LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 1, 2013

TO: Honorable John Davis, Chair, House Committee on Economic & Small Business Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB3092** by Parker (Relating to qualified manufacturing project zones and the creation and funding of the Texas workforce investment program.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3092, As Introduced: a negative impact of ($2,650,000) through the biennium ending August 31, 2015.

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, Ten-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2014	$0
2015	($2,650,000)
2016	($12,550,000)
2017	($13,600,000)
2018	($13,950,000)
2019	($20,150,000)
2020	($6,900,000)
2021	($12,650,000)
2022	($6,000,000)
2023	($3,950,000)

All Funds, Ten-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Fund* 1	Probable Revenue Gain/(Loss) from *Texas Workforce Investment Fund*
2014	$0	$0
2015	($2,650,000)	$2,650,000
2016	($12,550,000)	$12,550,000
2017	($13,600,000)	$13,600,000
2018	($13,950,000)	$13,950,000
2019	($20,150,000)	$20,150,000
2020	($6,900,000)	$6,900,000
2021	($12,650,000)	$12,650,000
2022	($6,000,000)	$6,000,000
2023	($3,950,000)	$3,950,000

Fiscal Analysis

The bill would amend the Local Government Code by adding a new Chapter 399 to provide for the designation of qualified manufacturing project zones and the creation and funding of the Texas workforce investment program.

An "eligible manufacturing facility" would be a proposed new or expanded facility that: a) is subject to an agreement entered into after January 1, 2014 and before January 1, 2019 with a county, municipality, or other taxing unit under Chapter 312, Tax Code, or with a school district under Chapter 313, Tax Code, under which investment in the facility is at least $100 million; b) will be engaged in manufacturing as that term is defined by Section 151.318, Tax Code, the construction of which begins on or after September 1, 2013; c) is forecasted to create at least 200 new full-time jobs; and d) is owned by a person or entity that is considering at least one alternative site for the facility outside this state or is competing against similar projects located outside this state for federal funds or financial support, including loan guarantees, that would benefit the project. The bill would appear to make eligible any project that has applied for federal loans or guarantees if other investment, employment and timing criteria are met. The bill does not include any minimum percentage, or threshold percentage, of tax abatement in order for an applicant to gain eligibility through a Chapter 312 tax abatement agreement.

"New full-time job" would be a newly created permanent full-time job that requires at least 1,600 hours of work a year, is not transferred from one area within the state to another, and is not created to replace a previous employee.

An eligible manufacturing facility would become a "qualified manufacturing project" on the date the owner of the facility files an election for automatic designation as a qualified manufacturing project with the comptroller.

The owner of a project would be required to conduct an economic impact study of the county in which the project is located and submit the study to the comptroller for certification within 120 days of the date the owner files an election to become such a project. The study would be required to include estimates of: 1) the general economic impact likely to occur in the county as a result of the project; 2) the expected amount of increased state sales tax receipts in the county attributable to the project; 3) the projected number of full-time-equivalent employees likely to be available at the project; and 4) the investment projected for the project. The comptroller would be required to certify the accuracy of the study within 30 days of receipt. If the comptroller determined the study was inaccurate, the comptroller would be required within 30 days of receipt to notify the project owner of the comptroller's preliminary determination and the basis for that determination, and provide the owner with an opportunity to respond with a new or amended study. The comptroller would be required to determine whether to accept or certify the new or amended study not later than the 30th day after its receipt. If the owner fails to receive the comptroller's certification of a new or amended study within 90 days of receiving the comptroller's notification of rejection of the initial study, the project loses its status as a qualified manufacturing project.

The owner of a project for which the comptroller has certified an economic impact study could apply to the comptroller for designation of the county in which the project is located as a qualified manufacturing project zone. The comptroller would be required to approve the application upon a determination that the project is the first facility in a county to apply for such designation. The designation would take effect on September 1, preceding the comptroller's date of approval. Only one project per county would be allowed. Zone designations would remain in effect until the expiration of applicable Tax Code Chapter 312 or Chapter 313 abatements or agreements. The comptroller could charge an application fee in an amount sufficient to cover the comptroller's costs in administering this chapter.

The owner of a project would be required to make annual certifications regarding employment and investment to the comptroller that would vary according to the age of the zone and the status of the project, with penalties for failure to certify such information.

The bill would create the Texas workforce investment fund as a special fund in the state Treasury outside the General Revenue Fund. The comptroller would be required to determine for each fiscal year the amount of additional sales and use tax collected in a county that is a qualified manufacturing zone that is directly attributable to the economic activity derived from the presence of each qualified manufacturing project if the owner has made the required employment certification, and deposit 25 percent of that amount to the credit of the workforce investment fund. If the comptroller determined that no additional sales and use tax was directly attributable to a project, the comptroller would be required to notify the project owner of that determination and the basis of that determination.

For the duration of a zone designation, but not to exceed 10 years, payments shall be made from the fund to a qualified educational participant who enters a memorandum of understanding with the owner of a project for the training and workforce development of the employees or future employees of a project, other than executive, administrative, and professional employees. Such payments made on behalf of an individual qualified project may not exceed the amount of additional sales and use tax deposited to the fund directly attributable to that project, subject to the further limitation that the payments may not exceed the lesser of $50 million or five percent of the project investment. Unexpended funds would be returned to the general revenue fund.

The bill establishes the basis for an appropriation from the Texas workforce investment fund for payments to "qualified educational participants" (public community colleges, public universities, state licensed career and vocational schools, and public high schools) for provision of job training and education to the workforce of qualified manufacturing projects.

The comptroller would be granted authority to adopt rules, forms, and fees necessary to perform required comptroller duties.

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

The bill would take effect September 1, 2013.

Methodology

Eligibility as a qualified manufacturing project zone would be based on a project having a property tax abatement agreement with a local governmental subdivision under Chapter 312 of the Tax Code, or a property tax value limitation agreement with a school district under Chapter 313 of the Tax Code entered into on or after January 1, 2013, but before January 1, 2019. Eligible projects would be required to be engaged in manufacturing as defined by Section 151.318, Tax Code—which includes the generation of electricity. The owner of a proposed facility would be required to be considering locating the facility outside the state or be in competition with similar projects in other states for federal funds or financial support that would benefit the project.

The total number of projects qualifying under the bill's provisions would be the sum of those estimated to become eligible either through participation in a Tax Code Chapter 312 or 313 agreement meeting the criteria of the bill. The estimates presented below are based on available data for projects creating "net-new" permanent jobs. Data sources for the estimates below include project-level data for participants in the Chapter 313 Texas Economic Development Act, Tax Code Chapter 312 data reported to the comptroller, and economic development data from the Office of the Governor and other research.

At least 13 manufacturing facilities meeting the investment and employment criteria of the bill have located in Texas from 2004 to 2011. Estimates in the table assume that 13 projects—locating or expanding in Texas—would enter into Chapter 312 or Chapter 313 agreements before 2019, and would meet the investment and employment criteria. Chapters 312 and 313 both provide for projects to enter into deferred agreements, preserving access to this program beyond 2019.

The office of the Comptroller of Public Accounts estimates administrative costs necessary to hire three full-time equivalents (FTEs) and costs of $243,000 per year to evaluate and certify economic impact studies submitted by applicants seeking designation of qualified manufacturing zones and to administer the Texas workforce investment fund, including disbursements for workforce training to qualified educational participants, tracking account balance and funds, and ensuring that funds are spent according to the statute and program guidelines. The comptroller will also audit the certification projects and if the job creation requirement is not met, the comptroller will have to account for and collect the entire amount of all funds previously allocated from the fund. The bill provides for the comptroller to assess a fee to cover the costs of administering the chapter, and it is assumed they will do so. These costs are not reflected in the above table.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, RB, SD, AG, LCO, KKR