

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 29, 2009**

**TO:** Honorable Rene Oliveira, Chair, House Committee on Ways & Means

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

**IN RE: HB1853** by Darby (Relating to the authorization of school district ad valorem tax incentives for historic redevelopment and economic development.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1853, As Introduced: a negative impact of (\$54,843,000) through the biennium ending August 31, 2011.

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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2010	\$0
2011	(\$54,843,000)
2012	(\$118,569,000)
2013	(\$191,194,000)
2014	(\$273,134,000)

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>	<b>Probable Revenue Gain/(Loss) from School Districts</b>
2010	\$0	\$0
2011	(\$54,843,000)	(\$3,398,000)
2012	(\$118,569,000)	(\$8,072,000)
2013	(\$191,194,000)	(\$14,321,000)
2014	(\$273,134,000)	(\$17,681,091)

**Fiscal Analysis**

The bill would add new Chapter 314 to the Tax Code to provide school districts with the option of granting ad valorem maintenance and operations tax abatements to encourage historic redevelopment or economic development.

A percentage of the property's value could be exempted based on a sliding scale reflecting the amount of personal property investment in a reinvestment zone. School districts would be permitted to establish reinvestment zones for the purpose of this exemption. The period of exemption could not exceed 10 years.

The Comptroller would be responsible for adopting rules and forms.

The bill would amend Chapter 403 of the Government Code to make conforming amendments to provisions affecting the Comptroller's Property Value Study.

The bill would be effective January 1, 2010.

### **Methodology**

School districts are currently prohibited by law from granting property tax abatements. School districts could grant value limitations under Chapter 313 of the Tax Code, but these value limitations would have strict requirements on the number of jobs created, the pay of jobs created, the kinds of property use allowed, and require relative large amounts of investment. Because the proposed bill does not have jobs requirements or property use requirements and requires only relatively small amounts of investment, the bill would, in effect, re-authorize school district property tax abatements on up to 100 percent of the incremental value of real property in a reinvestment zone.

The Office of the Comptroller of Public Accounts (CPA) analyzed historical information from appraisal districts on the percentage of total appraised value abated each year to estimate value losses to school districts. The CPA applied appropriate school district tax rates to the trended value losses to estimate revenue losses. This analysis produces an estimate of approximately \$54.8 million in FY11, steadily increasing to an estimated \$273.1 million in FY14.

Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, Third Called Session (2006), the cost related to school district compressed tax rates is transferred to the state in the same year as the loss in local revenue. A portion of the school district enrichment costs is also transferred to the state after a one-year lag because of the operation of the funding formulas. There would be no cost to taxing units other than school districts and the state.

### **Local Government Impact**

School districts offering abatements may see a loss in revenue on tax effort above their compressed rate.

**Source Agencies:** 304 Comptroller of Public Accounts, 320 Texas Workforce Commission, 701 Central Education Agency, 808 Historical Commission

**LBB Staff:** JOB, MN, JGM