HOUSE
RESEARCH
ORGANIZATION bill analysis 3/27/2007

HB 1206
Keffer
(CSHB 1206 by Bonnen)

SUBJECT: Mineral Wells tax increment project exemption from school tax valuation

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 6 ayes — Keffer, Ritter, Otto, Bonnen, Y. Davis, Pena

0 nays

3 absent — Flores, Paxton, Pitts

WITNESSES: None

BACKGROUND: The Tax Increment Financing Act (Tax Code, ch. 311) allows cities to establish reinvestment zones to promote urban renewal projects. To be designated a reinvestment zone, an area must impair substantially the sound growth of the municipality because of obsolete platting, deterioration of structures, health and safety concerns, or a lack of adequate housing. The ordinance designating an area as a reinvestment zone must establish a tax increment fund for the zone.

One expected result of tax increment financing is an increase in property values and tax levies after the creation of a reinvestment zone. Each participating taxing unit deposits into a tax increment fund most of this incremental property tax revenue. This fund is used to repay bonds issued for project costs and to cover other expenses of the reinvestment zone. Tax increment funding differs from tax abatements, which involve a taxing unit’s agreeing to waive part or all of a tax it levies on private property owners.

Property within reinvestment zones created before May 31, 1999, and eligible for tax increment financing are not included in the comptroller’s annual property valuation of school districts. This valuation is used to determine the amount of funding school districts receive from the state.

DIGEST: CSHB 1206 would exempt from the comptroller’s school district property tax valuation a tax increment financing project that is within a reinvestment zone created on or before December 31, 2008, by a municipality with a population of less than 18,000.

The project plan would have to include the alteration, remodeling, repair or reconstruction of a structure that is included on the National Register of Historic Places, and a portion of the tax increment of the zone would have to be used for the improvement or construction of facilities related to this structure.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

SUPPORTERS SAY:

CSHB 1206 would help the city of Mineral Wells attract private investors to a public/private partnership to renovate the historic Baker Hotel, a popular tourist destination during the mid-twentieth century. The 14-story, 460-room hotel, which towers over this small town, has fallen into disrepair since closing for the last time in 1972. The cost of either renovating or demolishing it has proven to be prohibitive, and the deteriorating structure has become an eyesore. Renovating the blighted building and adjoining garage could attract more tourists to the city, which would generate other economic development benefits.

Tax increment financing would allow the school district to participate in the project without suffering a loss of state revenue under school finance formulas, because the project would be excluded from the comptroller's property tax valuation.

The bill is carefully bracketed to apply only to the Baker Hotel renovation. Other projects would not qualify for tax increment financing under the strict parameters of the bill.

OPPONENTS SAY:

The state should not change its policy of limiting tax increment financing to reinvestment zones created before May 31, 1999. Communities now have other tools, such as tax abatements and sales tax refunds, to attract investors and development. The bill could create an incentive for other communities to seek exceptions to current law governing tax increment financing for economic development projects.

NOTES:

The committee substitute modified the original bill to specify that a portion of the tax increment fund could be used to improve or construct related facilities.