

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 26, 2011

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

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

IN RE: HB2652 by Pitts (Relating to the Texas Economic Development Act.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2652, As Introduced: a negative impact of (\$437,000) through the biennium ending August 31, 2013.

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, Ten-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	(\$224,000)
2013	(\$213,000)
2014	(\$213,000)
2015	\$9,287,000
2016	\$28,687,000
2017	\$54,087,000
2018	\$79,987,000
2019	\$89,187,000
2020	\$91,187,000
2021	\$89,287,000

All Funds, Ten-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193	Change in Number of State Employees from FY 2011
2012	(\$224,000)	\$0	2.0
2013	(\$213,000)	\$0	2.0
2014	(\$213,000)	\$0	2.0
2015	(\$213,000)	\$9,500,000	2.0
2016	(\$213,000)	\$28,900,000	2.0
2017	(\$213,000)	\$54,300,000	2.0
2018	(\$213,000)	\$80,200,000	2.0
2019	(\$213,000)	\$89,400,000	2.0
2020	(\$213,000)	\$91,400,000	2.0
2021	(\$213,000)	\$89,500,000	2.0

Fiscal Analysis

The bill would amend Chapter 313, Tax Code, to modify the method used to determine a school district's minimum limitation amount as it pertains to value limitation agreements under the Texas Economic Development Act. Current statutory limitation amounts for school districts would become "base" amounts for the calculation of the final limitation amounts. Under current law, all property value above the limitation amount is exempted. Under the bill, 50 percent of the taxable value of the property above the base amount would be exempted for all new renewable energy electric generation projects and 80 percent exempted for all other category of projects.

In the event that statewide levy loss due to Chapter 313 agreements exceeds an unspecified total, the bill would establish a proportionate reduction in the amount of the taxable value exempted for the purpose of the Comptroller's property value study.

The bill would repeal provisions providing value limitations applicable to rural school districts as well as provisions authorizing tax credits distributed over a period of years for school district taxes paid during the qualifying time period on the portion of property subject to Chapter 313 agreements in excess of the limitation amount. The bill would continue the existing authorization for tax credits for agreements already in effect. Under current law, school districts are entitled to additional state aid equal to the amount of tax credits granted each year. The provisions of the bill would limit state cost for this aid to the obligations related to current agreements.

To the extent that provisions of the bill would reduce levy losses in school districts executing Chapter 313 agreements the bill would produce state savings under the Foundation School Program (FSP).

Methodology

The bill would increase the value limitation amounts for all projects approved between the effective date of the bill and the expiration of the program, December 31, 2014. Value limitation amounts would increase differentially, depending on whether a project is a renewable energy electric generation project or another eligible project. The repeal of provisions that establish lower value limitations applicable to rural school districts would also result in increased value limitation amounts for future projects located in rural areas. Overall, higher value limitations under the bill would increase the portion of property that is taxable for maintenance and operations purposes, resulting in higher school district tax levies than under current law. The increased tax levies would result in a positive fiscal impact to the state.

Detailed data for Chapter 313 projects through 2010 were collected by the Comptroller of Public Accounts (CPA) from companies and school districts during the summer of 2010. Based on these data and an assumption that the repeal of provisions related to rural school districts and tax credits could result in somewhat decreased demand for the program, the CPA assumes approval of 15 projects per year in tax years 2012, 2013, and 2014. Of the 15 agreements assumed for each year, 10 were modeled as renewable energy projects, and five were modeled as manufacturing projects. Average investment and taxable value estimates were derived from nine years of data for existing Chapter 313 agreements. Different distributions of project investment amounts and locations would result in different estimated school district Maintenance and Operations (M&O) property tax levy losses. The estimate assumes no significant avoidance of wage and job requirements through the hiring of contract personnel. It also assumes that no future projects will choose to defer the beginning of their qualifying time period.

Under the bill, school district levy gains for projects affected by the provisions of the bill would be realized beginning with tax year 2014, with associated state impact beginning in fiscal year 2015. Savings to the Foundation School Program under this estimate would be approximately \$9.5 million in fiscal year 2015 increasing to approximately \$90 million by fiscal year 2021.

The bill would provide a proportionate reduction in property value exemption amounts recognized for the CPA's property value study if statewide levy loss associated with properties subject to Chapter 313 agreements exceeded an unspecified limit. For the purpose of this estimate, the CPA has assumed that

this provision of the bill would have no fiscal impact given that the limitation amount is unspecified. While no state impact is estimated at this time under the provision, in the event that the CPA property value study included reduced exemption amounts, school district entitlement under the Foundation School Program would be affected one fiscal year later. However, the extent and nature of state savings in the form of increased recapture, increased local share, and reduced effective rates for enrichment aid would depend on the degree to which property values increased and the specific districts experiencing the increased property values.

According to the CPA, it would be necessary to hire 2 full-time equivalent (FTE) positions for the annual calculation of project limitation amounts and for the assessment and evaluation of Chapter 313 projects required by the bill.

Local Government Impact

The bill would prohibit any payments from property owners to school districts in consideration of the execution of an agreement that are not specifically authorized by certain provisions in the Texas Economic Development Act.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

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