SUBJECT: Condemnation of vacant buildings inside a reinvestment zone

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 5 ayes — Ritter, B. Cook, Anchia, Deshotel, McCall

0 nays

2 absent — Kolkhorst, Seaman

SENATE VOTE: On final passage, May 2 — 31-0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: Under the Tax Increment Financing Act, Tax Code, ch. 311, a city may create a tax increment reinvestment zone for a specified period to upgrade an area and increase its taxable value. Taxes paid by landowners and/or developers on improvements they make to property in the zone go into a tax increment fund, which pays for new or upgraded infrastructure and other public improvements in the zone. The additional tax revenue generated by the property after it is improved represents the increment. The additional taxable value of the property derived from the improvements is called "captured appraised value."

The Tax Increment Financing Act authorizes the designation of areas that impair economic development in a city as a result of:

- many dilapidated buildings;
- defective or inadequate sidewalks or streets;
- inadequate layout in relation to size, adequacy, accessibility or usefulness;
- sanitary or unsafe conditions;
- deterioration;
- severe tax delinquency;
- a defective title; or
- dangerous conditions, such as the existence of a fire hazard.

Under Tax Code, sec. 11.11, property owned by the state or a political subdivision is exempt from taxation if used for a public purpose.

DIGEST: CSSB 771 would allow cities to designate areas with vacant buildings as tax increment zones. The bill defines vacant buildings as those that have been substantially vacant for at least five years. Single-family residential structures would not be considered vacant buildings.

The bill would specify that implementation of a project to alleviate one of the listed conditions for tax increment zones and to promote development or redevelopment of a reinvestment zone would serve a public purpose.

Local Government Code, ch. 252, concerning purchasing and contracting authority of municipalities, would not apply to the board of directors of a reinvestment zone.

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, 2005.

SUPPORTERS SAY: CSSB 771 would help relieve the “doughnut hole” trend occurring in major cities around the nation as suburbanization impedes development in downtown areas. Dallas is one example of a city being affected by this trend that sends economic development outside the city’s center. Economic vitality in a downtown area has proven to be vital to a city’s overall economic condition. CSSB 771 would enable cities to form partnerships with the private sector to create housing, retail, and office space in downtown areas that are riddled with vacant buildings.

The presence of vacant buildings significantly harms economic development in a particular region. Vacant buildings deter investment and negatively affect neighboring businesses. For example, a major department store in downtown Dallas has expressed dissatisfaction with being located adjacent to a large vacant building. Property owners often need a certain density of redevelopment in the area to make a successful investment decision. CSSB 771 would promote the economic success of existing businesses in tax increment reinvestment zones by providing a mechanism to rid areas of unattractive vacant buildings.

OPPONENTS SAY: No apparent opposition.

NOTES:

The House committee substitute differs from the Senate version of the bill by exempting boards of directors of reinvestment zones from Local Government Code, ch. 252, concerning purchasing and contracting authority of municipalities.

A related bill, HB 1188 by Anchia, which also would allow cities to designate areas with vacant buildings as tax increment zones, passed the House on April 22 and was reported favorably, as substituted, by the Senate Intergovernmental Relations Committee on May 20.