

SUBJECT: Grants for defense-dependent communities

COMMITTEE: State, Federal and International Relations — favorable, without amendment

VOTE: 7 ayes — Hunter, Moreno, Isett, Palmer, Pitts, West, Wise
0 nays
2 absent — Chavez, Seaman

SENATE VOTE: On final passage, April 16 — 31-0

WITNESSES: *(On House companion, HB 714)*
For — James N. Berry, Bee Development Corporation; Robert H. Bomer, Greater San Antonio Chamber of Commerce; Manuel Longoria, City of San Antonio; Duane Lavery, Lubbock Reese Redevelopment Authority; Richard W. Hall, Bowie County

Against — None

On — Dan Wattles and Scott Madole, Texas Department of Commerce

BACKGROUND : The Texas Defense Economic Adjustment Advisory Council was appointed by Gov. Bush in July 1995 to address issues involving closing and realigning of military installations in Texas. In its July 1996 report, the council made 21 recommendations for helping Texas convert from a defense-dependent to a diversified economy.

DIGEST: SB 227 would create a grant program within the Texas Department of Commerce targeting defense-dependent communities affected by the closure or realignment of military installations. A grantee or designee could use the grant to purchase property from the Department of Defense; construct, rehabilitate or renovate facilities; build infrastructure; or purchase capital equipment or insurance.

SB 227 would take immediate effect if finally approved by a two-thirds record vote of the membership in each house.

Grant criteria. Program eligibility would extend to municipalities and counties that met the definition of adversely affected defense-dependent community or a regional planning commission that had such a community within its boundaries. Grants would have to be used to meet a matching funds or investment requirement from the federal government or to recover from the closure or realignment of a military installation.

An adversely affected defense-dependent community would be defined as a municipality or county requiring assistance due to the proposed or actual establishment, realignment or closure of a defense facility; the cancellation or termination of a U.S. Department of Defense (DOD) contract or weapon system program; a publicly announced DOD reduction in spending plan that would directly affect the community; or the closure or reduction in defense facility operations caused by a merger or acquisition of a defense contractor operating the facility.

The municipality or county also would have to expect to lose at least 2,500 defense worker jobs in the metropolitan statistical area; 1,000 or more defense worker jobs in any area not located in a metropolitan statistical area; or one percent of the civilian jobs in the municipality or county.

Defense worker, as defined in the bill, would mean an employee of DOD; of a government agency, private business, or other entity providing a DOD-related function who was employed on a defense facility; of a business that provided direct services or products to the DOD and whose job was directly dependent on defense expenditures; or an employee or private contractor employed by the U.S. Department of Energy (DOE) working on a DOD or DOE facility in support of a DOD-related project. Defense worker job would be a DOD- authorized permanent position or position held by one or more workers for more than 12 months.

Grant amounts. The Texas Department of Commerce (TDOC) would award grants to qualifying local governmental entities affected by a reduction in DOD operations. Grants would have to be at least \$50,000 each, but could be no more than the least of:

- 50 percent of the amount of matching money or investment that the local governmental entity was required to provide for matching federal funds;
- 50 percent of the entity's investment in cases where federal assistance was not available; or
- \$2 million.

If an entity did not have the resources available to provide 50 percent of the amount of matching money or investment necessary to qualify for federal assistance, the department could award a grant covering up to 80 percent of the amount necessary, up to the \$2 million ceiling.

Program administration. SB 227 would require TDOC to establish a defense economic adjustment assistance panel within the department, consisting of between three and five professional full-time employees, to adopt rules and administer the program. The panel would be required to establish criteria and procedures for evaluating and awarding grants and would be prohibited from favoring one adversely affected community over another. The department would be able to use no more than two percent of the total amount of grants authorized during each biennium to cover administration costs.

SB 227 would require the panel to score each applicant based upon the significance of the adverse effect on the community, including the number of jobs lost and the effect on the area's economy and tax revenue, the extent to which the applicant had used existing resources to promote local economic development, the amount of grants received previously from the department, the anticipated number of jobs that would be created through the grant, and the extent to which the grant would affect the region as a whole.

**SUPPORTERS
SAY:**

SB 227 would help local redevelopment efforts by providing state funding to entities recovering from a reduction in defense and related industries. State funding would facilitate the reuse of military facilities, create jobs, attract private investment, and expand and diversify local tax bases.

The bill would provide much needed state assistance to entities attempting to qualify for federal assistance. Grants from the DOD Office of Economic

Adjustment require applicants to provide a large percentage of the grant as a matching contribution in order to qualify for funding. But because of the cost of redevelopment efforts, the cost of matching contribution is prohibitive for many communities.

SB 227 would facilitate the rapid reuse of former defense installations. Conversion of these facilities is critical to the economic vitality of affected communities, and state funding is one of the few ways communities would be able to acquire property, maintain infrastructure, and make capital investments to attract new industries and tenants. Infrastructure installations maintained by the military frequently do not meet current building regulations and codes and need to be upgraded for use by new tenants. Successful redevelopment depends on these capital improvements.

SB 227 would help thousands of Texas workers and their families and many communities dependent upon defense contracts and facilities. Texas is unusually dependent upon military bases and defense-related contracts, with 17 operational military bases that employ about 123,350 military employees and 57,880 civilian employees and generate an estimated \$10.5 to \$17 billion in direct and indirect expenditures. Closures and reductions in the operation of these facilities are leaving many individuals without work, including service-oriented business not directly tied to the military, and can completely devastate once thriving communities.

SB 227 would assist in rebuilding local economies of adversely affected communities. Due to the current and anticipated continued decline in federal defense funding, a comprehensive and coordinated state program of financial assistance is necessary to ensure the conversion of local economies from defense-dependent to broad based industry. TDOC would fill this gap in state policy and assist local economic development efforts. The department would be able to establish criteria as necessary to ensure the highest and best use of state grant money for communities in need of redevelopment projects.

Fifteen million dollars in grants is a small price to pay for giving communities the chance to rebuild after a devastating economic loss and helping responsible, hard-working individuals provide for themselves and their families. Any expenditures would be repaid to the state via increased

economic activity, sales taxes, and job creation. State grants would be used by communities to leverage even more money in federal resources.

OPPONENTS
SAY:

SB 227 would cost the state about \$15 million by the end of the next biennium. Although the bill would have a laudable goal of alleviating economic distress caused by a reduction in defense-related activities, there are higher priorities and programs that also require funding. Texas does not have unlimited resources, and state funds would be more wisely spent on programs that impact all citizens, such as education and property tax relief.

OTHER
OPPONENTS
SAY:

SB 227 should establish a low-interest loan program instead of a grant program. A loan program would be less costly than a grant program and would ensure the state received a return on its investment. In addition, any grant program should give special priority to communities applying for federal assistance. This would ensure the best use of state dollars and the maximum amount of leverage of federal dollars.

NOTES:

A related bill, SB 226 by Madla, which would designate economic readjustment zones and defense readjustment projects, was signed by the governor on May 19.