

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION**

**April 19, 2021**

**TO:** Honorable Jane Nelson, Chair, Senate Committee on Finance

**FROM:** Jerry McGinty, Director, Legislative Budget Board

**IN RE: SB683** by Blanco (Relating to defense economic readjustment zones.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB683, As Introduced : a negative impact of (\$40,366,000) through the biennium ending August 31, 2023.

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:**

<i>Fiscal Year</i>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2022	(\$283,000)
2023	(\$40,083,000)
2024	(\$125,271,000)
2025	(\$155,071,000)
2026	(\$161,371,000)

**All Funds, Five-Year Impact:**

<i>Fiscal Year</i>	<b>Probable Revenue (Loss) from General Revenue Fund 1</b>	<b>Probable Savings/(Cost) from General Revenue Fund 1</b>	<b>Probable Revenue (Loss) from Property Tax Relief Fund 304</b>	<b>Change in Number of State Employees from FY 2021</b>
2022	\$0	(\$283,000)	\$0	3.0
2023	(\$39,800,000)	(\$283,000)	\$0	3.0
2024	(\$124,800,000)	(\$471,000)	(\$4,800,000)	5.0
2025	(\$154,600,000)	(\$471,000)	(\$15,900,000)	5.0
2026	(\$160,900,000)	(\$471,000)	(\$23,800,000)	5.0

The bill amends the Government and Tax Codes relating to defense economic readjustment zones (DERZ).

The bill would change the definition of readjustment zones from an area to an entire municipality or county designated as a DERZ. The bill removes the requirement for the Texas Economic Development Bank to establish criteria and procedures for the designation of an area as a readjustment zone. Instead, it requires criteria and procedures to designate a defense readjustment project.

The bill would delete the Texas Economic Development Bank's requirement to submit a separate report for DERZ and instead requires the Bank to include the report information with the annual Bank report.

The bill would amend the criteria for a readjustment zone designation by making an automatic designation zone

of the municipality or county as a defense-dependent community.

The bill would allow for zones to no longer be limited to two designations. The bill would allow the maximum number of projects in a zone to be 6 if the municipality or county has less than 250,000 and 9 designations if that population is higher than 250,000.

The bill would create the same capital investment, job creation limits, and maximum tax refund limits as the enterprise zone program and introduce single, double, and triple jumbo projects.

The bill would include all taxable items purchased at the project's qualified business site to be eligible for a refund of local sales and use taxes paid by the qualified business.

The bill would eliminate a number of local incentives related to the program.

The bill would amend the Tax Code to include all taxable items at the Qualified Business to be eligible for state sales and use tax refund.

The bill would take effect September 1, 2021.

### **Fiscal Analysis**

The bill updates the DERZ program to follow guidelines similar to the Texas Enterprise Zone Program.

A defense readjustment project would be eligible for a maximum sales and use tax refund on all taxable items at the qualified business site for up to \$1,250,000. A double or triple jumbo defense readjustment project would qualify for a maximum rebate of \$2,500,000 or \$3,750,000, respectively. Each type of project is limited to a designation period of 5 years.

The bill would specify that readjustment zones consist of the entire areas within the boundaries of eligible municipalities and counties. The only requirement for a municipality and a county to be a defense-dependent community, and therefore a readjustment zone, is that the jurisdiction encompass any part of a federally owned or operated military installation, facility, or mission functioning on May 19, 1997. Thirty-eight municipalities (38) and thirty-seven (37) counties with a population amount to 73.1 percent of estimated 2021 Texas population would qualify as defense-dependent communities due to the locations of 14 military bases, six close military bases that were functioning in May 1997, and 48 Army Reserve facilities, eligible for up to 581 project designations per biennium. Apart from the number of project designations that could be made in a biennium, there would be no limit on the cumulative number of project designations made in a zone over time.

The Comptroller's Office estimates that the total impact from the bill would be approximately \$482,079,000 to General Revenue and \$44,500,000 to the Property Tax Relief Fund over five years. This includes an estimated cost of \$1,979,000 for five additional FTEs to carryout the provisions of the bill.

### **Methodology**

The Comptroller's Office assumes that there would be lags for program implementation and project designation, thus only 159 project designations would occur in the 2022-23 biennium with state sales tax refunds paid in fiscal year 2023 and franchise tax credits first claimed on fiscal year 2024 reports. Of the project designations, 90 percent are anticipated to be above the \$5,000,000 capital investment category eligible for a maximum refund of \$1,250,000, and the remainder in the \$1,000,000 to \$4,999,999 investment category eligible for a maximum refund of \$312,500. The estimate assumes that the designated projects would have average employment and investment amounts sufficient to exhaust only half the maximum sales tax refund potential.

The Comptroller's Office indicates that the administrative cost of provisions of the bill would necessitate the addition of three Financial Analyst II in the 2022-23 biennium and five Financial Analyst II FTEs in fiscal year 2024 and beyond. The FTEs would be needed to conduct financial analysis, audit and refund processing.

## **Local Government Impact**

The Texas Association of Counties does not anticipate a significant fiscal impact to counties. The fiscal impact to other units of local government is not anticipated to be significant.

**Source Agencies:** 300 Trusteed Programs - Gov, 304 Comptroller of Public Accounts

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