

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

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**May 1, 2003**

**TO:** Honorable Jim Keffer, Chair, House Committee on Economic Development

**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. ), **Committee Report 2nd House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB275, Committee Report 2nd House, Substituted: 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 5003</i>	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue Gain/(Loss) from <i>GR ACCT-CAPITAL ACCESS 5035</i>	Probable Revenue Gain/(Loss) from <i>New General Revenue Dedicated - Texas Economic Development Bank</i>
2004	\$602,000	\$925,689	(\$4,686,000)	\$6,666,000
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	Change in Number of State Employees from FY 2003
2004	(25.0)
2005	(25.0)
2006	(25.0)
2007	(25.0)
2008	(25.0)

## **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.

## **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.

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 as the result of consolidation of staff functions within the Office of the Governor.

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

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.

The bill would take effect September 1, 2003.

**Local Government Impact**

No significant fiscal implication to units of local government is anticipated.

**Source Agencies:** 116 Sunset Advisory Commission, 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, 480 Texas Department of Economic Development, 710 Texas A&M University System Administrative and General Offices

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