

**SUBJECT:** Preventing double calculation of new property values in TIF zones

**COMMITTEE:** Local Government Ways and Means — committee substitute recommended

**VOTE:** 5 ayes — Hill, Hegar, Laubenberg, Puente, Quintanilla  
0 nays  
2 absent — McReynolds, Mowery

**WITNESSES:** For — Kathy Rodrigue, Texas Association of Appraisal Districts  
Against — None

**BACKGROUND:** Under the Tax Increment Financing Act (Property Code, ch. 311), a city may create a tax increment reinvestment zone (TIRZ) 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 are deposited into a tax increment fund (TIF), which pays for the costs of new or upgraded infrastructure and other public improvements within 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.

Each tax year, every local taxing entity must calculate and publish its effective tax rate — the rate required to generate the same amount of revenue from the revalued property tax base as generated in the prior year — and its rollback tax rate, the rate above which citizens may petition the entity for an election to reduce (roll back) the rate to its prior level. Currently, only school districts participating in TIRZs do not have to include captured appraised value in their effective and rollback tax-rate calculations.

The 77th Legislature enacted Tax Code, sec. 26.03 (HB 1468 by Pitts), specifying that local taxing entities, other than school districts, in TIRZs in counties of less than 500,000 population, must exclude from the value of taxable property, for purposes of rollback and effective tax-rate calculations, the portion of the captured appraised value that corresponds to the portion of

the tax increment that the taxing entity has agreed to pay into the TIF for a reinvestment zone.

Tax Code, sec. 26.012 defines “new property value” as taxable value added to a local taxing unit’s tax roll because of annexation or improvements made after January 1, as well as property value that was excluded from the total value because it was included in a tax abatement agreement.

**DIGEST:** CSHB 390 would specify that new property value, as defined by Tax Code, sec. 26.012, is not included in determining when to omit captured appraised value and TIF revenue from rollback and effective tax-rate calculations.

The bill would take effect January 1, 2004.

**SUPPORTERS SAY:** CSHB 390 would correct an inadvertent effect of HB 1468, enacted last session, that requires new property value to be counted twice in the rollback calculation and that can boost artificially the effective tax rate not subject to rollback. Currently, the taxing unit can deduct the value of improvements in the TIF in the overall calculation of the new property value and again in the TIF calculation, because that value is dedicated to the zone and not available to the taxing unit. This bill would provide for “truth in taxation” by ensuring the validity of the effective tax rate and rollback calculations. Even Ellis County taxing entities that have benefitted from the double calculation have passed resolutions supporting this bill

**OPPONENTS SAY:** No apparent opposition.

**NOTES:** As filed, HB 390 would have specified that new property value does not include the portion of the captured appraised value of real property that corresponds to the portion of the tax increment that the taxing entity has agreed to pay into the TIF zone.