LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 29, 2005

TO: Honorable Helen Giddings, Chair, House Committee on Business & Industry

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **HB1380** by Jones, Jesse (Relating to the creation of renaissance zones to promote the relocation of businesses to certain areas of this state.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1380, As Introduced: a negative impact of ($96,371,968) through the biennium ending August 31, 2007.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	($50,359)
2007	($96,321,609)
2008	($102,678,809)
2009	($107,403,659)
2010	($112,304,409)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *GENERAL REVENUE FUND* 1	Probable (Cost) from *FOUNDATION SCHOOL FUND* 193	Probable Revenue (Loss) from *School Districts*	Probable Revenue (Loss) from *Cities*
2006	$0	$0	$0	$0
2007	($96,272,750)	$0	($302,000)	($77,000)
2008	($102,327,950)	($302,000)	$0	($77,000)
2009	($107,051,300)	($302,000)	$0	($77,000)
2010	($111,953,550)	($302,000)	$0	($77,000)

Fiscal Year	Probable Revenue (Loss) from *Counties*	Probable Revenue (Loss) from *Other Special Districts*	Probable (Cost) from *GENERAL REVENUE FUND* 1	Change in Number of State Employees from FY 2005
2006	$0	$0	($50,359)	1.0
2007	($71,000)	($53,000)	($48,859)	1.0
2008	($71,000)	($53,000)	($48,859)	1.0
2009	($71,000)	($53,000)	($50,359)	1.0
2010	($71,000)	($53,000)	($48,859)	1.0

Fiscal Analysis

This bill would permit the creation of renaissance zones and provide tax incentives for certain businesses to relocate within renaissance zones.

A renaissance zone would be created through a process of nomination, application, review, and designation. The governing body of a taxing unit, alone or with another taxing unit, could nominate an area within its boundary as a renaissance zone by applying to the Texas Economic Development and Tourism Office.

The proposed area would have to be classified as an area of pervasive poverty, unemployment, and economic distress as defined by Government Code Section 2303.102.

A renaissance zone would be governed by a board of directors appointed by the taxing units that nominated the zone. The board would determine whether a business met the eligibility criteria specified in the bill. To be eligible, a business would have to relocate to the zone after the date of designation, and provide a written guarantee that it would create 50 or more new jobs in the zone and invest a minimum of $1 million in real property in the zone.

The bill would exempt from sales tax an otherwise taxable item sold to or used by an eligible business. In addition, the bill would exempt an eligible business from all franchise tax liability for the first seven years following designation as an eligible business. For the eighth, ninth, and tenth years, the exemption percentage would be 75, 50, and 25 per cent, respectively.

The bill would allow taxing units within a designated zone to enter into tax abatement agreements with an eligible business to exempt from property taxation a portion of the value of the property owned by the business. An abatement agreement would exempt 100 percent of the value in the first seven years of the agreement, 75 percent in the eighth year, 50 percent in the ninth year, and 25 percent in the tenth year. An abatement agreement would have to provide for the recapture of lost revenue if the property ceased to be owned by an eligible business; and the owner would have to certify annually to the taxing unit that he or she continued to be an eligible business and in compliance with terms of the agreement.

An abatement agreement under this bill would have to be approved by a majority vote of a taxing unit's governing body at a regularly scheduled meeting. An agreement could be executed in the same manner as other taxing unit contracts and could be modified during the period of the agreement, but not to extend the agreement beyond 10 years.

An eligible business that failed to meet the jobs requirement within one year of being designated—or the investment requirement within five years—would not receive further tax abatements or exemptions provided under the bill. The designation of a business as an eligible business would expire on the tenth anniversary of the date on which the business was designated.

Methodology

The reference to Government Code Section 2303.102 may be subject to interpretation, as this section was repealed by the 78th Legislature, Chapter 814, Section 6.06(6), effective September 1, 2003. For this analysis, it is assumed that the repealed provisions would apply.

According to the 2002 Texas Enterprise Zone Annual Report, an average of 29 enterprise zone projects were approved each year from 2000 to 2002. It is assumed that ten new projects would be approved under the newly created renaissance program.

Based upon historical data provided in the 2002 Texas Enterprise Zone Annual Report, it is assumed that each project would result in an average annual reduction in property tax revenue of $500,000 beginning in fiscal year 2007; $302,000 to school districts; $77,000 to cities, $71,000 to counties, and $53,000 to special districts. Because of the operation of the school funding formula, this analysis presumes that school district losses would be incurred by the state after a one-year lag.

The bill's provisions may exempt a corporation's entire franchise tax liability, not just the tax that might be due with respect to operations in the zone. Therefore, this analysis assumes that the franchise tax exemptions authorized by this bill would result in a five percent reduction of total state franchise tax liability each year beginning in fiscal year 2007 or $96.3 million in fiscal year 2007.

Since the bill provisions for sales and use tax exemptions are limited, no significant reduction in sales tax revenue is anticipated.

The Texas Economic Development and Tourism Office (office) estimates that one additional full time equivalent position will be needed to meet the requirements of the bill. The annual estimated salary and staff benefits for that position are $45,539. In addition, the office estimates that $3,320 will be needed for operating expenses and travel each year. Finally, $1,500 will be needed for equipment in fiscal years 2006 and 2009.

Local Government Impact

In addition to the amounts included in the tables above for property tax abatements, local units of government may realize additional sales tax revenue losses.

Source Agencies: 300 Trusteed Programs Within the Office of the Governor, 304 Comptroller of Public Accounts, 307 Secretary of State

LBB Staff: JOB, JRO, WP, DLBe, KJG