

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 8, 2007

TO: Honorable Kyle Janek, Chair, Senate Committee on S/C on Emerging Technologies & Economic Dev.

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

IN RE: HB3694 by Deshotel (Relating to the enterprise zone program.), **As Engrossed**

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| Estimated Two-year Net Impact to General Revenue Related Funds for HB3694, As Engrossed: a negative impact of (\$5,600,000) through the biennium ending August 31, 2009. |
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General Revenue-Related Funds, Five-Year Impact:

| Fiscal Year | Probable Net Positive/(Negative) Impact to General Revenue Related Funds |
|-------------|--|
| 2008 | (\$1,400,000) |
| 2009 | (\$4,200,000) |
| 2010 | (\$4,200,000) |
| 2011 | (\$4,200,000) |
| 2012 | (\$4,200,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND</i> 1 |
|-------------|---|
| 2008 | (\$1,400,000) |
| 2009 | (\$4,200,000) |
| 2010 | (\$4,200,000) |
| 2011 | (\$4,200,000) |
| 2012 | (\$4,200,000) |

Fiscal Analysis

The bill would amend Chapter 2303 of the Government Code and Section 151.429 of the Tax Code, relating to the enterprise zone program. The bill would add a section establishing neighborhood enterprise associations as entities authorized to participate in the planning and carrying out of certain activities in enterprise zones. Under the provisions of the bill the definitions of "new permanent job" and "retained job" would be amended as they relate to enterprise zones. The bill would raise the number of enterprise projects that could be designated during a biennium to 120 from 85, and allow any designations remaining at the end of a biennium to be carried forward to the next biennium.

Under the provisions of the bill, the Texas Economic Development Bank (TEDB) could lower the designation level of a proposed project if there were fewer designations available than applications received or to further the economic interests of the state. The Comptroller of Public accounts reports that a benefit to the state would not be obtained for jobs moved from one jurisdiction to another in the state. Furthermore, the bill would allow the Comptroller to monitor qualified business or enterprise project commitments currently monitored by TEDB; and require the Comptroller to submit a report to

TEDB stating the actual amount of capital investment made and the actual number of jobs created as a result of a project's designation after the completion of an enterprise project's close-out.

Under current law, enterprise projects are eligible for a refund of sales and use taxes paid on purchases of certain machinery, equipment, materials, labor, and electricity and natural gas. The bill would allow the refund for purchases of all taxable items purchased for use at a qualified business site related to an enterprise project or activity.

Sections 2303.4051(d), relating to local financial incentives for enterprise projects, and 2303.406(e), as added by Chapter 209, Acts of the 78th Legislature, Regular Session (2003), relating to designating multiple concurrent enterprise projects in the same enterprise zone would be repealed.

The bill would take effect September 1, 2007.

Methodology

For the purpose of this analysis, the Comptroller of Public Accounts based the estimated fiscal impact on the average amount of sales and use tax refunds paid to enterprise projects under current law, relative to the broader refund language and greater number of projects that would be provided for in this bill. Specifically with respect to the 35 additional projects that would be allowed under the bill, the Comptroller's analysis assumes that the additional projects would be designated in fiscal 2008 and would be eligible to begin receiving refunds in fiscal 2009.

Local Government Impact

Local governmental entities in which enterprise zones are located would be allowed to utilize the additional designations for further capital investment.

Source Agencies: 301 Office of the Governor, 304 Comptroller of Public Accounts

LBB Staff: JOB, JRO, SD, EB, KJG