LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 2, 2011

TO: Honorable Harvey Hilderbran, Chair, House Committee on Ways & Means

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

IN RE: **HB1903** by Keffer (Relating to the sale of delinquent tax receivables by certain local governments.), **As Introduced**

No fiscal implication to the State is anticipated.

The bill would amend the Local Government Code to add new Chapter 274 to grant local governments (defined as counties, cities, and school districts) the authority to sell delinquent tax receivables at any time. A local government would be permitted to sell a delinquent tax receivable through a negotiated sale or competitive bidding. The bill would define delinquent tax receivables as delinquent ad valorem taxes imposed by a school district for maintenance and operations purposes, imposed by a county or city for any purpose, and delinquent assessments or other charges imposed by a county or city. To be considered a delinquent tax receivable the delinquent taxes, assessments or other charges must be unpaid and must include any accrued penalty and interest.

The bill would specify that the sale of a delinquent tax receivable does not transfer to the purchaser a lien or the right to foreclose a lien on the property. The bill would further specify that the sale of a delinquent tax receivable does not alter or affect the duty or authority of a local government to collect a delinquent tax receivable and would prohibit a purchaser of the receivable from engaging, directly or indirectly in the collection of the receivable.

The sale of delinquent tax receivables by local governments as proposed by the bill could speed up the receipt of revenue from delinquent taxes but could also reduce the eventual amount received because the receivables would sell at a considerable discount. No information exists regarding the amount of receivables that would be sold by local governments under the bill, the timing of the sales, or amount of discount. Consequently, the fiscal impact to units of local government cannot be estimated. There would be no fiscal impact on the state because revenue from the sale of delinquent tax receivables is not included in the school funding formula.

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, 2011.

Local Government Impact

The Comptroller's office does not have information regarding the amount of receivables that would be sold by local governments under the bill, the timing of the sales, or amount of discount. Consequently, the Comptroller's office cannot estimate the fiscal impact to units of local government. However, the Texas Association of Counties (TAC), was able to provide costs associated with the provisions of the bill for three counties.

Hays County projected technology costs to be an estimated $55,000 to $75,000.

Montgomery County is the 11th largest in the State with a current collection rate of 99.2 percent and 101 percent for delinquent taxes, penalties and interest and collects for 72 taxing jurisdictions on a consolidated tax bill. In 2010, the county collected $16,849,325 in delinquent tax, penalties, and interest. Of that amount the county refunded $4,070,143 due to monthly supplemental changes from the Appraisal District court orders, District Courts, and from some double payments. This caused the receivables to be processed manually since they would not be on our delinquent tax roll and was processed with one check automatically by the county's software program. In addition, the cost to administer a receivable would be incurred directly on the county if a taxing jurisdiction elected to sell their tax receivables which would then cause the county to remove them from the county's consolidated tax bill, bill them separately, or discontinue collecting for them.

Smith County reported software costs would be an estimated $35,000 or more per county or vendor to accommodate tracking receivables that may be sold. In addition, each county, city or school entity that sells receivables would also incur costs for tracking receivables collections and sales outside of the Tax Office. The county would need to hire one additional staff and implement related technology infrastructure that does not currently exist. An estimate is one staff member per collecting entity with an average salary and benefits package at the necessary level of an estimated $34,000 per year per office. In addition, each jurisdiction selling receivables would lose the penalty and interest collected on delinquent receivables. In Smith County alone $3,171,929 was collected in delinquent penalty and interest on delinquent receivables in tax year 2009. That number statewide could be in excess of $428,000,000 [Smith County penalty and interest *(25,000,000 state population/185,000 Smith County population) or 135.14].

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, KK, SD, TP, SJS