LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 19, 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.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1647, Committee Report 1st House, Substituted: 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	($39,215,000)
2017	($142,915,000)
2018	($127,515,000)
2019	($204,215,000)
2020	($277,415,000)
2021	($347,315,000)
2022	($412,015,000)
2023	($471,615,000)

All Funds, Ten-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable (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)	($39,000,000)	($59,936,137)	2.0
2017	($215,000)	($142,700,000)	($127,306,905)	2.0
2018	($215,000)	($127,300,000)	($204,045,900)	2.0
2019	($215,000)	($204,000,000)	($277,249,476)	2.0
2020	($215,000)	($277,200,000)	($347,145,177)	2.0
2021	($215,000)	($347,100,000)	($411,829,432)	2.0
2022	($215,000)	($411,800,000)	($471,429,393)	2.0
2023	($215,000)	($471,400,000)	($466,686,430)	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 1 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 2 of the bill would create Tax Code, Section 313.0045 to add "an existing building that, as part of a discrete project that increases the value of an existing property, is renovated, expanded, or otherwise improved" 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 on which the applicant has committed to expend or allocate a qualified investment of more than $1 billion and that the governor has certified in a letter provided to the applicant that it is in the best interest of the state economy.

Section 3 of the bill would amend Tax Code, Section 313.006 making conforming changes required by section redesignations.

Section 4 of the bill would amend Tax Code, Section 313.007 to extend the expiration date of Subchapters A-1, B and C, Chapter 313, Tax Code from December 31, 2014 to December 31, 2020. The bill would not extend Subchapter D.

Section 5 of the bill would amend Tax Code, Chapter 313 to add a new Subchapter A-1 titled, "Eligibility, Application, and Reporting."

Section 6 of the bill would add Tax Code, 313.011 to expand the types of properties eligible for a value limitation to include a "Texas priority project."

Section 6 of the bill would also add Tax Code, 313.012 to make conforming changes related to redesignated sections. The bill would authorize the comptroller to recommend to the governing body of the school district that the application be approved only if the comptroller determines that the limitation on appraised value is a significant consideration by the applicant in determining whether to invest capital and construct the project in this state.

Section 6 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 6 of the bill would also add Tax Code, Section 313.0135 to make conforming changes related to the repeal of Subchapter D.

Section 6 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 which must be January 1 of the first tax year that begins after the application date, the qualifying time period, or the date commercial operations begin. The bill would require in the agreement that the property owner maintain a viable presence in the school district for at least five years, instead of three, after the date the limitation on appraised value of the owner's property expires.

Section 6 of the bill would also amend Tax Code, Section 313.014 to require that the agreement may not provide for the deferral of the date on which the qualifying time period is to commence to a date later than January 1 of the fourth tax year that begins after the date the application is approved except, if the agreement is one of a series of agreements related to the same project, the agreement may provide for the deferral of the date on which the qualifying time period is to commence to a date not later than January 1 of the sixth tax year that begins after the date the application is approved. The bill would limit the qualifying time period to December 31 of the third tax year after the date the person's eligibility for limitation expires. The bill would require that any consideration promised in conjunction with the application and the limitation be disclosed in the limitation agreement.

Section 6 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 6 of bill would also add Tax Code, Sections 313.015, 313.016 and 313.017 to make conforming changes related to redesignated sections.

Section 6 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. The bill would require that data must be based on data certified to the comptroller by each recipient of a limitation on appraised value.

Section 7 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 8 and 9 of the bill would amend Tax Code, Sections 313.022 and 313.023 to make conforming changes related to redesignated sections.

Section 10 of the bill would add Tax Code, Section 313.0235 to require an amount agreed to by the governing body of the school district on a minimum limitation on appraised value following a category to which the school district belongs.

Section 11 of the bill would amend the title of Subchapter C to "Limitation on Appraised Value of Property in Certain Rural School Districts," by striking "Rural."

Section 12 of the would amend Tax Code, 313.051 to require that the determination of geographic eligibility for Subchapter C use the most recent two federal decennial censuses and criteria similar to former Strategic Investment Areas.

Sections 13 and 14 of the bill would amend Tax Code, Sections 313.052, 313.053 and 313.054 to make conforming changes related to redesignated sections.

Section 15 of the bill would amend the heading of Subchapter E to "Effect of Program Expiration or Repeal."

Section 16 of the bill would amend Subchapter E, Tax Code, Section 313.171, to state the repeal of Subchapter D does not affect a property owner's entitlement to a tax credit granted.

Sections 17 and 18 of the bill would amend Education Code, Sections 42.2515 and 42.302 to make conforming changes related to repeal of Subchapter D.

Section 19 of the bill would repeal Sections 313.008 and 313.009, Tax Code, regarding redundant reporting requirements.

Section 19 of the bill would also repeal Subchapter D, Chapter 313, Tax Code "School Tax Credits."

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.

The bill would take effect on January 1, 2014.

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 levy losses are not estimated.

Extending the expiration of Subchapters B and C of the Act would allow six 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 or expanding 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 or expansion" 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. Costs of $39.0 million are estimated beginning in FY16, increasing to $127.3 million by FY18 and $471.4 million by FY23. Different distributions of project investment amounts or locations from that estimate above would affect state costs under the FSP.

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: 304 Comptroller of Public Accounts

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