

SUBJECT: Allowing community service groups to use tax-exempt bond financing

COMMITTEE: County Affairs — favorable, with amendment

VOTE: 5 ayes — Ramsay, Chisum, Farabee, Krusee, Salinas
0 nays
4 absent — G. Lewis, B. Brown, Hilderbran, Shields

SENATE VOTE: On final passage, March 1 — 29-0

WITNESSES: For — Elizabeth Rippy
Against — None

BACKGROUND: The federal Internal Revenue Code recognizes the tax-exempt status of certain cultural and service organizations that are eligible to issue tax-exempt bonds. Such bond financing also provides tax advantages to some investors. This financing method can be subject to a lower interest rate than borrowing through banks and other commercial lending institutions.

The Cultural Education Facilities Finance Corporation Act (Art. 1528m, V.T.C.S.) authorizes the creation of special tax-exempt municipal or county cultural facilities finance corporations to provide tax-exempt bond financing for the construction of museums.

DIGEST: SB 588, as amended, would authorize the creation of municipal and county facilities finance corporations to provide tax-exempt financing for additional types of cultural and service organizations. The bill would expand the list of eligible cultural and community facilities to include:

- ! museums devoted to the culture and history of races, ethnic groups, and national heritage groups and to history;
- ! facilities promoting health and physical fitness, public health and safety, child care, adoption, children’s services, substance abuse counseling, family counseling, and care of elderly and disabled people;

- ! administration of charitable services;
- ! promotion of general cultural improvement, including scouting and other programs providing retreats in urban and rural settings;
- ! agencies dedicated to the eradication, elimination, or amelioration of diseases; and
- ! agencies promoting health and safety or providing assistance to communities in times of catastrophe or disaster.

SB 588 would allow these cultural facilities to buy property or interest in real property and to finance, refinance, equip, acquire, build, enlarge, remodel, renovate, improve, furnish, or equip a facility for cultural or community benefit, regardless of when a facility was built or acquired.

The bill also would allow cities and counties to limit the purpose for which the tax-exempt corporation could be used and to enforce that restriction through an injunction or mandamus action.

SB 588 would grant the new cultural facilities corporations the same rights and powers as for a corporation organized under the Texas Non-Profit Corporation Act (Art. 1396-1.01 et seq., V.T.C.S.).

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, 2001.

**SUPPORTERS
SAY:**

SB 588 would conform Texas law to the Internal Revenue Code regarding the eligibility of cultural or other service groups to qualify for tax-exempt bond financing. Federal law already recognizes the tax-exempt status of these organizations, but Texas statutes address only the ability of museums to qualify for tax-exempt financing.

Tax-exempt financing would lower the borrowing costs to build or expand facilities for cultural and service groups. These savings could be used to provide services in the community rather than to pay interest charges for buying land or constructing buildings. The Red Cross in Harris County would like to use the authority under SB 588 to expand its facilities, and other groups, such as the Boy Scouts, could take advantage of the savings provided by tax-exempt bond financing as well.

SB 588 would provide for local control and review of how cultural and service organizations could use this authority. Cities and counties could reject financing of a facility that would be inappropriate for that community.

OPPONENTS
SAY:

The Legislature should not expand tax-exempt financing, even for otherwise worthy causes. Revenues lost because of the preferential treatment of tax-exempt corporations and those that invest in tax-exempt bonds must be made up by increasing the burdens on other taxpayers. National taxpayers should not subsidize projects that benefit only certain communities.

SB 588 would establish too large a list of eligible projects and only vague qualifications for service and cultural groups. Assistance to certain types of projects could prove controversial in some communities.

NOTES:

The committee amendment would delete from the list of eligible museums in the Senate-passed bill those exhibiting and promoting the culture and history of “religious groups.”