LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

April 6, 2021

TO: Honorable Angie Chen Button, Chair, House Committee on International Relations & Economic Development

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: **HB819** by White (Relating to the creation of certain pilot programs to encourage economic and educational opportunities in certain regions of this state.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB819, As Introduced : a negative impact of ($579,330,000) through the biennium ending August 31, 2023.

Additionally, the bill will have a direct impact of a revenue loss to the Property Tax Relief Fund of ($2,698,900,000) for the 2020-21 biennium. Any loss to the Property Tax Relief Fund must be made up with an equal amount of General Revenue to fund the Foundation School Program.

General Revenue-Related Funds, Five- Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to *General Revenue Related Funds*
2022	($282,160,000)
2023	($297,170,000)
2024	($313,530,000)
2025	($330,960,000)
2026	($347,510,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *General Revenue Fund* 1	Probable Revenue Gain from *General Revenue Fund* 1	Probable Revenue (Loss) from *General Revenue Fund* 1	Probable Revenue Gain/(Loss) from *General Revenue-Dedicated Accounts* 8998
2022	($605,022)	$505,022	($282,060,000)	($300,000)
2023	($571,892)	$471,892	($297,070,000)	($300,000)
2024	($571,892)	$471,892	($313,430,000)	($300,000)
2025	($571,892)	$471,892	($330,860,000)	($300,000)
2026	($571,892)	$471,892	($347,410,000)	($300,000)

Fiscal Year	**Probable Revenue Gain/(Loss) from** ***Property Tax Relief Fund*** **304**
2022	($1,305,100,000)
2023	($1,393,800,000)
2024	($1,493,200,000)
2025	($1,597,400,000)
2026	($1,696,700,000)

Fiscal Year	*Change in Number of State Employees from FY 2019*
2022	4.0
2023	4.0
2024	4.0
2025	4.0
2026	4.0

Fiscal Analysis

The bill would amend the Business and Commerce Code and the Education Code to establish pilot programs to create special economic and educational zones in certain regions of the state.

Chapter 682 would be added to Subtitle C, Title 15, Business and Commerce Code regarding a special economic zone pilot program.

The Texas Department of Licensing and Regulation (TDLR) would be required to establish a pilot program to create special economic zones in eligible counties. The zones would be for the purpose of reducing barriers and costs of entry to occupations and entrepreneurship for residents of and new and existing businesses located in or relocating to a special economic zone.

TDLR would be required to select eligible counties and, to the extent not prohibited by law, to provide for the following benefits in participating counties: (1) waiver of fees for filing a certificate of formation with the Secretary of State (SOS); (2) waiver of all professional licensing fees imposed by state agencies; (3) waiver of minimum time periods or examination requirements for offering reciprocity to out-of-state occupational license holders; (4) waiver of certain requirements for sitting for occupational licensing exams and allowance of licensure from passage of licensing exams; (5) waiver or reduction of permitting fees and allowance of expedited processing of environmental permits issued by the Texas Commission on Environmental Quality (TCEQ), including waiver of fees and requirements for certain air permits, exemption of certain facilities from local air pollution control agency requirements, expansion of the TCEQ readily available permit program to include additional readily available permits tailored for certain industrial sectors and facility types commonly found in East Texas, and reduction or waiver of fees and requirements for obtaining TCEQ occupational licenses; (6) suspension of any duplicative local government occupational license requirement; (7) waiver of the requirement to file a "no tax due" franchise tax report; and (8) a $2 million minimum deduction from franchise tax.

An eligible county would be one that meets one or more of the following criteria as measured during the five years preceding creation of a zone: (1) one or more school districts received a performance rating lower than the state average; (2) the percentage of people with a bachelor's degree or higher was lower than the state average; (3) population growth was lower than the state average or negative; (4) zero or very few new building permits were issued; (5) retail sales per capita were lower than the state average; (6) the number of employer establishments was lower than the state average; (7) median household income was lower than the state average; (8) the number of people living in poverty was higher than the state average for communities of the same size; and (9) unemployment rates were stagnant or increasing.

TDLR would be required to report to the legislature not later than December 1 of each even-numbered year on the effectiveness of the pilot program, with a recommendation whether the pilot program should be continued, expanded, or terminated.

The bill would amend Chapter 29, Education Code by adding Subchapter O regarding a rural school innovation zones pilot program.

School districts in an eligible region of the state could participate in the Rural School Innovation Zones pilot program that would aim to align the delivery of education services to maximize workforce preparation and improve student outcomes at the primary, secondary, and postsecondary levels.

Participating school districts would provide educational or career-oriented pathways to all high school students enrolled in those districts according to certain criteria.

School districts could participate if their region meets one or more of the same criteria as the special economic zone pilot program listed above.

The Texas Education Agency (TEA) would submit a report to the legislature on the effectiveness of the program by December 1 or each even-numbered year.

Chapter 682, Business and Commerce Code, would expire September 1, 2027 and Subchapter O, Chapter 29, Education Code, would expire September 1, 2025.

Methodology

The bill does not provide any limit on the number of counties that may be selected by TDLR for participation in the special economic zone pilot program. Though the program is designated as a pilot program, the bill does not provide any basis for the department to deny participation to any county that meets any one of the criteria for selection.

According to the Comptroller of Public Accounts (CPA), eligibility criteria are numerous, broad, and some are undefined. The CPA indicates 10 counties include at least one district which has received a rating of "improvement required" or a letter rating of F, 206 counties had median income less than the state average in 2019, and 31 counties had steady or increasing unemployment from 2018 to 2019. Additionally, the word "few" is not defined and with respect to new building permits the meaning might vary relative to county population or housing stock; therefore it is unknown how many counties may be eligible under this provision.

The benefits to be provided would be "in participating counties," and not limited to individuals residing or businesses with locations within the economic zones that may be created within the counties.

Under provisions of the bill, benefits to be available to businesses with locations in participating counties would include a waiver of the requirement to file a "no tax due" report with the CPA, and a minimum deduction of $2 million from the state franchise tax. According to the CPA, waiver of the "no tax due" reporting requirement for any entity with business in one or more participating counties would compromise the office's ability to identify liability and enforce collection of the tax when tax may in fact be due.

The CPA assumes that the $2 million minimum deduction from franchise tax would apply as a reduction of a taxpayer's tax liability, not as a deduction from total revenue in the calculation of franchise tax liability. There is risk that taxpayers with locations in more than one participating county would be eligible for a $2 million minimum deduction for each participating county in which they have a location. Further, the bill provides no upper limit on the amount of the deduction; the $2 million amount is a minimum that may be significantly higher depending on the administrative discretion of TDLR.

The CPA assumes substantial demand by eligible counties for selection for participation in the program due to the value of franchise tax benefits, waiver from environmental regulatory requirements and fees, and waiver from occupational licensing requirements and fees, with consequent substantial reductions in franchise tax and permit and licensing fee revenues. For all waivers of aforementioned licensing fees and franchise tax deductions together, the CPA estimates a loss of revenue in fiscal year 2022 of $282.1 million to the General Revenue Fund, $1.3 billion to the Property Tax Relief Fund No. 304, and $300,000 combined to various

General Revenue Dedicated Accounts. In fiscal years 2023 through 2026, the loss to the General Revenue Fund would gradually increase, the loss to the Property Tax Relief Fund would increase, and the loss to the General Revenue Dedicated Accounts would remain the same.

TDLR indicates that implementing the provisions of the bill would require an additional 4.0 FTEs: a project manager, a business analyst, a research specialist, and a programmer at a cost of $505,022 in fiscal year 2022 and $471,892 in each subsequent year. This analysis assumes that any increased cost to TDLR, which is statutorily required to generate sufficient revenue to cover its costs of operation, would be offset by an increase in fee-generated revenue.

TEA estimates a cost of approximately $200,000 every two years to develop the effectiveness report required by the bill. This analysis assumes costs of $100,000 each year, beginning in fiscal year 2022.

SOS and TCEQ indicate the reduction in revenue to these agencies cannot be determined at this time because the number and location of the zones created and the individuals impacted have not been identified.

Technology

TDLR would require one Systems Analyst to make programming changes to TDLR's licensing systems, at a cost of $125,670 in the first year with salary, benefits and one-time expenditures for computers, equipment and furniture, then $122,650 each year after in salary and benefits.

SOS reports that some programming changes to the agency's business entity database may be necessary to implement the provisions of the bill but the cost for these changes cannot be determined without more information about how the bill would be implemented.

Local Government Impact

The bill would allow a school district located in an eligible region of the state to participate in the pilot program by entering into an agreement with one or more other school districts in the region to establish a regional administrator to manage the educational and career opportunities that will be offered under the pilot program to high school students enrolled at the participating districts. The bill would require the governing body of each regional administrator to hire an executive director. According to TEA, it is anticipated that there would be costs to the governing body to hire the required executive director for the regional administrator.

There may be additional costs to local governments to implement one or both of these pilot programs.

Source Agencies: 304 Comptroller of Public Accounts, 307 Secretary of State, 320 Texas Workforce Commission, 452 Dept of License & Reg, 582 Commission on Environmental Quality, 701 Texas Education Agency, 781 Higher Education Coordinating Board

LBB Staff: JMc, SZ, MB, DFR, WP, BRI, GDZ, JMO, AF