

**SUBJECT:** Allowing a temporary property tax freeze for certain city redevelopment

**COMMITTEE:** Local Government Ways and Means — favorable, without amendment

**VOTE:** 6 ayes — Hill, Creighton, C. Howard, Puente, Quintanilla, Villarreal  
0 nays  
1 absent — Elkins

**SENATE VOTE:** On final passage, April 27 — 31-0

**WITNESSES:** No public hearing

**BACKGROUND:** Texas Constitution, Art. 8, sec. 1 mandates that all taxation be equal and uniform and that all real and tangible property be taxed in proportion to its value. It provides specific exemptions from and freezes on property taxes.

Tax Code, ch. 11, statutorily defines the taxable property, delineates categories of property eligible for exemptions and tax freezes, and specifies procedures for providing these exemptions and tax freezes.

**DIGEST:** SB 1336 would add Tax Code, sec. 11.34 to allow voters in a municipality with a population under 10,000 to approve a temporary freeze of ad valorem taxes of any property in or adjacent to a downtown area approved for certain state redevelopment funding.

This section would apply only to a municipality receiving funding through the Downtown Revitalization Program or the Main Street Improvements Program administered by the Texas Department of Agriculture (TDA), or a successor program run by the agency. The city governing body could call an election by which voters would decide whether to authorize a freeze on property tax increases on property in or around the area targeted for redevelopment funding. If the measure was approved, the governing body could enter into an agreement with an eligible property owner to freeze taxes subject to certain terms and conditions.

An agreement would have to be reached before December 31 of the tax year in which the election was held, and it would freeze all increases in ad valorem taxes imposed by any taxing unit for a five-year period that would begin the following tax year. The property would be appraised in the same manner as any other property, but if the calculated tax exceeded the freeze level, the owner would be taxed only up to the freeze level.

The agreement would expire on the earlier of January 1 of the sixth tax year following the tax year in which the agreement was consummated or January 1 of the first tax year in which the owner who entered into the agreement no longer owned the property. If two or more people owned the property, the agreement would expire on January 1 of the first tax year following the year in which at least half the interest in the property was sold or transferred.

The bill would take effect January 1, 2008, but only if the Legislature adopted and voters approved during the November 6, 2007, election SJR 44 by Estes. If that proposed constitutional amendment was not approved by voters, the bill would have no effect. The bill would apply only to ad valorem taxes imposed on or after January 1, 2008.

**SUPPORTERS  
SAY:**

SB 1336 would provide small communities a way to create incentives for property owners to improve downtown buildings in line with revitalization efforts undertaken by their respective municipalities. The temporary freeze would be tailored only for small municipalities and in a way to reach areas that are unable to use current taxing options to achieve the same effect.

TDA administers two programs – the Main Street Improvements Program and the Downtown Revitalization Program – aimed at improving infrastructure such as roads, sidewalks, and drainage systems in city centers. In 2006, eight communities received Downtown Revitalization funds and four received Main Street funds. The goal of these programs is to make participating cities more attractive destinations for tourists visiting or even driving through a community. These programs, however, do not require renovation of privately owned buildings in those areas, and many property owners refuse to undertake this action to avoid increases in ad valorem taxes.

SB 1336 would provide a financial incentive for property owners to improve buildings in downtown areas of small communities by freezing their tax burden for a five-year period. If a municipality approved the

freeze in an election, property owners could enter into a contract with the city to receive the freeze in exchange for revitalization work done on their buildings. Tax limitations on the properties would last five years, at which time the properties would be taxed as normal. The hope is that by that time, revitalization of infrastructure and private property in the downtown area would have been successful enough to draw more tourists and bring in more revenue to all the downtown businesses. In many communities, these buildings are historic attractions, but once they deteriorate or are bulldozed, they are lost forever. This program would help maintain some of the great history in rural communities around Texas.

The bill would give smaller communities a taxing tool that they can use. Smaller communities cannot use current tools afforded taxing units, such as tax increment financing (TIF) or tax abatements. A TIF is dependent on increased revenue generation, which would not necessarily occur in a smaller community, and certainly not to the degree that it would in a larger urban area more suited to using such a program. A tax abatement also would reduce revenue for a city. This bill would allow a temporary freeze of the appraised value, which would not impact a city's revenue while providing a property owner the relief needed to invest realized savings into revitalization efforts.

This program only would apply to municipalities smaller than 10,000 people, and only to property in or adjacent to the downtown area. It would be subject to the decision of the local voters and last for only five years. It would be incumbent on a property owner to opt to do work to be granted the freeze. With such a small number of properties likely to fall under this program, the fiscal impact it would have on even the smallest taxing districts would be minor.

**OPPONENTS  
SAY:**

These property owners would be receiving the benefit from tax dollars used to improve infrastructure, and they should be required to pay any resulting increases in the value of their land. To the extent that this bill would reduce the tax burden for these property owners, it could shift the burden to other taxpayers. In a smaller community, this effect would be more pronounced because the tax burden would be borne by a smaller pool of people.

**NOTES:**

SJR 44 by Estes, which would amend the Texas Constitution to add Art. 8, sec. 1-o to authorize the Legislature to allow a municipality with a population under 10,000 to hold an election to temporarily freeze ad

valorem taxes of any property in or adjacent to an area targeted for certain state redevelopment funding, is on the May 21 Constitutional Amendments Calendar.