

BILL ANALYSIS

C.S.H.B. 2998
By: Blanco
Defense & Veterans' Affairs
Committee Report (Substituted)

BACKGROUND AND PURPOSE

According to interested parties, a recent report from the Economic Development Bank within the office of the governor concluded the defense economic redevelopment zone (DERZ) program was significantly underutilized and recommended streamlining the process for DERZ designation and modeling the program after the Texas Enterprise Zone program. C.S.H.B. 2998 seeks to provide for these recommendations.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 2998 repeals Government Code provisions establishing nomination and application procedures for designation of an area as a defense economic readjustment zone and amends the Government Code to establish that a municipality or county automatically qualifies for designation as such a readjustment zone if the municipality or county, as applicable, is adjacent to or encompasses any part of a federally owned or operated military installation, facility, or mission that is functioning on June 1, 2003. The bill removes the seven-year cap on the period of designation and instead makes the designation effective indefinitely so long as the municipality or county, as applicable, continues to qualify for the designation. The bill clarifies that a municipality or county that automatically qualifies for designation is not prohibited from having an area of the municipality or county also included in an enterprise zone.

C.S.H.B. 2998 includes veterans as one of the eligible classes of individuals under the requirement that at least 25 percent of a person's new employees in a defense economic readjustment zone be of a certain class of individuals, as certified by the Texas Economic Development Bank or the readjustment zone's governing body, as applicable, for the person to qualify as a qualified business. The bill revises the required content of the economic analysis of the plans for expansion, revitalization, or other activity in the defense economic readjustment zone that a qualified business's application for designation as a defense readjustment project must contain by specifying that the information to be included regarding the number of anticipated new permanent jobs the business will create and the anticipated number of permanent jobs the business will retain is the number of such jobs anticipated to be created or retained during the designation period; providing for that information to be presented in the form of a tabular listing of the classification titles of those jobs and the number of jobs and salary range for each classification title; and requiring the economic analysis to include the number of

employment positions in existence at the qualified business site on the 91st day before the application deadline and, if the application is for a double or triple jumbo defense adjustment project, an indication of which level of designation is being sought.

C.S.H.B. 2998 removes the limitation on the number of defense readjustment projects the bank may designate in a single readjustment zone and instead sets the maximum number of defense readjustment projects that the bank may designate for each defense economic readjustment zone during any biennium at six for a readjustment zone that is a municipality or county with a population of less than 250,000 and at nine for a readjustment zone that is a municipality or county with a population of 250,000 or more. The bill authorizes the governing body of a county to apply to the bank for designation as a defense readjustment project a project or activity of a qualified business that is located within the jurisdiction of a municipality located in the county and authorizes a county during any biennium to use the maximum number of defense readjustment project designations the county is permitted within that territory. The bill requires a county, before making such an application, to enter into an interlocal agreement with the municipality that has jurisdiction of the territory in which the project or activity will be located and requires the agreement to specify that either the applying county or the municipality is the governmental body having administration authority over the defense readjustment project and that both the applying county and municipality approve the application.

C.S.H.B. 2998 removes the requirement that the bank submit an annual report on the defense readjustment zone program to the governor, the legislature, and the Legislative Budget Board and instead requires the bank to include the information formerly contained in that report in the annual status report on bank activities submitted to the legislature by the Texas Economic Development and Tourism Office.

C.S.H.B. 2998 removes the cap on the number of new permanent jobs or retained jobs that the bank allocates to a defense readjustment project for purposes of computing a tax refund for the project and instead requires the bank to allocate to a project the maximum number of new permanent jobs or retained jobs eligible based on the amount of capital investment made in the project, the project's designation level, and the refund per job with a maximum refund to be included in a computation of a tax refund for the project. The bill sets out a refund schedule based on those criteria and defines "retained job" as a job that existed with a qualified business on the 91st day before the date the business's project or activity is designated as a defense readjustment project, that has provided and will continue to provide employment to a qualified employee of at least 1,820 hours annually, and that will be or has been an employment position for the longer of the duration of the project's designation period or three years after the expiration date of the claim period for receipt of a state benefit authorized under provisions relating to defense economic readjustment zones. The bill classifies certain projects as a double jumbo defense readjustment project or triple jumbo defense readjustment project if the project is so designated by the bank. The bill prescribes the maximum tax refund for which a defense readjustment project, double jumbo defense readjustment project, or triple jumbo defense readjustment project is eligible in each state fiscal year. The bill extends the authority of the governing body of an applicable municipality to refund its local sales and use taxes paid by a qualified business on certain taxable items in connection with a defense readjustment project to apply to all taxable items purchased for use at the qualified business site related to the project or activity.

C.S.H.B. 2998 amends the Tax Code to extend a defense readjustment project's eligibility for a refund in a specified amount of the sales and use taxes imposed on purchases of certain taxable items to apply to all taxable items purchased for use at the qualified business site related to the project or activity. The bill replaces the specification that a defense readjustment project qualifies for a refund of such taxes in an amount of \$2,500 for each new permanent job or job that has been retained by the project for a qualified employee with a specification that a defense readjustment project qualifies for a refund of such taxes based on the amount of capital investment made at the qualified business site, the project's designation level, and the refund per

job with a maximum refund to be included in a computation of a tax refund for the project. The bill sets out a refund schedule based on those criteria. The bill clarifies the limitation on the total amount of tax refund a defense readjustment project may apply for in a state fiscal year and imposes specified caps on the total tax refund a double jumbo defense readjustment project or triple jumbo defense readjustment project may apply for in a state fiscal year and on the total amount that may be refunded to those projects. The bill removes a prohibition against a defense readjustment project applying for a refund after the end of the state fiscal year immediately following the state fiscal year in which the project's designation as a defense readjustment project expires or is removed.

C.S.H.B. 2998 repeals the following provisions of the Government Code:

- Section 2310.001(4)
- Section 2310.053(d)
- Section 2310.103
- Section 2310.104
- Section 2310.105
- Section 2310.106
- Section 2310.107
- Section 2310.108
- Section 2310.110
- Section 2310.407

EFFECTIVE DATE

September 1, 2017.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 2998 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and formatted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED	HOUSE COMMITTEE SUBSTITUTE
SECTION 1. Section 2310.001, Government Code, is amended.	SECTION 1. Same as introduced version.
SECTION 2. Section 2310.002, Government Code, is amended.	SECTION 2. Same as introduced version.
SECTION 3. Section 2310.051(b), Government Code, is amended.	SECTION 3. Same as introduced version.
SECTION 4. Section 2310.052(b), Government Code, is amended.	SECTION 4. Same as introduced version.
SECTION 5. Section 2310.101, Government Code, is amended.	SECTION 5. Same as introduced version.
SECTION 6. Section 2310.102,	SECTION 6. Section 2310.102,

Government Code, is amended to read as follows:

Sec. 2310.102. ~~[ADVERSELY AFFECTED]~~ DEFENSE-DEPENDENT COMMUNITY. A municipality or county is ~~a [an adversely affected]~~ defense-dependent community if, as applicable, the municipality or county [the bank determines that]:

(1) contains a defense base development authority created under Chapter 379B, Local Government Code; or

(2) has the power of a defense base development authority created under Chapter 379B, Local Government Code

~~[the municipality or county requires assistance because of:~~

~~[(A) the proposed or actual establishment, realignment, or closure of a defense facility;~~

~~[(B) the cancellation or termination of a United States Department of Defense contract or the failure of the department of defense to proceed with an approved major weapon system program;~~

~~[(C) a publicly announced planned major reduction in department of defense spending that would directly and adversely affect the municipality or county; or~~

~~[(D) the closure or a significant reduction of the operations of a defense facility as the result of a merger, acquisition, or consolidation of a defense contractor operating the facility; and~~

~~[(2) the municipality or county is expected to experience, during the period between the beginning of the federal fiscal year during which an event described by Subdivision (1) is finally approved and the date that the event is to be substantially completed, a direct loss of:~~

~~[(A) 2,500 or more defense worker jobs in any area of the municipality or county that is located in an urbanized area of a metropolitan statistical area;~~

~~[(B) 1,000 or more defense worker jobs in any area of the municipality or county that is not located in an urbanized area of a metropolitan statistical area; or~~

~~[(C) one percent of the civilian jobs in the municipality or county].~~

SECTION 7. Section 2310.109, Government Code, is amended.

SECTION 8. Section 2310.111(a),

Government Code, is amended to read as follows:

Sec. 2310.102. ~~[ADVERSELY AFFECTED]~~ DEFENSE-DEPENDENT COMMUNITY. A municipality or county is ~~a [an adversely affected]~~ defense-dependent community if, as applicable, the municipality or county is adjacent to or encompasses any part of a federally owned or operated military installation, facility, or mission that is functioning on June 1, 2003 [the bank determines that:

~~[(1) the municipality or county requires assistance because of:~~

~~[(A) the proposed or actual establishment, realignment, or closure of a defense facility;~~

~~[(B) the cancellation or termination of a United States Department of Defense contract or the failure of the department of defense to proceed with an approved major weapon system program;~~

~~[(C) a publicly announced planned major reduction in department of defense spending that would directly and adversely affect the municipality or county; or~~

~~[(D) the closure or a significant reduction of the operations of a defense facility as the result of a merger, acquisition, or consolidation of a defense contractor operating the facility; and~~

~~[(2) the municipality or county is expected to experience, during the period between the beginning of the federal fiscal year during which an event described by Subdivision (1) is finally approved and the date that the event is to be substantially completed, a direct loss of:~~

~~[(A) 2,500 or more defense worker jobs in any area of the municipality or county that is located in an urbanized area of a metropolitan statistical area;~~

~~[(B) 1,000 or more defense worker jobs in any area of the municipality or county that is not located in an urbanized area of a metropolitan statistical area; or~~

~~[(C) one percent of the civilian jobs in the municipality or county].~~

SECTION 7. Same as introduced version.

SECTION 8. Same as introduced version.

Government Code, is amended.

SECTION 9. Section 2310.201, Government Code, is amended.

SECTION 9. Same as introduced version.

SECTION 10. Section 2310.204(c), Government Code, is amended.

SECTION 10. Same as introduced version.

SECTION 11. Section 2310.301, Government Code, is amended.

SECTION 11. Substantially the same as introduced version.

SECTION 12. Section 2310.302(a), Government Code, is amended.

SECTION 12. Same as introduced version.

No equivalent provision.

SECTION 13. Section 2310.303, Government Code, is amended to read as follows:

Sec. 2310.303. PROHIBITION ON QUALIFIED BUSINESS CERTIFICATION. If the bank determines that the governing body of a readjustment zone is not complying with this chapter, the bank shall prohibit the certification of a qualified business in the zone until the bank determines that the governing body is complying with this chapter. [~~The bank may not designate more than two defense readjustment projects in a single readjustment zone.~~]

SECTION 13. Section 2310.305(b), Government Code, is amended.

SECTION 14. Same as introduced version.

SECTION 14. Section 2310.306, Government Code, is amended.

SECTION 15. Same as introduced version.

SECTION 15. Section 2310.307, Government Code, is amended.

SECTION 16. Same as introduced version.

SECTION 16. Subchapter E, Chapter 2310, Government Code, is amended.

SECTION 17. Same as introduced version.

SECTION 17. Section 2310.405(a), Government Code, is amended.

SECTION 18. Same as introduced version.

SECTION 18. Section 2310.409, Government Code, is amended.

SECTION 19. Same as introduced version.

SECTION 19. Section 151.4291, Tax Code, is amended.

SECTION 20. Same as introduced version.

SECTION 20. Sections 2310.001(4), 2310.053(d), 2310.103, 2310.104, 2310.105, 2310.106, 2310.107, 2310.108, 2310.110,

SECTION 21. Same as introduced version.

and 2310.407, Government Code, are repealed.

SECTION 21. The changes in law made by this Act to Chapter 2310, Government Code, apply only to an application for a designation of a project or activity under the defense economic readjustment zone program under Chapter 2310, Government Code, as amended by this Act, that is filed on or after the effective date of this Act. An application for designation of a project or activity under the defense economic readjustment zone program that is filed before the effective date of this Act is governed by the law in effect on the date the application was filed, and the former law is continued in effect for that purpose.

SECTION 22. The changes in law made by this Act to Section 151.4291, Tax Code, apply only to an application for a tax refund made on or after the effective date of this Act. An application for a tax refund made before the effective date of this Act is governed by the law in effect on the date the application was made, and the former law is continued in effect for that purpose.

SECTION 23. This Act takes effect September 1, 2017.

SECTION 22. Same as introduced version.

SECTION 23. Same as introduced version.

SECTION 24. Same as introduced version.