

BILL ANALYSIS

Senate Research Center
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S.B. 1220
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Natural Resources & Economic Development
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As Filed

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

S.B. 1220 changes the statutes governing the establishment and operations of tax increment reinvestment zones (TIRZ) to ensure they will not become permanent fixtures and that they are only used in areas that are truly blighted.

Until 2011, reinvestment zones were prohibited from being established if more than 10 percent of the properties in the proposed zone were residential property. After 2011, the percentage of residential property in a proposed TIRZ was increased to 30 percent.

The limit on the amount of a city's total property value that could be included in a TIRZ was increased in 2011 as well. Previously cities with a population of 100,000 or more could have up to 20 percent of their total property value in a TIRZ and cities with less than 100,000 population could have 15 percent of their total property value in a TIRZ. After 2011 these limits were raised to 25 percent and 50 percent respectively.

Because of the loosening of statutes governing reinvestment zones, they are now being established in areas that are not blighted, which leads to revenue being trapped in zones that have no set end date and are susceptible to mission creep. In Houston alone, 17 percent of the city's total property value (and 168 square miles of territory) are now in reinvestment zones, including thriving areas such as Downtown (which is in a zone until 2043).

S.B. 1220 will curb misuses of TIRZ's by going back to the pre-2011 limits on how much residential property and how much of the city's total property value may be inside a TIRZ, limiting the duration of a TIRZ to no more than 10 years, ending the TIRZ in less than 10 years if the property values in the TIRZ exceed the median property value of the whole city, and requiring voter approval city wide for bonds issued by a TIRZ.

As proposed, S.B. 1220 amends current law relating to tax increment financing.

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. Amends Section 311.004, Tax Code, by adding Subsection (d), as follows:

(d) Requires that, for purposes of Subsection (a)(4) (relating to providing a date for termination of the zone), an order or ordinance designating a reinvestment zone that is adopted on or after September 1, 2015, provide that the zone terminates not later than the 10th anniversary of the date on which the ordinance or order designating the zone is adopted.

SECTION 2. Amends Section 311.006(a), Tax Code, as follows:

(a) Prohibits a municipality from designating a reinvestment zone if:

- (1) more than 10 percent of the property in the proposed zone, excluding property that is publicly owned, is used for residential purposes;
- (2) the total appraised value of taxable real property in the proposed zone and in existing reinvestment zones exceeds 10 percent of the total appraised value of taxable real property in the municipality and in the industrial districts created by the municipality.

Deletes existing text prohibiting a municipality from designating a reinvestment zone if more than 30 percent of the property in the proposed zone, excluding property that is publicly owned, is used for residential purposes, or the total appraised value of taxable real property in the proposed zone and in existing reinvestment zones exceeds 25 percent of the total appraised value of taxable real property in the municipality and in the industrial districts created by the municipality, if the municipality has a population of 100,000 or more, or 50 percent of the total appraised value of taxable real property in the municipality and in the industrial districts created by the municipality, if the municipality has a population of less than 100,000.

SECTION 3. Amends the heading to Section 311.007, Tax Code, to read as follows:

Sec. 311.007. CHANGING BOUNDARIES OR TERM OF EXISTING ZONE; LIMITATION ON EXTENSION OF TERM.

SECTION 4. Amends Section 311.007, Tax Code, by amending Subsection (c) and adding Subsections (d) and (e), as follows:

(c) Authorizes the governing body of the municipality or county that designated a reinvestment zone by ordinance or resolution or by order or resolution, respectively, subject to Subsections (d) and (e), to extend the term of all or a portion of the zone after notice and hearing in the manner provided for the designation of the zone. Provides that a taxing unit other than the municipality or county that designated the zone is not required to participate in the zone or portion of the zone for the extended term unless the taxing unit enters into a written agreement to do so.

(d) Prohibits the term of all or any portion of a reinvestment zone, except as provided by Subsection (e), from being extended beyond the 10th anniversary of the date on which the ordinance or order designating the zone is adopted.

(e) Provides that this subsection applies only to a reinvestment zone designated before September 1, 2015, the term of which extends beyond the period prescribed by Subsection (d). Requires that a reinvestment zone to which this subsection applies terminate on the earlier of:

- (1) the termination date expressed in the ordinance or order designating the zone or an earlier termination date designated by an ordinance or order adopted under Subsection (c); or
- (2) the date on which all project costs, tax increment bonds and interest on those bonds, and other obligations of the zone have been paid in full.

SECTION 5. Amends Chapter 311, Tax Code, by adding Section 311.0111, as follows:

Sec. 311.0111. RESTRICTION ON BOARD'S AUTHORITY TO AMEND PLAN. Prohibits the board of directors of a reinvestment zone from adopting, and the governing body of a municipality from approving, an amendment to the project plan if:

- (1) the median appraised value of taxable real property located in the zone equals or exceeds the median appraised value of taxable real property that is located

outside the boundaries of the zone and that is within the designating municipality's corporate boundaries and extraterritorial jurisdiction; and

(2) the amendment is required under Section 311.011(e) to be approved by ordinance adopted after a public hearing that satisfies the procedural requirements of Sections 311.003(c) and (d).

SECTION 6. Amends Sections 311.015(a) and (c), Tax Code, as follows:

(a) Authorizes a municipality designating a reinvestment zone, subject to Subsection (c), to issue tax increment bonds or notes, the proceeds of which may be used to make payments pursuant to agreements made under Section 311.010(b) (relating to the payment of tax increment bonds), to pay project costs for the reinvestment zone on behalf of which the bonds or notes were issued, or to satisfy claims of holders of the bonds or notes. Authorizes the municipality to issue refunding bonds or notes for the payment or retirement of tax increment bonds or notes previously issued by it.

(c) Provides that tax increment bonds and notes are issued by ordinance of the municipality after the approval of the qualified voters of the municipality as provided by Section 311.0151, rather than providing that tax increment bonds are issued by ordinance of the municipality without any additional approval other than that of the attorney general of the State of Texas.

SECTION 7. Amends Chapter 311, Tax Code, by adding Section 311.0151, as follows:

Sec. 311.0151. BOND ELECTION REQUIRED. (a) Authorizes a municipality to issue tax increment bonds and notes under Section 311.015 (Tax Increment Bonds and Notes) as provided by this section.

(b) Prohibits a municipality from authorizing tax increment bonds and notes unless a majority of the municipality's qualified voters who vote at an election ordered for that purpose approve the issuance of the bonds and notes.

(c) Authorizes the municipality to order an election on the tax increment bonds and notes. Requires that the order contain the same information contained in the notice of the election.

(d) Requires the municipality to publish notice of the election at least once in a newspaper of general circulation in the municipality. Requires that the notice be published not later than the 31st day before election day.

(e) Requires that, in addition to the contents of the notice required by the Election Code, the notice state the amount of bonds or notes to be authorized, and the maximum maturity of the bonds or notes.

SECTION 8. (a) Provides that Section 311.006(a), Tax Code, as amended by this Act, applies only to a reinvestment zone designated on or after the effective date of this Act. Provides that a reinvestment zone designated before the effective date of this Act is governed by the law in effect on the date the zone was designated, and the former law is continued in effect for that purpose.

(b) Provides that Section 311.0111, Tax Code, as added by this Act, applies only to an amendment to a reinvestment zone project plan proposed on or after the effective date of this Act. Provides that an amendment proposed before the effective date of this Act is governed by the law in effect on the date the amendment was proposed, and the former law is continued in effect for that purpose.

(c) Provides that Section 311.015, Tax Code, as amended by this Act, and Section 311.0151, Tax Code, as added by this Act, apply only to bonds issued on or after the effective date of this Act. Provides that bonds issued before the effective date of this Act

are governed by the law in effect on the date the bonds were issued, and the former law is continued in effect for that purpose.

SECTION 9. Effective date: September 1, 2015.