

- SUBJECT:** Limiting appraised value for projects in multiple school districts
- COMMITTEE:** Ways and Means — committee substitute recommended
- VOTE:** 11 ayes — D. Bonnen, Y. Davis, Bohac, Button, Darby, Martinez Fischer, Murphy, Parker, Springer, C. Turner, Wray
- 0 nays
- WITNESSES:** For — Joe Newman, Elgin Economic Development Corporation; Heath DePriest, Phillips 66; Richard Bennett, Texas Association of Manufacturers; Dale Craymer, Texas Taxpayers and Research Association; James LeBas, TxOGA, and Texas Chemical Council; Daniel Casey; (*Registered, but did not testify*: Mike Sutherland, Association of Rural Communities in Texas; Dana Harris, Austin Chamber of Commerce; Fred Shannon, Hewlett Packard; Mike Meroney, Huntsman Corp., BASF Corp., and Sherwin Alumina, Co.; David Cagnolatti, Phillips 66; Chris Shields, San Antonio Chamber of Commerce; Sarah Matz, TechAmerica; Cathy Dewitt, Texas Association of Business; Dominic Giarratani, Texas Association of School Boards; Carlton Schwab, Texas Economic Development Council; David Anderson, Texas Fast Growth School Coalition; Daniel Womack, The Dow Chemical Company; Max Jones, The Greater Houston Partnership, The Metro Eight Chambers of Commerce: Arlington, Austin, Corpus Christi, Dallas, El Paso, Fort Worth, Houston, San Antonio)
- Against — Dick Lavine, Center for Public Policy Priorities
- On — (*Registered, but did not testify*: Robert Wood, Comptroller of Public Accounts)
- BACKGROUND:** Tax Code, ch. 313, otherwise known as the Texas Economic Development Act, provides for temporary limitations of appraised value for property on which certain projects involving qualified investments, such as the construction of manufacturing plants, are based.

DIGEST: CSHB 2826 would change how the Texas Economic Development Act applied to projects located in two school districts, or three school districts if each school district was adjacent to another school district where the project was located.

The bill would provide that, for the purposes of determining the minimum amount of qualified investment and the minimum amount of a limitation on appraised value, a project was considered to be located in the school district that had the highest taxable value of property for the preceding tax year.

The minimum amount of limitation on appraised value to which a school district could agree would be the minimum limitation provided by Tax Code, sec. 313.027 multiplied by the percentage of the total qualified investment that was based in the school district.

In determining whether the property was eligible for a limitation of appraised value under Tax Code, ch. 313 the bill would require the comptroller to consider whether the project would be eligible if it were located at one site in a single school district.

If all parts of a project were located within a school district in a strategic investment area or certain rural school districts, for the purposes of determining the required minimum amount of qualified investment and minimum limitation on appraised value, the project would be considered to be located in the school district which had the highest taxable value of industrial property for the preceding tax year.

The bill would not affect the requirement that each school district enter into an agreement with the entity applying for a limitation on appraised value.

This bill would take effect September 1, 2015, and would apply only to an application filed under Tax Code, ch. 313 on or after that date.

SUPPORTERS CSHB 2826 would increase investment in the state by creating a clear

SAY: process to evaluate applications for limitations on appraised value for projects in multiple districts. Current evaluation processes unnecessarily disqualify a project that does not separately qualify in each school district. Texas might miss out on large investment projects that it could attract with a simple clarification of the law.

These economic development incentives are becoming more expensive because Texas is competing against many other states to attract valuable projects. When a company decides to locate major projects in the state, it brings permanent jobs and a permanent increase in economic activity.

Any oversight problems would not be exacerbated because there are a significant number of provisions in this bill that would ensure the incentives were a net gain for the state. For instance, each school district would retain discretion over which projects were selected. If a project was beneficial only for one school district and would result in a net loss for the state, then the other districts would not necessarily agree to the limitation on appraised value.

Applications for incentives under this program involving multiple school districts already are comparatively slow because a business must pursue qualification separately in each school district. Most states process applications at the state level, which is significantly faster than pursuing qualification with the individual school district and then the comptroller. To prevent Texas from losing out on significant investment, the Legislature should act to create a clear process for approving applications in multiple school districts.

OPPONENTS
SAY: CSHB 2826 would expand an already overly broad economic development incentive program, which could make it more vulnerable to misuse and eventually could cost the state billions in revenue.

The cost of the limited appraisal incentives is growing out of control due to inadequate oversight. Current law provides that the limitation in appraised value is given only if the project would not otherwise locate in the state and if the project brings a sufficient amount of economic activity

to the state. This is important because the purpose of these incentives is to draw enough businesses to the state that otherwise would not have located here to offset the short-term cost of lost revenue. Without these requirements, the program merely would be forfeiting state tax dollars.

However, current law does not require school districts or the comptroller to verify businesses' assertions that the projects meet these requirements. In fact, the State Auditor's Office noted that school districts relied primarily on certifications that businesses submit. The program should not be expanded until this oversight is fixed.

This bill could allow otherwise ineligible projects to gain eligibility if one part of the project was eligible. In other words, a business could construct a portion of the project in one school district that was eligible, and then string together a variety of other related projects in adjacent school districts that would be otherwise ineligible. The bill should prevent this by requiring at least 60 percent of the project to be otherwise eligible.

NOTES:

The Legislative Budget Board's fiscal note indicates no impact to state revenue through fiscal 2016-17, but a gradually increasing cost to the Foundation School Fund in future biennia, starting at \$1.2 million in fiscal 2018-19 up to \$114.6 million in fiscal 2024-25.