LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 23, 2009

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

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

IN RE: **HB3896** by Oliveira (Relating to the authority of the governing body of a municipality or the commissioners court of a county to enter into an ad valorem tax abatement agreement.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3896, Committee Report 1st House, Substituted: an impact of $0 through the biennium ending August 31, 2011.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	$0
2011	$0
2012	$0
2013	$0
2014	$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Counties*	Probable Revenue (Loss) from *Cities*
2010	$0	$0
2011	($9,159,000)	($4,383,000)
2012	($18,642,000)	($8,860,000)
2013	($28,461,000)	($13,436,000)
2014	($38,632,000)	($18,113,000)

Fiscal Analysis

The bill would amend Chapter 312 of the Tax Code, regarding the Property Redevelopment and Tax Abatement Act. The bill would allow cities and counties to defer the commencement of the 10-year abatement period for an unspecified length of time mutually agreed upon by the taxing unit and the taxpayer. The bill also clarifies current language that allows abatements of real property, personal property, and leasehold interests.

The bill would repeal Section 312.006 of the Tax Code, which currently requires the expiration of Chapter 312 on September 1, 2009. The bill also would repeal Chapter 320 of the Tax Code, regarding the savings provision associated with the abatement programs in Chapter 312.

The bill would take effect immediately if it received the required two-thirds vote in each house; otherwise, it would take effect September 1, 2009.

Methodology

According to the Comptroller of Public Accounts, the bill's provision to allow cities and counties to defer the commencement of the 10-year property tax abatement period would enable cities and counties to give advance abatement approval on projects that have long start-up times. As a result, the uncertainty regarding the profitability of the projects would be reduced. This could result in more property tax abatements, or abatements lasting for a longer time, for this kind of project. While this could entail an additional cost for taxing units, the cost cannot be estimated because information about the affected projects and project time-lines is unavailable.

The bill's indefinite extension of the tax abatement program beyond the current expiration date of September 1, 2009 would create a cost to cities and counties. There would be no cost to school districts or the state because school districts are currently prohibited from granting property tax abatements. The Comptroller of Public Accounts estimated city and county revenue losses by projecting the annual amount of abated value that would result from new tax abatement agreements allowed under the bill. Under current law, existing tax abatement agreements are grandfathered and were excluded from the cost. The appropriate tax rates were applied to the projected value losses and trended over the five-year projection period.

Local Government Impact

The estimated revenue loss from the proposed indefinite extension of the tax abatement program beyond the current expiration date is shown in the tables.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, MN, DB