BILL ANALYSIS

Senate Research Center
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S.B. 2337
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Property Tax
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Chapter 311, Tax Code, allows certain areas within a city to keep the property tax and local sales tax revenue generated in the area to pay for improvements made within those areas. These areas are called tax increment reinvestment zones (TIRZ). The increase in property tax and sales tax revenue attributable to improvements made within a TIRZ is called the "tax increment." Financially, TIRZ generally operate as follows: A city issues bonds and puts the proceeds of the bonds into a tax increment fund; the money in the fund is then used by developers to pay for project costs that benefit the zone; projects are undertaken and improvements are made; property values increase as a result; and the bonds are paid off over time with the increase in sales and property tax revenue, or "tax increment." This is called "tax increment financing" (TIF). Note that the taxpayers inside of a TIRZ still pay full property tax at whatever rate each taxing unit imposes. The only difference is that the property tax revenue does not get deposited into the taxing units' general revenue funds. Instead, the money stays in a separate fund—the TIF fund—which is used to pay off the bonds and to pay for special improvements to benefit the zone.

One of the many policy concerns about TIRZ is the fact that they result in higher property tax rates for both taxpayers inside and outside the zone. The reason for this is that Section 26.03, Tax Code, excludes both the captured appraised value and the tax increment from taxing units' effective and rollback rate calculations. If the TIRZ is acting as planned, then the subsidy is causing a flurry of development which is adding property value in the TIRZ. This increase in property value is generating an increase in ad valorem tax revenue, which is then added to the TIF fund. If this increase in ad valorem tax revenue were instead going into the taxing units' general funds, it would act to push down the citywide (or countywide, etc.) effective ad valorem tax rate, but it is not. Thus, the citywide effective tax rate stays higher, and the citywide effective tax rate is the base rate used to calculate the rollback rate. The higher the effective tax rate, the higher the rollback rate. Whatever rate the taxing unit adopts is the same rate applied both inside and outside the zone. Therefore, both areas suffer higher tax rates.

S.B. 2337 seeks to fix this issue by prohibiting any TIRZ created after the effective date to move the incremental change in tax levy off book when calculating the effective and rollback tax rates.

As proposed, S.B. 2337 amends current law relating to the treatment of captured appraised value and tax increment in the calculation of ad valorem tax rates for a taxing unit.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Repealer: Section 26.03 (Treatment of Captured Appraised Value and Tax Increment), Tax Code.

SECTION 2. Provides that this Act applies to the tax rate calculations under Chapter 26 (Assessment), Tax Code, for a taxing unit only for a tax year that begins on or after the effective date of this Act.

SECTION 3. Effective date: January 1, 2020.