LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION
Revision 1

April 8, 2013

TO: Honorable Bob Deuell, Chair, Senate Committee on Economic Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1647** by Deuell (Relating to the Texas Economic Development Act.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1647, As Introduced: a negative impact of ($430,000) through the biennium ending August 31, 2015.

State costs would increase significantly after the 2014-15 biennium.

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	($215,000)
2015	($215,000)
2016	($15,895,000)
2017	($80,125,000)
2018	($85,615,000)
2019	($154,515,000)
2020	($230,215,000)
2021	($305,015,000)
2022	($373,615,000)
2023	($437,215,000)

All Funds, Ten-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193	Probable Revenue (Loss) from *School Districts*	Change in Number of State Employees from FY 2013
2014	($215,000)	$0	$0	2.0
2015	($215,000)	$0	$0	2.0
2016	($215,000)	($15,680,000)	($24,400,000)	2.0
2017	($215,000)	($79,910,000)	($85,400,000)	2.0
2018	($215,000)	($85,400,000)	($154,300,000)	2.0
2019	($215,000)	($154,300,000)	($230,000,000)	2.0
2020	($215,000)	($230,000,000)	($304,800,000)	2.0
2021	($215,000)	($304,800,000)	($373,400,000)	2.0
2022	($215,000)	($373,400,000)	($437,000,000)	2.0
2023	($215,000)	($437,000,000)	($495,500,000)	2.0

Fiscal Analysis

The bill would amend Chapter 313 of the Tax Code, relating to the Texas Economic Development Act.

Section 1 of the bill would amend legislative "Findings" in Tax Code, Section 313.002.

Section 2 of the bill would amend Tax Code, Section 313.004 to clarify that only entities subject to Chapter 171 are eligible for benefits under the chapter.

Section 3 of the bill would create Tax Code, Section 313.0045 to add a "renovation, expansion or other improvement to an existing building as part of a discrete project that increases the value of an existing property" as a qualified investment. The bill would require a qualifying job to be covered by a group health insurance plan complying with the Patient Protection and Affordable Care Act, eliminating the applicant's responsibility to pay at least 80 percent of the employee's health insurance premium. The bill would create a definition for a "Texas priority project" as a project designated by the governor, with a qualified investment in excess of $1 billion, and the governor's determination that the project is in the best interest of the Texas economy.

Section 4 of the bill would amend Tax Code, Section 313.006 making conforming changes required by section redesignations.

Section 5 of the bill would amend Tax Code, Section 313.007 to extend the expiration date of Subchapters B and C, Chapter 313, of the Tax Code from December 31, 2014 to December 31, 2024.

Section 6 of the bill would amend Tax Code, Chapter 313 to add a new Subchapter A-1 titled, "Eligibility, Application and Reporting."

Section 7 of the bill would add Tax Code, 313.011 expanding the types of properties eligible for a value limitation to include a "Texas priority project."

Section 7 of the bill would also add Tax Code, 313.012 to make conforming changes related to redesignated sections.

Section 7 of the bill would also add Tax Code, Section 313.013 to require the evaluation of certain criteria in the economic impact evaluation and to eliminate other criteria currently required in the evaluation.

Section 7 of the bill would also add Tax Code, Section 313.0135, to make conforming changes related to the repeal of Subchapter D.

Section 7 of the bill would also add Tax Code, Section 313.014 to lengthen the value limitation period from eight to ten tax years. The limitation agreement would be required to specify the beginning year of the limitation: either the first tax year after the application date, the first year after the qualifying time period, or the first year after the date commercial operations begin. The bill would limit the deferral date on which a qualifying time period could begin to no more than four tax years after the date the application is approved. The bill would require that any consideration promised in conjunction with the application and the limitation be disclosed in the limitation agreement.

Section 7 of the bill would also add Tax Code, Section 313.0145 to allow an applicant to request, and the school district to grant, a waiver of chapter requirements in the event of casualty loss.

Section 7 of the bill would also add Tax Code, Sections 313.015, 313.016 and Section 313.017 to make conforming changes related to redesignated sections.

Section 7 of the bill would also add Tax Code, Section 313.018 modifying the types of data the comptroller must include in the required "Report on Compliance with Agreements." The bill would authorize the comptroller to use standard economic estimation techniques, including economic multipliers.

Section 8 of the bill would amend the title of Subchapter B, by adding the word "General" to "Limitation on Appraised Value of Certain Property Used to Create Jobs."

Sections 9, 10 and 11 of the bill would amend Tax Code, Section 313.022 to make conforming changes related to redesignated sections.

Section 12 of the bill would amend Subchapter C's title, "Limitation on Appraised Value of Property in Certain Rural School Districts," by striking "Rural."

Section 13 of the would amend Tax Code, 313.051 to require the comptroller to determine geographic eligibility for Subchapter C using the most recent two federal decennial censuses, and criteria similar to former Strategic Investment Areas.

Sections 14 and 15 of the bill would amend Tax Code, Sections 313.052, 313.053 and 313.054 to make conforming changes related to redesignated sections.

Section 16 of the bill would amend Subchapter E's heading to "Effect of Program Expiration."

Section 17 of the bill would amend Subchapter E, Tax Code, Section 313.171 stating the repeal of Subchapter D does not affect a property owner's entitlement to a tax credit granted.

Section 18 of the bill would repeal Sections 313.008 and 313.009 of the Tax Code, regarding redundant reporting requirements.

Section 18 of the bill would also repeal Subchapter D, Chapter 313, of the Tax Code "School Tax Credits."

Section 19 of the bill specifies that this Act would prevail over any others Acts of the 83rd Legislature in the event of any conflict relating to nonsubstantive additions to, and corrections in, enacted codes.

Section 20 of the bill clarifies that changes within the Act would only apply to applications filed on or after the effective date of the Act, and clarifies that the repeal of tax credits does not apply to a tax credit granted based on an application for a tax credit submitted before the effective date of this Act.

The bill would take effect immediately if it receives a vote of two-thirds of all members elected to each house. Otherwise, the bill would take effect on September 1, 2013.

Methodology

Currently, Subchapters B, C, and D of Tax Code, Chapter 313 expire December 31, 2014. The repeal of Subchapter D would eliminate the tax benefit received through the tax credit, leaving only the benefit flowing through the limitation, increased from eight years to 10 years. This estimate assumes that each project's 10-year limitation period will begin at the beginning of the second complete tax year after the agreement is executed, and will last through the eleventh complete tax year. Because applicants and school districts would be permitted increased flexibility in their selection of the limitation period start date, increased school district levy losses could result. Those additional losses are not estimated.

Extending the expiration of Subchapters B and C of the Act would allow ten more years, or "classes," of applicant projects. This estimate assumes participation in the program of a total of 52 projects per year in each of those years. Of the 52 projects assumed for each year, 44 are modeled as manufacturing projects, and eight are modeled as renewable energy projects. Of the 44 manufacturing projects in each class, two are modeled as "deferred" projects: one project with a two-year deferral, and one project with a four-year deferral. In addition, expanding eligibility for participation in Chapter 313 to projects renovating, rather than creating new, facilities would significantly increase the number of projects eligible for the Chapter's benefits. Of the 44 manufacturing projects within each annual class, 21 manufacturing projects are assumed to have applied under this "renovation" eligibility category.

Minimum limitation amounts for this estimate were derived by applying the updated demographic and economic criteria set forth in the bill for Subchapter C eligibility in Sections 313.051(a) and (b).

Investment and taxable value estimates for each model project were derived using data from existing Chapter 313 agreements executed in 2012. Different distributions of project investment amounts or locations would result in different estimated school district Maintenance and Operation (M&O) property tax levy losses. This estimate assumes no significant avoidance of wage and job requirements through the hiring of contract personnel.

The state would incur cost under the Foundation School Program (FSP) corresponding to local M&O revenue losses. For FY16 and FY17, state cost would depend upon whether affected districts receive hold harmless state aid. On average, estimated state cost for FY16 would be equal to approximately 65% of school districts' FY16 local M&O levy loss, or $15,860,000. In FY17, estimated state cost would equal approximately 65% of school districts levy loss in addition to an amount roughly equal to the prior year's local levy loss, or $79,910,000. Upon expiration of FSP hold harmless at the end of FY17, state cost to the FSP beginning with FY18 and each year thereafter would be roughly equal to the prior year's local M&O levy loss.

The school district levy loss attributed to the newly created Chapter 313 eligibility category of "Texas priority projects" cannot be estimated, as the size and number of these projects is unknown.

The Comptroller's office estimates administrative costs necessary to hire two Full-Time Equivalents (FTEs) to evaluate, make recommendations, and process the renovation projects authorized by this bill as well as provide for the significantly expanded economic analysis and data collection functions required in the biennial report to the legislature.

Local Government Impact

School districts entering into Chapter 313 agreements would benefit from additional Foundation School Program state aid or reductions in recapture corresponding to losses in local M&O revenue resulting from the limitation on taxable value of affected property. Estimated losses in local M&O revenue are noted in the tables above.

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

LBB Staff: UP, RB, SD, KK, LCO, JSp