

BILL ANALYSIS

C.S.H.B. 390

By: Blanco

International Relations & Economic Development
Committee Report (Substituted)

BACKGROUND AND PURPOSE

It has been suggested that the defense economic readjustment zone program, designed to provide assistance to Texas communities, businesses, and workers impacted by or vulnerable to the closure or realignment of military installations and the reduction of federal defense contracting expenditures, has been significantly underutilized. C.S.H.B. 390 seeks to increase participation and help Texas military installations maintain their status as economic engines by streamlining the zone designation process, creating a tiered incentive program, and making certain other changes to the program's governing statutes.

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. 390 amends the Government Code to establish that a municipality or county that encompasses any part of a federally owned or operated military installation, facility, or mission that is functioning on May 19, 1997, automatically qualifies for designation as a defense economic readjustment zone and to remove the other criteria for such designation. The bill expressly does not prohibit an automatically qualifying municipality or county from having an area of the municipality or county also included in an enterprise zone under the Texas Enterprise Zone Act. The bill removes the seven-year cap on the period of designation and makes the period of designation effective indefinitely so long as the municipality or county, as applicable, continues to qualify. The bill repeals provisions relating to nomination and application procedures for designation of an area as a readjustment zone and a provision establishing that such a designation is also a designation as a reinvestment zone for purposes of tax increment financing and tax abatement agreements. The bill limits the authority of the Texas Economic Development Bank to remove the designation of an area as a readjustment zone to an area so designated before September 1, 2019, if the area no longer meets the statutory criteria for that designation as those criteria existed on January 1, 2019, or the criteria for that designation established by Texas Economic Development and Tourism Office (TEDTO) rule before September 1, 2019, or if the bank determines that the readjustment zone's governing body has not complied with commitments made in the ordinance or order nominating the area as a readjustment zone before September 1, 2019.

C.S.H.B. 390 includes veterans as one of the eligible classes of individuals some combination of whose members must constitute at least 25 percent of a person's new employees in a defense

economic readjustment zone, as certified by the bank or the readjustment zone's governing body, as applicable, for the person to meet the requirements for a qualified business. The bill revises the required content of the economic analysis contained in an application for designation of a qualified business as a defense readjustment project to include certain information regarding the anticipated numbers of new permanent jobs the business will create and of permanent jobs the business will retain during the designation period, 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, as defined by the bill, an indication of which level of designation is being sought.

C.S.H.B. 390 changes the cap on the number of defense readjustment projects the bank may designate for each defense economic readjustment zone from two in a single readjustment zone to six during any biennium for a readjustment zone that is a municipality or county with a population of less than 250,000 or nine during any biennium 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 of a project or activity of a qualified business that is located within the jurisdiction of a municipality located in the county as a defense readjustment project and authorizes a county during any biennium to use the maximum number of 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 project and that both the applying county and municipality approve the application.

C.S.H.B. 390 removes the requirement that TEDTO submit an annual report on the defense readjustment zone program to the governor, the legislature, and the Legislative Budget Board and requires the bank instead to include the information formerly contained in that report in the annual status report on bank activities submitted to the legislature by TEDTO.

C.S.H.B. 390 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 requires the bank instead to allocate to a project the maximum number of new permanent jobs or retained jobs eligible to be included in such a computation 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. 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 for use or consumption in a readjustment zone to apply to all taxable items purchased for use at the qualified business site related to the project or activity.

C.S.H.B. 390 amends the Tax Code to extend a defense readjustment project's eligibility for a refund, subject to certain limitations, of state sales and use taxes imposed on purchases of certain taxable items for use or consumption in a readjustment zone to all taxable items purchased for use at the qualified business site related to the project or activity. The bill changes the amount of the refund of such taxes for which a defense readjustment project qualifies from a fixed amount

for each eligible job to an amount set by a refund schedule 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 imposes caps of \$500,000 and \$750,000, respectively, on the total tax refund for which a double jumbo defense readjustment project or triple jumbo defense readjustment project may apply in a state fiscal year, provides for the method of determining the total amount that may be refunded to such a project, and provides for application in a subsequent year by such a project for a qualifying refund of an outstanding eligible amount.

C.S.H.B. 390 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, 2019.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 390 may differ from the original in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute changes the criteria for a municipality or county that automatically qualifies for designation as a defense economic readjustment zone from being adjacent to or encompassing any part of a federally owned or operated military installation, facility, or mission that is functioning on June 1, 2003, to encompassing any part of such an installation, facility, or mission that is functioning on May 19, 1997.