allow the municipality to retain proceeds from the sale of the property after payment of taxes owed to the other taxing entities; and allow the municipality to retain an amount from the proceeds of the sale equal to the increase in the value of the property due to the improvement, as

authorized by the Tax Code provisions described above.

C.S.H.B. 3240 provides that, after foreclosure of a property under the program, the municipality has the sole authority to improve and sell the property and acts as a trustee of the property on behalf of the other taxing entities. The bill requires a municipality that forecloses, converts, and sells a property under the program to pay to each other taxing entity owed taxes on the property an amount equal to the amount negotiated by the municipality and the entity on the sale of property, except that a municipality is not required to pay another taxing entity any amount for penalties or interest associated with taxes owed on a property sold under a program if the improvement and sale of the property as affordable housing provides a public benefit to the taxpayers of the other taxing entity. The bill provides that if a municipality enters into an interlocal agreement with all of the other taxing entities in the municipality for the foreclosure on and improvement of property and subsequent sale of the property as affordable housing, the interlocal agreement controls over the bill's provisions.

C.S.H.B. 3240 authorizes a municipality, if the municipality has made reasonable efforts to sell a property foreclosed on and improved under these provisions and is unable to do so, to sell the property to another purchaser. The bill provides that, if the municipality sells the property to a purchaser other than a state or federally recognized affordable housing program, the municipality must pay to the other taxing entities the negotiated amount of the taxes owed to the other entity on the property and may not retain an amount under provisions in the Tax Code described above and the exception relating to penalties and interest owed does not apply and the municipality must pay to the other taxing entities penalties and interest owed on the taxes owed to the entity. The bill requires the municipality, if the proceeds of a sale of a property are not sufficient to cover the payment of taxes owed to other taxing entities, to make payments to the other entities from the sales proceeds on a pro rata basis. The bill defines "program" for purposes of the bill's provisions.

#### **EFFECTIVE DATE**

September 1, 2009.

#### **COMPARISON OF ORIGINAL AND SUBSTITUTE**

C.S.H.B. 3240 adds a provision not in the original to require an ordinance adopted under the bill's provisions relating to foreclosure, improvement, and sale as affordable housing of certain properties by a municipality to allow a municipality to negotiate with another taxing entity to establish an amount to be paid for back taxes owed to the other entity on the property. The substitute requires a municipality that forecloses, converts, and sells a property to pay to each taxing entity owed taxes on the property an amount equal to the amount negotiated by the municipality and the entity on the sale of the property, rather than any amount owed to that entity on the sale of the property in accordance with applicable provisions of the Tax Code as in the original.

C.S.H.B. 3240 differs from the original by specifying that if the municipality sells the property to a purchaser other than a state or federally recognized affordable housing program, the municipality must pay to the other taxing entities the negotiated, rather than the full, amount of the taxes owed to the other entity on the property. The substitute adds a provision not in the original to require a municipality to make payments to other taxing entities from the sales proceeds on a pro rata basis if the proceeds of a sale of a property are not sufficient to cover the payment of taxes owed to other taxing entities.