

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

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 5, 2009**

**TO:** Honorable Mark Strama, Chair, House Committee on Technology, Economic Development & Workforce

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

**IN RE: HB4525** by Parker (Relating to qualified manufacturing project zones.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB4525, As Introduced: a negative impact of (\$64,613,000) through the biennium ending August 31, 2011.

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

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2010	(\$8,869,000)
2011	(\$55,744,000)
2012	(\$55,744,000)
2013	(\$63,556,000)
2014	(\$55,744,000)

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

<b>Fiscal Year</b>	<b>Probable Revenue (Loss) from General Revenue Fund 1</b>
2010	(\$8,869,000)
2011	(\$55,744,000)
2012	(\$55,744,000)
2013	(\$63,556,000)
2014	(\$55,744,000)

**Fiscal Analysis**

The bill would amend Chapter 2303 of the Government Code, regarding Enterprise Zones.

The bill would create a new Government Code, Chapter 2303, Subchapter H, "Qualified Manufacturing Project Zone," defined as a proposed new or expanded facility with a Tax Code Chapter 312 or Chapter 313 agreement entered into on or after January 1, 2008, in which at least \$200 million is invested and forecasted to create at least 300 full-time jobs. Such facilities must be engaged in manufacturing as defined by Section 151.318 of the Tax Code. A proposed facility would become a qualified manufacturing project on the later of the date of its Chapter 312 or 313 agreement, or the date the owner of the facility files an election to become a qualified manufacturing facility with the comptroller.

The bill would allow a governmental body, including a municipality, county, or political subdivision, to agree to rebate, refund, or pay eligible taxable proceeds to the owner of a qualified manufacturing project at which the eligible taxable proceeds were generated. Eligible taxable proceeds include

taxable proceeds generated, paid, or collected by a qualified manufacturing project, including state and local hotel occupancy taxes, ad valorem taxes, sales and use taxes, and mixed beverage taxes, including state taxes.

A qualified manufacturing project would be entitled to receive a refund of state sales and use tax on purchases of all taxable items purchased within the boundaries of the qualified manufacturing project zone or generated directly or indirectly by the zone. The refund would be paid quarterly and would be calculated as 50 percent of the difference between the sales and use tax collected in a zone after the project was designated and the tax collected in a zone for the four calendar quarters before the zone was designated.

The total amount of refunds that a qualified manufacturing project could receive over the course of its designation could not exceed an amount equal to 5 percent of the qualified manufacturing project's investments in the facility.

This bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2009.

## **Methodology**

Eligibility as a qualified manufacturing project zone would be based on a project's already having an abatement agreement with a local governmental subdivision under Chapter 312 of the Tax Code, or a property tax value limitation agreement executed on or after January 1, 2008 with a school district under Chapter 313 of the Tax Code. Furthermore, eligible projects would have to be engaged in manufacturing, and have at least 300 jobs forecasted to be created.

For the purposes of this analysis, several nuclear power projects, well into planning and one nearing the construction phase are used to represent the potential fiscal implications of the bill. However, other projects could qualify resulting in higher costs to the state.

The additional two units for the South Texas Nuclear Project (STNP) in Palacios ISD (Matagorda County), together representing an investment of approximately \$8.6 billion, would appear to qualify as a qualified manufacturing zone project, having executed Chapter 313 agreements on June 9, 2008, and expected to start construction after the date specified in the bill—September 1, 2009. Manufacturing as defined by Tax Code 151.318, includes the generation of electricity.

Two other nuclear projects—each with two units—are also planned with estimated combined investments of approximately \$20 billion: a project in Somervell County and one by near Victoria. This estimate assumes these projects will each have a Chapter 313 agreement comprised of both proposed units, and that they will be in service by January 2015. Both of these projects have filed applications with the federal Nuclear Regulatory Commission (NRC), and interconnection requests with Electric Reliability Council of Texas (ERCOT).

Taxable expenditures that would be eligible for a refund of state sales and use tax were estimated based on data gathered from a variety of sources including Comptroller tax files. Expenditures were adjusted for timing of investment; purchases of exempt machinery and equipment; multiplied by the state sales tax rate, and adjusted for the 50 percent refund and effective date to determine the fiscal impact to the General Revenue Fund 0001.

The bill would also provide for refund of tax proceeds that are a direct or indirect result of the design, construction, or operation of a project. Such refunds would be at the direction of a governmental body and could result in an indeterminate amount of revenue loss.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts

**LBB Staff:** JOB, JRO, SD, KK