

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

March 16, 2015

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1250 by Murphy (Relating to the required wage for jobs created for the purpose of eligibility for a limitation on appraised value of property for ad valorem tax purposes under the Texas Economic Development Act.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1250, As Introduced: a negative impact of (\$1,700,000) through the biennium ending August 31, 2017.

However, the bill would result in a negative impact of (\$22,700,000) in FY 2019 and grow significantly in subsequent years.

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
2016	\$0
2017	(\$1,700,000)
2018	(\$7,800,000)
2019	(\$22,700,000)
2020	(\$37,200,000)
2021	(\$50,800,000)
2022	(\$63,800,000)
2023	(\$76,200,000)
2024	(\$87,900,000)
2025	(\$99,000,000)

All Funds, Ten-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193	Probable Revenue (Loss) from School Districts
2016	\$0	\$0
2017	(\$1,700,000)	(\$7,400,000)
2018	(\$7,800,000)	(\$22,000,000)
2019	(\$22,700,000)	(\$36,000,000)
2020	(\$37,200,000)	(\$49,300,000)
2021	(\$50,800,000)	(\$62,000,000)
2022	(\$63,800,000)	(\$74,000,000)
2023	(\$76,200,000)	(\$85,400,000)
2024	(\$87,900,000)	(\$96,200,000)
2025	(\$99,000,000)	(\$91,400,000)

Fiscal Analysis

The bill would amend Chapter 313 of the Texas Tax Code, regarding the Texas Economic Development Act, to increase the number of job wage targets available to applicants for the limitation of appraised property valuations for taxation purposes under the Act.

The bill would amend Tax Code Section 313.021(3)(E) by adding the state median wage for manufacturing jobs in the state as a new wage target for the applicant of qualifying jobs. The bill would require the final wage target for qualifying jobs be the lesser of the proposed "median" target, and one of the two wage definitions described above in 313.021(5)(A) and 313.021(5)(B) selected by the applicant.

The bill would amend Section 313.021(5), (5)(A), and (5)(B) to specify in statute that the non-qualifying job wage standard is a figure set for the length of the limitation agreement, based on wage data available immediately prior to the applicant submitting an application. That specification is currently in a Comptroller rule, 34 TAC Section 9.1051, effective June 2, 2014.

The bill would add new Section 313.021(6) to specify that the newly created state median annual wage for manufacturing jobs and state median wage for all jobs wage targets would be computed once, for the length of each limitation agreement, based on the wage data available at the applicant's submission of the application.

The bill would change the wage standard for non-qualifying jobs by creating three wage standards to replace the single wage standard in current law for non-qualifying jobs.

The bill would amend Section 313.021(5) to give applicants a choice of wage targets for non-qualifying jobs in amended Sections 313.021(5)(A) and 313.021(5)(B), in a manner similar to the choice now available to applicants for qualifying jobs. An applicant could select a non-qualifying job wage standard calculated from the U.S. Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW) data at the county level for all jobs in the county, or a regional wage standard calculated from the U.S. Bureau of Labor Statistics Occupational Employment Statistics (OES) data for all jobs in the region. In addition to the two options for non-qualifying job wage targets created in 313.021(5)(A) and 313.021(5)(B), the bill would add a third target-"the state median wage for all jobs in the state." Revised Section 313.024(d) would require that the final job target for non-qualifying jobs be the lesser of the newly created median wage target, and the optional wage target selected by the applicant from either amended 313.021(5)(A) or amended 313.021(5)(B).

The bill would take effect September 1, 2015.

Methodology

Under current law, an applicant must create 10 or 25 qualifying jobs, and may choose between two different definitions of wages described in Tax Code Sections 313.021(5)(A) and 313.021(5)(B) for those qualifying jobs. The 313.021(5)(A) wage standard is based on manufacturing wages in the county. The 313.021(5)(B) wage standard is based on manufacturing wages in the Texas Council of Government (COG) regions. The county-level wage standard currently uses QCEW data from the Texas Workforce Commission (TWC). The regional-level wage standard uses OES data prepared by TWC once a year, specifically for the Chapter 313 program. In most cases, the OES wage standard is lower than the QCEW standard.

Estimated total wages for all existing projects were calculated using both current and proposed minimum wage requirements to adjust for the reduction in required minimum salaries. The first wage comparison used reported job data from the 259 projects-2003 through 2013-included in the Comptroller's most recent biennial report to the legislature required by Tax Code 313.032. Wage data from 2013 were used to calculate total wages for all 259 projects under current and proposed wage minimums for all qualified jobs reported to the Comptroller. Estimated annual total wages calculated for current wage minimums for qualifying jobs was \$573 million. Estimated annual total wages calculated for proposed wage minimums for qualifying jobs was \$416 million; a difference of \$157 million a year, or a 27 percent reduction from current law.

Performing the same wage comparison for only the projects from 2014 yielded a similar total wage reduction for qualifying jobs-about 29 percent.

Using the reported non-qualifying jobs on applications from 2014 projects, estimated total annual wages for non-qualifying jobs were calculated to be about \$14.1 million using current law wage standards. Under proposed non-qualifying job wage standards, that calculated figure drops to about \$8.4 million, a difference of about \$5.6 million a year, or a reduction of 40 percent.

The table above shows an estimate of state cost under the Foundation School Program resulting from the Comptroller's estimate of local M&O revenue loss for projects that may have located in Texas before the authorization for new Chapter 313 agreements expires in 2022 but probably would not have applied for the Chapter 313 program because the nature of the industry does not supply the "high-wage" jobs required by the chapter. The Comptroller's estimated impact on the school district levy assumes implementation of value limitation agreements for three such medium-sized manufacturing projects per year through December 31, 2022.

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, 320 Texas Workforce Commission

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