



WHERE DID ALL THE MONEY GO? (A CONTINUING SERIES)

Exemptions, Abatements, and Tax Holidays

Several bills still moving through the legislative process could reduce future state revenue. Those with the largest potential costs are not necessarily the most likely to become law; it's the many smaller bills or those whose costs are not specified in the Legislative Budget Board's fiscal notes that may add up to a substantial drain on the state's ability to meet future public needs. All bills listed here have passed one chamber of the Legislature.

Largest potential costs

By far the biggest drain on general revenue is HB 2, which appropriates the money necessary to replace the school revenue lost to the local property tax cuts passed in the 2006 special session. Because the changes to the franchise tax and increased tobacco taxes enacted in the special session fall far short of paying for the property tax cuts, HB 2 appropriates at least \$6.1 billion in general revenue in 2008-09 to allow our schools to maintain their current budgets. None of this money would increase public education spending. HB 2 was heard in Senate Finance on May 17.

HB 2785 by Paxton would increase school property tax cuts by another \$2.5 billion in 2008-09. The House passed the bill on May 10 but added an amendment making the tax cuts contingent on a \$6,000 teacher pay raise.

A House floor amendment to SB 1886 would suspend the state gasoline tax for 90 days. If the bill took immediate effect, which would require passage by the Senate by a two-thirds vote, the tax holiday would be in effect for the

summer months. The amendment's author, Rep. Martinez-Fischer, estimates that the tax holiday would drain \$500 million to \$700 million from general revenue to replace revenue lost to the Highway Fund and Available School Fund, which receive money from the gasoline tax.

HB 216 by Otto would allow a larger margin of error in the comptroller's review of property valuations set by appraisal districts. By allowing property values to be below actual market value, this bill would reduce the amount of property taxes collected by school districts, requiring an increase in state aid to schools. The fiscal note estimates that the state's costs would grow to \$825 million a year by 2012 when the full effect of the bill would be felt. The bill is scheduled to be heard in Senate Finance on May 19.

The Telecommunications Infrastructure Fund (TIF) was established in 1995 to finance grants to public schools, nonprofit hospitals, public libraries, and higher education institutions to improve telecommunications services. TIF grants were funded through an assessment of 1.25% on telecommunications

providers' taxable receipts. The TIF grants were stopped in 2003, and the TIF revenue is now used as general revenue. HB 735 by Straus would discontinue the TIF assessment, reducing general revenue by \$369 million in 2008-09. The bill is scheduled to be heard in Senate Finance on May 19.

Relatively less costly exemptions

SB 49 by Zaffirini would create two 10-day sales-tax holidays for college textbooks, one in August and one in January. The state would lose \$63.1 million in 2008-09.

SB 107 by Ellis would add school supplies to the items exempt during the August sales-tax holiday, which currently covers only clothing and footwear. The state would lose \$52.3 million in general revenue in 2008-09.

HB 1000 by Burnam and HB 3693 by Straus would create a sales tax holiday for energy-efficient products, such as certain refrigerators, air conditioners, clothes washers, and light bulbs, reducing general revenue by \$11.4 million in 2008-09.

HB 1459 by Guillen would exempt payphone calls from the sales tax on telecommunications services, at a cost of \$2.5 million in 2008-09.

SB 1816 by Averitt would expand the manufacturing sales tax exemption to cover property used to process wastewater used in fracturing work at an oil or gas well, which would cost the state \$1.4 million in 2008-09.

HB 685 by Orr would exempt volunteer fire departments from gasoline and diesel taxes, at a cost of \$1.4 million in 2008-09.

HB 1316 by Goolsby would exempt accountants who work for cities, counties, or other states from the \$200 professional fee. This bill would cost \$500,000 in 2008-09.

Property tax exemptions

HB 1470 by Eissler and SB 1105 by Watson would continue a program of school property tax abatements (known as HB 1200 projects). These abatements, examined in detail in <http://www.cppp.org/research.php?aid=652>, cost the state \$250 million a year. Because each abatement lasts ten years, even an immediate repeal of the program could not prevent substantial ongoing costs for many years.

HB 621 by Chavez would exempt warehouse inventories from property taxes. The House version would have applied only to El Paso, with a cost of under \$1 million a year. However, on May 15 the Senate Finance Committee applied the bill statewide, raising the cost to the state to \$33.7 million per year by 2012. (Under the school-finance system, the state makes up any revenue lost by school districts because of property tax exemptions.) Cities, counties, and special districts would also lose significant amounts of revenue.

HB 438 by Hochberg and SJR 17 by Hegar would limit the annual increase in the taxable value of a homestead to 10%, regardless of the number of years between appraisals. This change would cost the state \$15 million a year, starting in 2009.

Property tax breaks with unspecified costs

Several bills create or expand property tax exemptions, but do not have a specified cost. The fiscal notes for these bills state only, "As a result, taxable property values could be reduced and the state costs for the Foundation School Fund would be increased" and "the fiscal impact on the state and units of local government cannot be quantified." This does not, of course, mean that the cost to the state is zero.

HB 2994 by Bonnen would allow school districts to grant tax abatements to nuclear and integrated gasification combined cycle electric generation facilities. Because of the long lead time in building these facilities, there would be no cost in the first five years covered by a fiscal note. However, the LBB estimates that a nuclear plant receiving an abatement in a rural area could cost \$23.9 million a year in foregone school property taxes.

HB 1952 by Anderson would allow school districts to grant tax abatements to electric generating facilities that use integrated gasification combined cycle technology.

HB 3732 by Hardcastle would allow school districts to grant tax abatements to ultraclean energy projects.

SB 1746 by Eltife would allow the local school district to grant a property tax exemption for the former Lone Star ammunition plant in the Red River Army Depot.

HB 1928 by Flores would exempt from property taxes “park trailers” commonly used by winter residents of the Rio Grande Valley. The bill has passed the House and Senate.

HB 356 and HJR 35 by Otto would exempt personal property subject to a rent-to-own contract, although cities could choose to continue taxing this property. More than 3,000 firms in Texas are in the furniture- or appliance-rental business.

HB 604 by Howard would lower the appraisal of property converted to wildlife management land without the current requirement of being appraised as open-space land at the time of conversion.

HB 1837 by Taylor would create a property tax exemption for nonprofit community

business organizations that provide economic development services.

HB 2496 by Hughes would create a property tax exemption for primarily charitable organizations that do not have direct ownership of their real and personal property because they have created 501(c)(2) title-holding subsidiaries.

SB 1296 by Wentworth would require taxing units to grant property tax exemptions to organizations engaged primarily in performing charitable functions. The exemption is currently optional.

HB 3191 by Hill would double the exemption for certain organizations that own property for building or rehabilitating low-income housing.

SB 1087 by Watson would exempt property owned by a charitable organization that operates a radio station broadcasting public interest programming.

SB 812 by Janek would exempt property owned by a nonprofit corporation engaged primarily in providing chilled water and steam to certain health-related facilities.

SB 666 by Carona would totally exempt from property taxes the homestead of a veteran with a service-connected disability with a disability rating of “100%” or of “totally disabled.”

SB 1406 by Wentworth would authorize creation by the state or local governments of airport authorities, which would be exempt from property taxes.

How to get more information

Bills are moving fast in the final days of the session. You can track each bill’s progress at <http://www.legis.state.tx.us/billlookup/billnumber.aspx>.