

SUBJECT: Property tax exemption for neighborhood associations

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 7 ayes — Craddick, Ramsay, Heflin, Horn, Oliveira, Telford, Thompson
0 nays
4 absent — Grusendorf, Holzheuser, Stiles, Williamson

WITNESSES: None

DIGEST: HB 1518 would exempt a neighborhood association from taxes on property owned by the association and used exclusively for purposes for which the association was organized. The bill would define a neighborhood association as a legal entity organized to preserve, protect, improve, and monitor matters affecting a defined residential area and meeting certain leadership, membership and Internal Revenue Code and Texas Tax Code requirements.
Where applicable, the association would have to be recognized by a municipality as a representative of the households in the area.

The organization could apply for the exemption within 30 days after acquiring the property. The exemption would remain effective until the property changed ownership or the organization's qualification for exemption changed.

HB 1518 would take effect January 1, 1998, if a constitutional amendment authorizing the Legislature to exempt from ad valorem taxation property owned by neighborhood associations was approved by the voters.

SUPPORTERS SAY: HB 1518 would enrich communities across Texas by allowing neighborhood associations more leeway to create valuable common spaces. The construction of neighborhood centers, parks, and playgrounds could all be assisted by HB 1518. These improvements would encourage increased social interaction among neighbors that is the cornerstone of any successful community and a key to keeping crime at bay. In addition, such

improvements would add to the value of the privately owned property surrounding them, enhancing the tax base of the larger community.

The Legislature has already approved exemptions on property used for similar purposes, such as recreational and park land. This exemption can apply to privately owned land, such as country clubs. HB 1518 would simply extend this benefit to individuals who are working to improve the quality of their neighborhoods.

The benefits of HB 1518 would far outweigh any minimal costs associated with its implementation. HB 1518 would not place a strain on Texas' tax system or on other taxpayers. The amount of property covered by the exemption would not be great, and the fiscal note anticipates no significant fiscal impact to the state.

OPPONENTS
SAY:

HB 1518 would provide an unwarranted tax exemption for neighborhood associations, precisely at a time when the Legislature is wrestling with the issues of ensuring tax equity throughout the state. Changing levels of property taxation have a see-saw effect of lowering the burden on one end while raising it on the other. The exemption for neighborhood associations would have to be made up by other taxpayers, and such a cost shift is not justified by the role these neighborhood associations play in the community at large. Associations often focus on cosmetic improvements on private property that provide little additional social benefit. The state should not subsidize the development of such restricted property.

Furthermore, it is unclear what the value of the land indicated by HB 1518 would be. It would be unwise to commit the state to a property tax exemption of undisclosed magnitude, especially at a time when the state's tax structure is undergoing serious reform.

OTHER
OPPONENTS
SAY:

HB 1518 would not provide adequate checks against the abuse of this exemption. Several similar exemptions, including that for recreational and park land, include rollback provisions that require the payment of back property taxes if taxpayers violate the terms of their exemption. Neighborhood associations should be held to a similar level of accountability.

NOTES: The companion bill, SB 1285 by Gallegos, has been referred to the Senate Finance Committee.

The related constitutional amendment proposal, HJR 80 by Farrar, was reported favorably, without amendment, by the House Ways and Means Committee on April 16, and its companion, SJR 37 by Gallegos, has been referred to the Senate Finance Committee.