LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 20, 2009

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

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

IN RE: **SB1311** by Duncan (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 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1311, Committee Report 2nd House, Substituted: an impact of $0 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:

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 Gain/(Loss) from *Counties*	Probable Revenue Gain/(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 (Act).

The bill would extend the expiration date for the Act from September 1, 2009 until September 1, 2019.

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 ratify and validate agreements made before the effective date of the bill related to exemptions of real or personal property or leasehold interests if the agreements are consistent with the treatment of such property as amended by the bill.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2009.

Methodology

According to the Comptroller of Public Accounts (CPA), 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 would vary based on the affected projects and project time-lines.

The bill's extension of the tax abatement program beyond the current expiration date of September 1, 2009, would create a cost to cities and counties. CPA provided data from appraisal districts on the historical city and county appraised property value lost to property tax abatements under Chapter 312 of the Tax Code. Under current law, no abatements would be permitted after September 1, 2009, because the current enabling legislation is sunset on that date. The maximum length of an abatement is 10 years, so approximately one-tenth of the current abatements would expire each year after the current sunset date. This information was used to project a diminishing stream of abatement value losses under current law. Under the proposed bill, the sunset date would be extended to September 1, 2019. Abatement value losses were trended upward under the provisions of the bill, based on historical abatement loss data. The projected current law abatement value losses for cities and counties were subtracted from the projected proposed law value losses to estimate the value losses to cities and counties over the five-year projection period. The appropriate projected tax rates were applied to the city and county value losses to estimate the tax revenue losses. There would be no loss to school districts because they are prohibited from granting abatements. Consequently, there would be no loss to the state through the school finance system.

Local Government Impact

The fiscal implication to units of local government is reflected in the above table. There would be no fiscal implication to school districts because they are prohibited from granting abatements.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, DB, MN, SD, SJS