

## **BILL ANALYSIS**

Senate Research Center  
85R6485 TJB-D

S.B. 600  
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Natural Resources & Economic Development  
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As Filed

### **AUTHOR'S / SPONSOR'S STATEMENT OF INTENT**

In 2001, the 77th Legislature passed H.B. 1200, known as the Texas Economic Development Act. Under the Act, a school district can abate a portion of an entity's property taxes on a qualifying project through a special appraisal limitation. H.B. 1200 established Chapter 313 of the Tax Code, hence abatements made under this law are commonly referred to as "313 abatements." The initial fiscal note for this legislation as proposed projected a \$100 million fiscal impact to the state over five years. The Natural Resources and Economic Development Committee of the 84th Legislature (committee) recently evaluated the cost to the state of agreements made under Chapter 313 to date. The committee determined that the current fiscal impact with no new agreements is approximately \$7.1 billion. The cost and scope of Chapter 313 makes it the state's largest economic development program.

This program has faced fierce criticism in recent years for several reasons. First, economic development incentives are widely considered to be outside of the proper role of government and thus amount to an inappropriate use of limited local and state government resources. Second, abatements granted under the program affect the state's school finance system—already under rigorous review by the legislature in light of recent judicial action. The committee report cited roughly \$17.7 billion worth of property not being taxed. This equates to \$815 million in annual forgone tax revenue to school districts. Lastly, government incentives constitute an unfair and inefficient redistribution of wealth based on political considerations over impersonal market forces.

Given the political nature of the allocation of these abatements, there can be little doubt that award decisions can be influenced by factors other than alleged economic benefit. Corporations coming to Texas solely seeking direct financial incentives have no motive to stay once those incentives are abolished.

S.B. 600 repeals the Texas Economic Development Act. The bill removes tax abatement authority from school districts and makes conforming changes to the Texas Tax Code as well as laws governing the state's school finance calculation in the Texas Education Code.

This bill does not affect agreements made before the effective date of the act.

The abolishment of this program will level the playing field so that government is not choosing winners and losers when it comes to job growth. This change will also save taxpayers money by reducing the amount of tax dollars given to private entities.

These reasons make it imperative that our state attract job growth based on free markets, sound state fiscal policy, and educated work force, rather than artificial, wasteful, and ineffective economic stimulus programs.

Supporters of this bill contend that abolishing this incentive program will benefit taxpayers, businesses, and the state by preventing local governments from leveraging state funds to pick winners and losers in local incentive awards.

Opponents contend that the legislation will prevent local entities from attracting economic growth and development.

As proposed, S.B. 600 amends current law relating to the repeal of the Texas Economic Development Act.

### **RULEMAKING AUTHORITY**

Rulemaking authority previously granted to the Texas Workforce Commission is rescinded in SECTION 1 (Section 313.021, Tax Code) of this bill.

Rulemaking authority previously granted to the Texas Economic Development and Tourism Office is rescinded in SECTION 1 (Section 313.024, Tax Code) of this bill.

Rulemaking authority previously granted to the Texas comptroller of public accounts is rescinded in SECTION 1 (Section 313.031, Tax Code) of this bill.

### **SECTION BY SECTION ANALYSIS**

SECTION 1. Repealer: Section 312.0025 (Designation of Reinvestment Zone by School District), Tax Code, and Chapter 313 (Texas Economic Development Act), Tax Code.

SECTION 2. Amends the heading to Section 42.2515, Education Code, to read as follows:

Sec. 42.2515. ADDITIONAL STATE AID FOR AD VALOREM TAX CREDITS UNDER FORMER TEXAS ECONOMIC DEVELOPMENT ACT.

SECTION 3. Amends Sections 403.302(d) and (m), Government Code, as follows:

(d) Replaces a reference to expiration with repeal. Makes a nonsubstantive change.

(m) Provides that Subsection (d)(9) does not apply to property that was the subject of an application under former Chapter 313, Tax Code, made after May 1, 2009, that the Texas comptroller of public accounts (comptroller) recommended should be disapproved.

SECTION 4. Amends Section 2303.507, Government Code, as follows:

Sec. 2303.507. New heading: TAX INCREMENT FINANCING AND ABATEMENT. Deletes existing Subdivision (3) including limitations on appraised value under Chapter 313, Tax Code, to things for which designation of an area as an enterprise zone is also designation of the area as a reinvestment zone.

SECTION 5. Amends Section 23.03, Tax Code, as follows:

Sec. 2303. COMPILATION OF LARGE PROPERTIES AND PROPERTIES SUBJECT TO LIMITATION ON APPRAISED VALUE. Replaces a reference to the Texas Department of Economic Development with the Texas Economic Development and Tourism Office. Makes a conforming change.

SECTION 6. Amends Section 26.012(6), Tax Code, to redefine "current total value."

SECTION 7. Amends Section 151.359(k), Tax Code, to provide that a data center is not eligible to receive an exemption under this section if the data center is subject to an agreement limiting the appraised value of the data center's property under former Chapter 313.

SECTION 8. Amends Section 151.3595(j), Tax Code, to make a conforming change.

SECTION 9. Amends Section 171.602(f), Tax Code, to prohibit the comptroller from issuing a credit under this section before the later of September 1, 2018, or the expiration of an agreement under former Chapter 313 regarding the clean energy project for which the credit is issued.

SECTION 10. Amends Section 312.403(a), Tax Code, to redefine "nuclear electric power generation."

SECTION 11. Amends Chapter 320, Tax Code, by adding Section 320.002, as follows:

Sec. 320.002. SAVING PROVISION AFTER REPEAL OF CHAPTER 313. (a) Provides that an agreement limiting the appraised value of property approved under Subchapter B (Limitation on Appraised Value of Certain Property Used to Create Jobs) or Subchapter C (Limitation on Appraised Value of Property in Strategic Investment Area or Certain Rural School Districts), Chapter 313, before the repeal of that subchapter continues in effect according to that subchapter as that subchapter existed immediately before its repeal, and that law is in effect for the purposes of the agreement.

(b) Provides that the repeal of Subchapter D, Chapter 313, does not affect a property owner's entitlement to a tax credit granted under that subchapter if the property owner qualified for the tax credit before the repeal of that subchapter.

SECTION 12. Effective date: upon passage or September 1, 2017.