

**SUBJECT:** Amending the Texas Enterprise Zone Act

**COMMITTEE:** Economic Development — favorable, without amendment

**VOTE:** 9 ayes — Jim Solis, Van de Putte, Deshotel, Homer, Keffer, Luna, McClendon, Seaman, Yarbrough  
0 nays

**WITNESSES:** For —Craig Pinkley, Texas Department of Economic Development  
Against —None

**BACKGROUND:** The Texas Enterprise Zone Act allows municipalities to designate enterprise zones based upon unemployment levels and lack of private investment. Each municipality may nominate up to three areas as enterprise zones.

Businesses are offered tax refunds and abatements as incentives to remain or locate within an enterprise zone. Businesses that locate in an enterprise zone and commit to hiring at least 25 percent of new employees from among zone residents or economically disadvantaged persons are eligible for a one-time state sales tax refund of up to \$5,000 and for local government incentives, including up to a five-percent reduction in electric utility rates and some sales tax refunds.

The Texas Legislature enacted SB 405 by Carriker in the 73rd Legislature that amended Article 5190.7 (10) (f), VTCS, to allow retained jobs, as well as new permanent jobs, to qualify for tax refunds under the program.

Current law, section 2303.407, Government Code, requires the Texas Department of Economic Development to allocate to a designated enterprise project the maximum number of new permanent jobs or retained jobs eligible to be included in a computation of a franchise tax refund for the project.

Section 171.1015, Tax Code, allows an enterprise zone project to deduct a portion of its franchise tax for its capital investment in the enterprise zone. Subsection (g) also allows a qualified business to apply for the tax deduction.

Section 171.501 allows a qualified business to be granted a refund of franchise taxes.

**DIGEST:** HB 3658 would amend the Government Code and the Tax Code to modify certain requirements for enterprise zone designation.

Under HB 3658, the Texas Department of Economic Development could allow job retention to qualify for enterprise zone benefits if:

- ! permanent employees would be laid off permanently without the designation;
- ! the business would close down permanently or relocate out of state without the designation;
- ! a 10 percent increase in the production capacity of the business would occur with the designation;
- ! a 10 percent decrease in overall cost per unit produced would occur with the designation; or
- ! the business facility had been destroyed or impaired because of a natural disaster.

A retained job would be defined as a job that existed before a qualified business received designation as an enterprise project, would exist afterwards, and provided at least 1,820 hours of work annually.

This bill would require the economic development department to establish a minimum scoring threshold to be met by a business applicant under the program allowing enterprise zone neighborhoods to nominate particular businesses for enterprise project designation.

HB 3658 would amend the Section 171.1015 (g), Tax Code to state that only enterprise projects, rather than only qualified businesses, that have been certified as eligible could apply to the comptroller for a franchise tax deduction under that section.

HB 3658 also would provide that utility rates for qualified businesses in an enterprise zone could be reduced up to, but not more than, five percent below the lowest rate authorized for a cooperative utility or an investor-owned utility. A qualified enterprise project or the governing body of the enterprise

zone could petition the appropriate utility, in addition to the appropriate regulatory authority, to receive a reduced rate.

This bill would take effect September 1, 1999.

**SUPPORTERS  
SAY:**

The enterprise zone program is a worthwhile investment that attracts business to economically distressed areas of Texas and creates high-wage and permanent jobs for many citizens. HB 3658 would make substantive and technical changes to the enterprise zone program to increase efficiency and effectiveness of the program.

The bill would direct the Texas Department of Economic Development to establish minimum standards for determining the eligibility of businesses seeking enterprise project designation. This would make the process more competitive and would ensure that the jobs created by the designated businesses would be good jobs, characterized by high wages and permanency.

HB 3658 would clarify that tax credits available to qualified businesses also would be available to businesses that seek to retain existing jobs, and would provide criteria for job retention benefits. Authorizing benefits for retained jobs would increase the program's usefulness in times of economic downturn. It would help shore up local economies and save jobs by preventing businesses from closing or relocating out of state.

**OPPONENTS  
SAY:**

No apparent opposition.

**NOTES:**

The companion bill, SB 1629 by Sibley, has been referred to the committee on Economic Development.

HB 2001 by Oliveira et al., which passed both houses in 1997, included some of the same provisions in HB 3658, but was vetoed because of other provisions in the bill. HB 2001 would have required the department to establish a minimum scoring threshold for designated projects, and would have changed the utility rates charged by cooperative corporations or investor-owned utilities.