HOUSE
RESEARCH
ORGANIZATION bill analysis 5/3/2007

HB 3546
Truitt

SUBJECT: Allowing municipal and county loans for reinvestment zone projects

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 8 ayes — Keffer, Ritter, Bonnen, J. Davis, Flores, Paxton, Peña, Pitts

0 nays

1 absent — Otto

WITNESSES: For —David Pettit, Gideon Tool, Inc. (*Registered, but did not testify*: Mark Mendez, Tarrant County; Juan R. Gonzalez)

Against —None

BACKGROUND: The Tax Increment Financing Act, Chapter 311 of the Tax Code, authorizes municipalities and counties to create reinvestment zones or tax increment funds (TIFs), which promote development or redevelopment of areas. The redevelopment occurs because a municipality determines that redevelopment of an area would not transpire by private investment alone. Reinvestment areas are economically disadvantaged and often have unsafe conditions. The TIF and the local governments develop project and financing plans, which specify the amounts of funding that the TIF and the taxing units will contribute to the project. TIFs are funded by tax increments generated as a result of the project for which the TIF is created. TIF funding for the project is often not available until the project is completed. However, TIFs can receive up front funding through the issuance of tax increment bonds or notes.

DIGEST: HB 3546 would amend ch. 311 of the Tax Code to allow a municipality or county that levied taxes in a TIF zone to make a loan to the board of directors of a zone for TIF financing if the municipality determined that the loan served a public purpose. The loan would not be considered a tax increment bond. It would be viewed as an authorized investment of a municipality and an obligation incurred for the reinvestment zone. The loan principal and interest of the loan could be repaid to the municipality through the tax increment.

The 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: HB 3546 would allow a TIF to address its capital needs upfront. Typically, the public works projects for which TIFs are created are capital-intensive projects with significant up-front costs. However, TIF funding for the project often is not available until the project is completed. This leaves TIFs without sufficient up-front capital to begin the project plan. Many times the TIFs and boards have no initial funding because there is no funding established until there is increment tax revenue, so the board cannot help initiate projects.

HB 3546 would authorize municipalities to make loans to TIFs. Currently, this not expressly allowed under the Tax Code. This bill would ensure that the TIF would be sufficiently funded and able to participate in up-front project costs in accordance with the project plan and financing plan without the necessity and burden of issuing tax increment bonds or notes. The bill would be permissive and allow municipalities the discretion to loan money to TIFs if it were beneficial and served a public purpose. It would help municipalities realize the benefits and the gains from a TIF sooner and offer municipalities another tool to spur economic development.

OPPONENTS SAY: HB 3546 could be detrimental for a municipality if a municipality loaned money to a TIF for a poorly conceived project and the TIF was unable to generate the revenue stream to repay the municipality's loan. Moreover, the increased financial demands to accommodate growth in the TIF zone could leave a municipality less able to handle the decreased funds available as a result of the loan.

NOTES: The companion bill, SB 1264 by Brimer, passed the Senate on the Local and Uncontested Calendar and was reported favorably, without amendment, by the House Ways and Means Committee on May 2.