

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 2, 2015

TO: Honorable Angie Chen Button, Chair, House Committee on Economic & Small Business Development

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB26 by Button (Relating to state economic development measures, including administration of the Texas Enterprise Fund, creation of the Economic Incentive Oversight Board, abolishment of the Texas emerging technology fund and certain programs and funds administered by the Texas Economic Development Bank, renaming the Major Events trust fund to the Major Events Reimbursement Program, and disposition of balances from the Texas emerging technology fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB26, As Introduced: a negative impact of (\$2,002,133) through the biennium ending August 31, 2017.

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, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	(\$2,554,900)
2017	\$552,767
2018	\$5,752,767
2019	\$102,767
2020	\$458,754

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Savings/(Cost) from Emerging Technology 5124	Probable Savings/(Cost) from Economic Development Bank 5106	Probable Savings/(Cost) from Small Business Incubator Fund 588
2016	(\$102,309,000)	(\$90,618,000)	\$1,650,000	(\$19,750,000)
2017	(\$53,333)	\$0	\$2,195,000	(\$269,000)
2018	(\$953,333)	\$0	\$2,195,000	(\$269,000)
2019	(\$503,333)	\$0	\$2,195,000	(\$269,000)
2020	(\$503,333)	\$0	\$2,195,000	(\$269,000)

Fiscal Year	Probable Savings/(Cost) from <i>Texas Product Development Fund</i> 589	Probable Revenue Gain/(Loss) from <i>General Revenue Fund</i> 1	Change in Number of State Employees from FY 2015
2016	(\$15,714,000)	\$99,754,100	3.1
2017	(\$1,926,000)	\$606,100	0.0
2018	(\$1,926,000)	\$6,706,100	6.3
2019	(\$1,926,000)	\$606,100	3.1
2020	(\$1,926,000)	\$962,087	3.1

Fiscal Analysis

The bill amends Government Code to add University Research Development grants that receive matching funds from the institution and additional private funding, to the eligible uses for the Texas Enterprise Fund. The bill would require a certain percentage of the Texas Enterprise Fund be distributed to the small businesses and for University Research Development grants.

The bill would abolish the Emerging Technology Fund (ETF) and transfer management of the ETF portfolio to the Texas Treasury Safekeeping Trust company with proceeds deposited into General Revenue. The bill would transfer 50 percent of the unencumbered balance of the fund to the Texas Research Initiative Program and 50 percent to the Skills Development Fund Program. Although the ETF would be abolished effective September 1, 2015, agreements in place before that date would not be affected. All money in the fund on that date and received in the future would be deposited to General Revenue, except for money obligated for existing agreements and money deposited in the fund as a gift, grant or donation under specific terms of use.

The bill would create the Economic Incentive Oversight Board that, for certain incentive awards, would be required to: evaluate and recommend for approval or disapproval of each application; review the effectiveness of certain programs and funds to business entities and other persons; evaluate the benefits and costs to the state, local governments and residents of the state from the economic development activity; and develop a schedule for periodic review of certain state incentive programs. The board would be entitled to reimbursements for certain expenses. The Governor's office would be required to provide administrative support and staff to the board.

The bill would amend the Government Code to require the State Auditor's Office (SAO) to audit 16 specific economic development programs and funds within two years of specified dates. The bill would require that these programs and funds be audited again every 12 years thereafter. The bill would require the SAO to prepare a report of each audit and file each report with the Lieutenant Governor, the Speaker of the House, and with the presiding officer of each standing committee of the Senate and House of Representatives having primary jurisdiction over economic development by deadlines established in the bill.

The bill would require the Department of Information Resources (DIR) to develop through the state electronic internet portal (currently administered as Texas.gov) a website for use by businesses that are considering relocating to or expanding in Texas to receive information relating to state monetary and tax incentives and to apply for those incentives.

The bill would abolish the Linked Deposit, Capital Access, Product Development and Small Business Incubator, and the Texas Small Business Industrial Development Corporation programs. The bill would transfer all revenue or other money of the Texas Small Business Industrial Development Corporation to the Economic Development Bank. The bill would amend Article

5190.14, Section 5A, of Vernon's Texas Civil Statutes, to change the name of the Major Events Trust Fund (METF) to the Major Events Reimbursement Program (MERP). The bill would take effect September 1, 2015.

Methodology

Based on estimates from the Governor's Office \$53 million in unexpended balances in the Texas Enterprise Fund would be available in fiscal year 2016. Of this amount, 20 percent or \$10.6 million would be available for certain grants to small businesses, and 15 percent or \$7.95 million would be available for University Research Development grants. Since the bill caps the amount available for these grant programs out of an existing incentive program, we assume that the grants awards would be redistributed among eligible grant recipients accordingly.

Using the Comptroller of Public Account's (CPA) Biennial Revenue Estimate, \$90.6 million in unexpended balances would be transferred from the General Revenue - Dedicated Emerging Technology Fund Account No. 5124 to General Revenue.

The Office of the Governor indicates there would be on-going revenues from investments in entities that received Emerging Technology Funds of \$9,136,100 in 2016, \$606,100 in 2017 \$6,706,100 in 2018, \$606,100 in 2019 and \$962,087 in 2020 that would be deposited to General Revenue. Any administrative costs related to provisions of the bill are assumed to be absorbed by the agency's current resources.

The SAO determined that four of the programs specified in the Bill were inactive in fiscal year 2014. Based on information provided by the Department of Agriculture, as of March 23, 2015, the Rural Economic Development and Investment Program, Agricultural Biomass and Landfill Diversion Incentive Program, Rural Investment Fund Program, and Young Farmer Interest Rate Reduction Program were not active.

For the remaining 12 active economic development programs and funds the SAO anticipates the audits would be completed within the following time frames:

1. One audit to be completed between September 1, 2015 and September 1, 2017;
2. Three audits to be completed between September 1, 2017 and September 1, 2019;
3. Two audits to be completed between September 1, 2019 and September 1, 2021;
4. Three audits to be completed between September 1, 2021 and September 1, 2023; and
5. Three audits to be completed between September 1, 2023 and September 1, 2025.

This analysis and the table above reflect costs for audits conducted through fiscal year 2020 and do not consider costs for the four inactive identified above.

Based on information provided by SAO, it is assumed that the audits could include, but are not limited to, financial-related, compliance, or performance audits; each audit would require 5,000 hours to complete; the SAO's 2014 billing rate of \$90 per hour would be used to determine the costs for the audits. It is assumed that the number of additional auditor positions needed to complete the work would include 3.1 in 2016; 6.3 positions in 2018; 3.1 positions in 2019; and 3.1 positions in 2020. The SAO estimates General Revenue costs of \$450,000 in 2016; \$900,000 in 2018; \$450,000 in 2019; and \$450,000 in 2020. These amounts include costs for salaries, benefits, travel, and other operating costs. No costs or additional positions are anticipated in fiscal year 2017.

DIR estimated that the cost for the vendor operating Texas.gov to develop the economic

development incentives interactive application system would be \$250,000 in fiscal year 2016. With the inclusion of ongoing maintenance, the total cost of the system itself over a five-year period would be \$400,000 or \$80,000 per fiscal year. It is also assumed that current Texas.gov revenue-sharing arrangement between the state and Texas.gov vendor would apply to this project and therefore, the cost would increase to \$133,333 per fiscal year with \$80,000 (60 percent) for the vendor for the system's development and operation and \$53,333 (40 percent) deposited to General Revenue. Assuming that at minimum the Comptroller and the Governor would participate or use the system, the fee to these agencies to cover the cost of both the vendor and state share would equal to approximately \$66,667 per fiscal year per agency. In the event that DIR's board adopts a fee structure which does not include a state share, the gains to General Revenue included in the tables above (\$53,333 per fiscal year) would not be realized and the cost per agency would be reduced.

The Comptroller assumes that all of the projected cash balances in the 2016-17 Biennial Revenue Estimate of the Small Business Incubator Fund 0588 and the Texas Product Development Fund 0589 would be used to pay for \$45,000,000 in issued bonds. Since the balances of those funds are not sufficient to fully pay for issued bonds, \$11,847,000 would be paid from General Revenue. Outstanding encumbrances and obligations of the funds could decrease the amount of cash balances available and increase the amount of General Revenue required to pay for outstanding bonds.

Based on provisions of this bill, fees generated by the Texas Small Business Industrial Development Corporation under Chapter 503, Local Government Code, and deposited outside the state Treasury would be transferred to GR. The Governor's office estimates these fees to be \$846,024. The sum of those two components will be a GR loss of \$11,001,000.

Loan repayment revenues that are currently deposited to Funds 588 and 589 would be deposited to General Revenue - Dedicated Economic Development Bank Account No. 5106 on September 1, 2015. The Comptroller estimates that amount to be \$2,195,000 per fiscal year.

Local Government Impact

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

Source Agencies: 301 Office of the Governor, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 313 Department of Information Resources

LBB Staff: UP, CL, EP, LBe, KVe, LCO