

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**March 19, 2003**

**TO:** Honorable Rodney Ellis, Chair, Senate Committee on Government Organization

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: SB659** by Brimer (Relating to the creation of the economic development coordinator; the abolition of the Texas Department of Economic Development and the transfer of its functions to the economic development coordinator; and the establishment of economic and business development programs to be administered by the economic development coordinator.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB659, As Introduced: a negative impact of (\$198,150,000) through the biennium ending August 31, 2005.

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	(\$82,743,000)
2005	(\$115,407,000)
2006	(\$147,766,000)
2007	(\$166,173,000)
2008	(\$188,926,000)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE</i> <i>FUND</i> <b>1</b>	Probable Savings/ (Cost) from <i>GENERAL REVENUE</i> <i>FUND</i> <b>1</b>	Probable Savings/ (Cost) from <i>HOTEL OCCUP TAX</i> <i>DEPOS ACC</i> <b>5003</b>	Probable Savings/ (Cost) from <i>STATE HIGHWAY</i> <i>FUND</i> <b>6</b>
2004	(\$85,926,000)	\$1,816,000	\$1,367,000	\$303,000
2005	(\$118,590,000)	\$1,816,000	\$1,367,000	\$303,000
2006	(\$150,949,000)	\$1,816,000	\$1,367,000	\$303,000
2007	(\$169,356,000)	\$1,816,000	\$1,367,000	\$303,000
2008	(\$192,109,000)	\$1,816,000	\$1,367,000	\$303,000

Fiscal Year	Probable Revenue Gain/(Loss) from <i>UNEMPLOYMT</i> <i>COMP CLEARANCE</i> <b>936</b>	Probable Revenue Gain/(Loss) from <i>NEW HOLDING</i> <i>FUND</i>	Change in Number of State Employees from FY 2003
2004	(\$79,949,000)	\$79,949,000	(64.0)
2005	(\$81,959,000)	\$81,959,000	(64.0)
2006	(\$84,201,000)	\$84,201,000	(64.0)
2007	(\$86,215,000)	\$86,215,000	(64.0)
2008	(\$88,386,000)	\$88,386,000	(64.0)

## **Fiscal Analysis**

The bill would create the Economic Development Coordinator (Coordinator) within the Office of the Governor and would abolish the Texas Department of Economic Development (TDED) and transfer its functions to the Coordinator. The provisions of the bill also establish economic and business development programs to be administered by the Coordinator. In addition, it transfers all functions, employees and activities performed by the Texas Historical Commission and the Texas Department of Transportation (TXDOT), including the operation of TXDOT's travel information centers to the Coordinator.

Article 1 (excluding Sections 1.34 and 1.37) and 2 of the bill would restructure TDED's functions and tourism programs from the Historical Commission and TXDOT to the Coordinator to implement recommendation GG 4 from the Comptroller's E-Texas report. The Coordinator would be responsible to formulate tax incentive programs designed to competitively recruit businesses to the state. The Coordinator would be able to identify businesses as potential new prospects if tax incentives would likely encourage them to expand in or relocate to the state. A tax incentive package would have to be compiled for each potential new prospect and submitted to the Governor, Comptroller, and Lieutenant Governor for approval.

The provisions of the bill would establish a General Revenue Account—Jobs Creation, composed of money transferred into the account as specified in the bill including gifts, grants, and other donations received by the Coordinator for the account and any amounts appropriated by the Legislature. The Coordinator may recommend that an amount be appropriated from the economic stabilization fund.

The provisions of the bill also would create the Jobs Creation Rainy Day Fund as a special trust fund in the custody of the Comptroller. The trust fund would consist of money transferred into the trust fund and any other money received by the Coordinator for deposit into the trust fund.

The bill would create the Jobs Creation Fund Program, which would be a workforce development incentive program to enhance employment opportunities and to increase the competitiveness of the existing workforce in the state. The Coordinator would administer the program and in consultation with the Texas Workforce Commission, would adopt rules to provide for the refund of unexpended amounts in the jobs creation fund to employers that paid the jobs creation and training assessment imposed under the provisions. The Coordinator would establish an advanced technology resource center to study and collect information relating to emerging industries, including microelectronics, telecommunications, and biotechnology.

## **Methodology**

It is estimated transferring activities and function to the Office of the Governor would achieve a savings from administrative reductions and improved efficiencies from operating TDED programs. It is estimated that this would include 29 FTE reductions in administration, 11 in economic development, 15 in travel, and three in research. It would also include six FTE reductions from TXDOT.

The bill would provide for tax incentives for identified potential new prospects. It would allow varying degrees of franchise tax credits for job creation to all areas of the state based upon a potential new prospect depending on certain criteria established by the bill. According to the Comptroller, the estimated fiscal implications to general revenue reflect estimated dynamic tax feedback effects created by the increase/decrease in industry and/or individuals' tax burdens. Estimated General Revenue loss of approximately \$85.9 million in fiscal year 2004 and \$118.6 million in fiscal year 2005.

The bill would also change jobs creation funding. According to the Comptroller, the amount of Jobs Creation and Training Assessment revenues to be deposited into the proposed Holding Fund was estimated by having multiplied the average effective Smart Jobs rate from fiscal year 1997 through fiscal year 2001 by the projected statewide taxable wage base. This was estimated from the product of statewide nonfarm employment (from the Comptroller's economic forecast) and taxable employee wages as the first \$9,000 in employee remuneration during the year. With the proposed 0.1 percent tax rate reduction, unemployment insurance tax collections deposited to the Unemployment

Compensation Clearance Account 0936 would incur a loss by the same amount as the estimated New Holding Fund gains.

According to the Comptroller, it cannot be estimated how much of the Holding Fund balances would be transferred at the beginning of each fiscal year to GR Account-Jobs Creation and to the Jobs Creation Rainy Day Fund. In addition, even though it is likely that much of the Holding Fund balance would be transferred to the UCF to keep the fund above 100 percent of its floor, the exact amount of these transfers cannot be estimated. As a result, it is assumed that these new accounts would have a zero balance.

In addition, the provisions of the bill would allow transfers from General Revenue Account—0345 Telecommunications Infrastructure (TIF) to General Revenue Account—Jobs Creation under certain circumstances. Depending on amounts and methods appropriated from the jobs creation fund, this could result in a cost to the TIF.

It is assumed that the Comptroller could absorb the costs associated with the bill as it relates to its functions specified in the provisions of the bill within its current resources.

The provisions of the bill include various effective dates.

### **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 116 Sunset Advisory Commission, 301 Office Of The Governor, 304 Comptroller Of Public Accounts, 305 General Land Office And Veterans' Land Board, 320 Texas Workforce Commission, 332 Department Of Housing And Community Affairs, 344 Commission On Human Rights, 405 Department Of Public Safety, 455 Railroad Commission, 501 Department Of Health, 580 Water Development Board, 582 Commission On Environmental Quality, 601 Department Of Transportation, 802 Parks And Wildlife Department

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