Presentation to the

House Ways and Means Committee

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The Texas Economic Development Act

Tax Code Chapter 313

Enacted in 2001, Chapter 313 allows **school districts to attract development** by offering:

- a **tax credit**; and
- an **eight-year limitation on appraised property value** for the maintenance and operations portion of the school district property tax.

School Reinvestment Zone

The **school district board** may **approve** qualified property located in an area designated as:

- a **reinvestment zone** under Tax Code Chapter 311 or 312; or
- an **enterprise zone** under Government Code Chapter 2303.

All of the qualified property must be located within the designated zone.

The board also may **designate** an area entirely within the district's territory as a reinvestment zone under Tax Code Section 312.0025.

School Reinvestment Zone

To grant a value limitation under Chapter 313, Subchapter B or C, for property in a reinvestment zone, the board must find that the designation is “reasonably likely” to:

- **increase primary employment** in the zone; or
- **attract major investment** in the zone that would benefit property values and contribute to regional economic development.

The school board may consult with the county commissioners court and governing body of each municipality with territory in the school district before designating an area as a reinvestment zone.

Property Requirements

In exchange for the appraised value limitation and tax credit, the **property owner** must agree to:

- create a specific number of **jobs**; and
- **build or install** specific types of real and personal property of a certain value.

The agreement must include provisions to protect the school district from revenue losses.

Job Creation

The property owner must create a minimum of 25 new jobs in non-rural districts and 10 new jobs in rural districts.

- The minimum job creation requirement may be waived in some circumstances (effective 9-1-2007).

80% of all new jobs must be "qualifying jobs" regardless of how many jobs the property owner commits to create (and even if the minimum job requirement is waived).

Qualifying jobs must:

- provide certain health care benefits;
- require at least 1600 hours per year; and
- pay 110% of one of three wage targets.

HB 3676 (81st Legislature) requires a "claw back" of the benefit if the statutorily required jobs are not created.

Property Requirements

To qualify, the property must be in a reinvestment zone and must be devoted to:

- manufacturing, research and development;
- a clean coal project, as defined by Section 5.001 of the Water Code;
- an advanced clean energy project, as defined by Section 382.003 of the Health and Safety Code;
- renewable energy electric generation;
- electric power generation using integrated gasification combined cycle technology ;
- nuclear electric power generation; or
- computer center primarily related to one of the above categories.

Once the school district approves the application, the applicant has two full tax years and one partial year to make the required minimum investments.

In addition to the eight-year limitation, the applicant may file a separate application for a tax credit for M&O taxes paid on property value in excess of the limitation value during the first two years of the agreement.

Property Classes

State law defines two overlapping classes of property to be used for different purposes in the value limitation process:

- **"qualified investment;"** and
- **"qualified property."**

To receive the appraised value limitation, the applicant must build or install the **qualified investment** exceeding a specified amount during the two-year qualifying period.

This investment does not include:

- land; or
- investments made outside the qualifying time period.

Qualified property is property that may receive the value limitation, which includes:

- land; and
- most investment made after a completed application is filed.

Investment Amount

Tax Code Chapter 313 states that the **investment amount** and the **minimum value limitation** vary according to:

- a school district's **taxable property values**; and
- its designation as "**rural**" or "**non-rural.**"

Rural districts are school districts in:

- a county with a population of less than 50,000;
- a county in which the population showed growth of no more than 3 percent annually between 1990 and 2000 (according to the federal Census); or
- an area previously designated as a Strategic Investment Area.

Investment Amount: Rural Districts

Rural school districts are placed in five categories based on their amount of **taxable industrial property**.

Category	Taxable Value of Industrial Property	Minimum Qualified Investment
I	$200 million or more	$30 million
II	$90 million or more but less than $200 million	$20 million
III	$1 million or more but less than $90 million	$10 million
IV	$100,000 or more but less than $1 million	$5 million
V	Less than $100,000	$1 million

Investment Amount: Non-rural Districts

Non-rural school districts are placed in five categories based on their **total amount of taxable property.**

Category	Total Taxable Value of Property	Minimum Qualified Investment
I	$10 billion or more	$100 million
II	$1 billion or more but less than $10 billion	$80 million
III	$500 million or more but less than $1 billion	$60 million
IV	$100 million or more but less than $500 million	$40 million
V	Less than $100 million	$20 million

Application Process

To obtain a value limitation, a property owner must apply to the school district.

If the school district decides to consider the application, it must:

- send a copy of the application to the Comptroller and the relevant appraisal district; and
- ask the Comptroller to provide an economic impact analysis.

The Comptroller must determine if the project is eligible and notify the school district of that determination.

After reviewing the application, the Comptroller must recommend whether the district should accept or reject the application. If the Comptroller recommends against a project, the school districts may approve the project with a 2/3 vote; however, the Comptroller cannot deduct the value of the limitation in the Property Value Study.

The school district may approve the application only if it finds that:
- the information in the application is true and correct;
- the applicant is eligible for the limitation; and
- granting the application is in the best interest of the school district and the state.

Appraisal District

Appraising Qualified Property Subject to Limitation on Appraised Value

The chief appraiser must:

- **determine** the qualified property's **market value**; and
- **include** both the **market value** and the **limited value** in the appraisal records.

Tax Credit

A property owner may receive a **property tax credit** for part of the taxes paid to the school district for each tax year during the qualifying time period.

The tax credit is **equal to the difference** between the amount of:

- property tax **actually paid** for maintenance and operations; and
- property tax that **would have been paid** with the agreed limitation.

Tax Credit

If the district determines that the owner is eligible and verifies the total tax credit, the district must **direct its tax collector to apply the tax credit** against any taxes the school district imposes on the qualified property.

- **One-seventh of the total credit** applies in each of **seven consecutive tax years**, beginning with the tax year following the tax year in which the tax credit application was approved.
  - The **maximum amount of tax credit** applied in each tax year **may not exceed 50 percent of the total amount of school property taxes** imposed on the property in that tax year.
- **Any tax credit remaining** as a result of the application of the 50 percent cap applies **in the first three tax years** that begin on or after the date on which eligibility for the appraised value limitation expires.
  - The **maximum amount may not exceed** the total amount of **school property taxes imposed** on the qualified property **in each tax year**.
- Any remaining **unused** tax credit **expires**.

The credit is **not granted** in any tax year in which the **owner relocates** the business **outside the school district** or thereafter.

Reporting on Chapter 313

Before the beginning of each regular session of the legislature, the comptroller must submit a report on each Chapter 313 agreement to the lieutenant governor, the speaker of the house of representatives and each member of the legislature.

The report must be based on data certified to the comptroller by each recipient of a limitation on appraised value under this chapter and state for each agreement:

(1) the number of qualifying jobs each recipient of a limitation on appraised value committed to create;
(2) the number of qualifying jobs each recipient created;
(3) the median wage of the new jobs each recipient created;
(4) the amount of the qualified investment each recipient committed to expend or allocate per project;
(5) the amount of the qualified investment each recipient expended or allocated per project;
(6) the market value of the qualified property of each recipient as determined by the applicable chief appraiser;
(7) the limitation on appraised value for the qualified property of each recipient;
(8) the dollar amount of the taxes that would have been imposed on the market value of the qualified property if the property had not received a limitation on appraised value;
(9) the dollar amount of the taxes imposed on the qualified property;
(10) the number of new jobs created by each recipient in each sector of the North American Industry Classification System; and
(11) of the number of new jobs each recipient created, the number of jobs created that provide health benefits for employees.

Reporting on Chapter 313

The biennial report prepared for the 82nd Legislature includes data for 98 active agreements.

Since that report was issued, an additional 7 agreements have been finalized and 21 applications are pending.

Questions?

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