

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

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**

**April 4, 2011**

**TO:** Honorable John Davis, Chair, House Committee on Economic & Small Business Development

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

**IN RE: HB3465** by Sheffield (Relating to the ability of certain municipalities enhancing participation in economic development programs, including small business development.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3465, As Introduced: a negative impact of (\$22,305,000) 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, Five-Year Impact:**

| Fiscal Year | Probable Net Positive/(Negative)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2012        | \$0  |
| 2013        | (\$22,305,000)   |
| 2014        | (\$48,089,000)   |
| 2015        | (\$73,740,000)   |
| 2016        | (\$99,563,000)   |

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

| Fiscal Year | Probable Savings/(Cost) from<br><i>Foundation School Fund</i><br>193 | Probable Revenue Gain/(Loss) from<br><i>School Districts - Net Impact</i> |
|-------------|--|---|
| 2012        | \$0  | \$0   |
| 2013        | (\$22,305,000)   | (\$7,811,000)   |
| 2014        | (\$48,089,000)   | (\$12,183,000)  |
| 2015        | (\$73,740,000)   | (\$17,084,000)  |
| 2016        | (\$99,563,000)   | (\$22,567,000)  |

**Fiscal Analysis**

The bill would amend Chapter 501 of the Local Government Code, regarding provisions governing development corporations, to add new Subchapter J concerning economic development by certain municipalities. The new subchapter would allow cities with a population of 70,000 or less located in a county containing all or part of a military installation to adopt an ordinance directing the orderly economic development of the municipality. The ordinance may include creation of or participation in a reinvestment zone financing plan that may operate under Section 403.302(e) of the Government Code or under other existing law. The provisions of Section 403.302(e) would apply only if all participants in the reinvestment zone agree with the use of the provision to accelerate the economic development of small business in the participating units of local government. Section 403.302(e) Government Code governs certain limitations on the deduction of reinvestment zone captured

appraised value in the Comptroller's school district property value study.

The bill would strike the reference to Section 311.011(c)(9) of the Tax Code in Section 403.302(e) of the Government Code regarding the duration of a reinvestment zone and replace it with a reference to Section 311.017 of the Tax Code regarding the termination of a reinvestment zone.

The bill would take effect September 1, 2011.

### **Methodology**

The bill's provision that would require all participants in a reinvestment zone to agree in order for Section 403.302(e) of the Government Code to apply would allow any reinvestment zone participant to prevent the Section 403.302(e) restrictions on the deduction for tax increment financing in the Comptroller's Property Value Study from capping the amount deducted in the study. This would result in larger study deductions and lower school district taxable values reported to the Texas Education Agency for use in the school funding formula. Lower school district values would require an increase in school district funding, creating a fiscal impact to the state. The bill's provision striking the reference to Section 311.011(c)(9) of the Tax Code in Section 403.302(e) of the Government Code would have a similar result by removing the study deduction limitation which prevents deductions past the duration of the zone specified in the financing plan approved before September 1, 1999.

Increases in school district property values deducted in the study were estimated based on historical information from appraisal districts and forecast deduction growth. The bill's provisions would cause a fiscal impact on cities and counties but information to estimate their losses was unavailable.

Projected tax rates were applied to estimate the initial school district loss. Because of the operation of the hold harmless provisions of HB 1, 79th Legislature, the school district cost related to the compressed rate is transferred to the state. The enrichment cost and a portion of the school district debt (facilities) cost are transferred to the state after a one-year lag because of the operation of the enrichment and facilities funding formulas. All costs were estimated over the five year projection period.

### **Local Government Impact**

The estimated fiscal implication to school districts is reflected in the table above. The bill's provisions would also cause a fiscal impact on cities and counties.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, AG, TP, SD, SJS