

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 requires 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 exemptions and tax freezes.

DIGEST: SJR 44 would add Art. 8, sec. 1-o to the Texas Constitution 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.

This amendment 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.

A law enacted under this amendment would have to provide that an agreement, if authorized by voters, would:

- have to be reached before December 31 of the tax year in which the election was held;
- freeze all increases in ad valorem taxes for a five-year period that would begin January 1 of the following tax year;
- apply to ad valorem taxes imposed by any political subdivision on the property covered by the agreement; and
- 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.

The proposal would be presented to the voters at an election on Tuesday, November 6, 2007. The ballot proposal would read: “The constitutional amendment authorizing the legislature to permit the voters of a municipality having a population of less than 10,000 to authorize the governing body of the municipality to enter into an agreement with an owner of real property in or adjacent to an area in the municipality that has been approved for funding under certain programs administered by the Texas Department of Agriculture under which the parties agree that all ad valorem taxes imposed on the owner's property may not be increased for the first five tax years after the tax year in which the agreement is entered into.”

**SUPPORTERS
SAY:**

SJR 44 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 these areas, and many property owners refuse to undertake this action to avoid increases in

ad valorem taxes.

SJR 44 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, 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.

SJR 44 would allow the Legislature to 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: SB 1336 by Estes, the enabling legislation for SJR 44, which would amend the Tax Code to make the necessary statutory changes if voters approved SJR 44, is on the May 21 General State Calendar.