

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 21, 2003

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

FROM: John Keel, Director, Legislative Budget Board

IN RE: SB275 by Nelson (Relating to the abolition of the Texas Department of Economic Development and the transfer of certain of its functions and the functions of the Texas Aerospace Commission to the Texas Economic Development and Tourism Office; to the establishment, operation, and funding of the Texas Economic Development Bank; and to the administration and operation of certain economic development programs.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for SB275, As Passed 2nd House: a positive impact of \$3,055,378 through the biennium ending August 31, 2005.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$1,527,689
2005	\$1,527,689
2006	\$1,527,689
2007	\$1,527,689
2008	\$1,527,689

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>HOTEL OCCUP TAX DEPOS ACC</i> 5003	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>GR ACCT-CAPITAL ACCESS</i> 5035	Probable Revenue Gain/(Loss) from <i>TX LEVERAGE PROGRAM FUND</i> 851
2004	\$602,000	\$925,689	(\$4,686,000)	(\$1,980,000)
2005	\$602,000	\$925,689	\$0	\$0
2006	\$602,000	\$925,689	\$0	\$0
2007	\$602,000	\$925,689	\$0	\$0
2008	\$602,000	\$925,689	\$0	\$0

Fiscal Year	Probable Revenue Gain/(Loss) from <i>New General Revenue Dedicated - Texas Economic Development Bank</i>	Change in Number of State Employees from FY 2003
2004	\$6,666,000	(27.0)
2005	\$0	(27.0)
2006	\$0	(27.0)
2007	\$0	(27.0)
2008	\$0	(27.0)

Fiscal Analysis

The bill would partially implement recommendation GG 4 from the Comptroller's e-Texas report, Limited Government, Unlimited Opportunity. The bill would abolish the Department of Economic Development (TDED) and its nine-member governing board and transfer TDED's primary economic development functions to the newly created Economic Development and Tourism Office (TEDTO) within the Office of the Governor.

The provisions of the bill would establish the operation and funding of an economic development bank. The bill would require the TEDTO to establish the Texas Economic Development Bank (TEDB) and the Product Development and Small Business Incubator Program. The bill would create a new GR Dedicated Account - Texas Economic Development Bank, which would consist of transfers from unobligated GR Dedicated Account 5035 - Capital Access and the Texas Leverage Program Trust Fund 0851, investment earnings, fees charged by the bank, federal funds and any other amounts received by the state.

TEDTO would administer the account and have the power to invest deposits in obligations, impose and collect a fee for its service, and issue bonds for economic development projects. TEDB would include, but not be limited to the following programs and services designated by the bill: Texas Small Business Industrial Development Corporation; Industrial Revenue Bond Program; Texas Leverage Fund; Capital Access Program; Linked Deposit Program; Enterprise Zone; Defense Economic Readjustment Zones; Empowerment Zone and Enterprise Community grant program; and the Renewal Community program, which all currently exist. The bill would transfer certain certification responsibilities to the Comptroller's Office from TDED. The Texas Small Business Incubator Program is under the Comptroller's Office, with no account or fund set up for it.

The provisions of the bill also authorize certain cities and counties (Houston, Dallas, & San Antonio) to use a portion of their sales and use tax revenues, mixed beverage tax revenues, and hotel occupancy tax revenues to support a bid for, preparation for, and hosting of the Olympics, Super Bowl, NCAA Final Four, NBA All Star Game, NHL All Star Game, MLB All Star Game, BCS Games, and World Cup Soccer Games. It extends the authority to use of certain state taxes and a portion of a city's hotel occupancy taxes to support a bid for, preparation for, and hosting of the Pan American Games to the Olympic Games. Requires the amount of local and state tax revenues allocated for these obligations to be the amount that the comptroller estimates would be attributable to the holding of a particular game during a two week period within a particular market.

Methodology

Abolishing the Department of Economic Development (TDED) governing board would save \$38,700 per year from reduced travel and administration expenses. Half of the savings would consist of General Revenue and half would consist of General Revenue Hotel Occupancy Tax Deposits. The provisions of the bill would require the development of a transition plan for the transfer of programs and functions to the Office of the Governor. The plan must address the effective reconstruction of the TEDTO's mission, strategies, performance measures, functions, and staff. Transferring the functions of TDED to the Office of the Governor would result in a reduction of 23 administrative FTEs and a savings of \$1,310,266 in administration costs. Half of the savings would consist of General Revenue and half would consist of General Revenue Hotel Occupancy Tax Deposits.

The bill would repeal TDED's requirement to maintain and operate an Office of Small Business Assistance resulting in an annual savings of \$111,000 in General Revenue and a reduction of two FTEs. The bill would also repeal provisions requiring TDED to focus its business development efforts on the border region which would save \$59,200 in General Revenue.

TDED, in conjunction with the Attorney General, Comptroller, and Council on Workforce and Economic Competitiveness would no longer have to produce an Annual Report of Tax Incentive and Economic Development Laws of Other States. The bill also repeals the provisions requiring the Department, with the assistance of the Texas-Mexico Commerce and International Relations Initiative

Unit, to develop a Texas-Mexico Commerce and International Relations Coordinated Plan. Repealing these functions would result in an estimated annual savings of \$6,000 in General Revenue. It would not require the TEDTO to maintain the Office of Defense Affairs.

According to the Sunset Commission, the transfer of the Aerospace Commission functions to the new Aerospace and Aviation Office within the Office of the Governor would save approximately \$127,689 in General Revenue and reduce FTEs by two each fiscal year. This would be the result of consolidation of staff functions within the Office of the Governor. The provisions would establish a new seven member advisory committee. It would create a Spaceport Trust Fund outside the state treasury with the Comptroller and administered by TEDTO and would rename specialty license plates to the Aerospace and aviation license plates.

The provisions of the bill would require that not later than December 31, 2003 TEDTO enter into a memorandum of understanding with the Parks and Wildlife Department, TXDOT, Historical Commission, and Commission on the Arts to direct the efforts of these agencies in all matters relating to tourism and other duties.

It also establishes a new General Revenue Dedicated Fuel Ethanol and Biodiesel Production Account. According to the Comptroller, any biofuels blended into gasoline and diesel fuel would be subject to motor fuels taxation under Chapter 153 of the Tax Code. According to the American Petroleum Institute, at the end of 2002, Texas did not have any ethanol plants in operation.

According to the Comptroller as an illustrative example and based on the economic impact of the recent Miami and Atlanta Super Bowls, it is estimated that an event such as the upcoming 2004 Super Bowl in Houston would have a potential direct and indirect economic impact of \$335 million. Therefore, using Comptroller data on taxable sales by industry, the provisions of the bill would re-allocate an estimated \$8.2 million in state sales tax revenues from General Revenue to the new Other Events Trust Fund held outside the state treasury. As noted by the Comptroller: Because the tax rate of many local taxes is greater than 1 percent, the "6.25" language found with respect to the Pan American Games and Other Events Trust Fund could result in more than just the state increment being deposited to those funds.

The Comptroller's Office estimates that the new responsibilities would result in additional costs of \$543,291 for fiscal year 2004 and \$221,282 for fiscal year 2005 to amend rules, update publications, notify taxpayers via the Legislative Update and certify that jobs met the bill's criteria. Although TDED did not report any potentially significant costs savings, it is assumed that the additional costs for the Comptroller's office would be partially offset by costs savings at TEDTO.

If not continued by the legislature, the bill would abolish the Texas Economic Development and Tourism Office on September 1, 2015.

The bill would take effect September 1, 2003.

Local Government Impact

No significant fiscal implication to units of local government is anticipated to implement the article of the bill entitled "Support for Major Sports Events." It is assumed that revenues generated by hosting a major sports event would offset the costs to endorsing municipalities and counties to organize the event.

No significant fiscal implication to units of local government is anticipated to implement the other articles of the bill.

Source Agencies:

116 Sunset Advisory Commission, 480 Texas Department of Economic Development, 301 Office of the Governor, 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 405 Department of Public Safety, 551 Department of Agriculture, 582 Commission on Environmental Quality, 601 Department of Transportation, 802 Parks and Wildlife Department, 808 Historical Commission, 809 Preservation Board, 813 Commission on the Arts, 710 Texas A&M University System

Administrative and General Offices

LBB Staff: JK, JRO, JO, GO, RT, DE, KG