

SUBJECT: Allowing cities to grant public money to industrial development corporations

COMMITTEE: Urban Affairs — favorable, with amendment

VOTE: 9 ayes — Carter, Bailey, Burnam, Callegari, Edwards, Ehrhardt, Hill, E. Jones, Najera
0 nays

WITNESSES: For — Tom Palmer, City of Mesquite; Carlton Schwab, Texas Economic Development Council; *Registered but did not testify:* Bill Clayton, City of Mesquite; Shanna Igo, Texas Municipal League
Against — None
On — U.S. Rep. Pete Sessions

BACKGROUND: The Development Corporation Act of 1979 (V.T.C.S., art. 5190.6) authorizes municipalities to create industrial development corporations to conduct a wide variety of economic development projects. The activities of these corporations are financed through corporation-issued bonds or, with voter approval, through a sales and use tax of up to one-half of 1 percent. Cities are prohibited from granting public money to these corporations.

Local Government Code, sec. 380.001 allows a city to set up programs to make loans, grant public money, and provide city personnel and services to promote economic development. Sec. 380.002 allows a city with a population of more than 100,000 to grant public money for this purpose to a tax-exempt organization defined under the U.S. Internal Revenue Code, sec. 501(c)(3).

DIGEST: HB 782, as amended, would amend the Local Government Code and the Development Corporation Act to allow a home-rule municipality to grant public money to an industrial development corporation created under the act. The corporation could use the grant money to develop and diversify the state economy, eliminate unemployment or underemployment, and develop and expand commerce.

HB 782 would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2001.

**SUPPORTERS
SAY:**

HB 782 would give cities greater flexibility to promote economic development and job creation by allowing them to grant public money to development corporations created under the Development Corporation Act.

Economic development is one of the most essential functions of state and local government. In Texas, this function is primarily a local activity, and cities must have every means possible to promote economic development. HB 782 would create one more tool for cities to promote projects that address their economic development needs.

This bill could create a particularly attractive option for a city that has chosen not to impose a sales and use tax to finance its industrial development corporation or for a city that has reached its sales-tax cap. By granting public money from other sources to these corporations, a city could direct more resources toward economic development.

Current law allows a city to grant public money to a program set up by the city to promote economic development. It makes no sense to prohibit cities from making these same grants to economic development corporations.

**OPPONENTS
SAY:**

HB 782 could result in benefitting a few private businesses at taxpayer expense. Once public money was granted to these industrial development corporations, nothing would prevent them from offering business incentives that would benefit only a few private companies. Moreover, HB 782 would not require, but only would allow, a corporation to use the public money granted from a city for economic development purposes. Ultimately, there would be little or no accountability for how money granted under this bill would be spent. The state should be wary about giving cities authority that could allow public money to be used for private purposes.

**OTHER
OPPONENTS
SAY:**

HB 782 is unnecessary. Current law allows a city to grant public money as part of a local program to promote economic development. There would be no additional benefit from funneling this money through industrial development corporations.

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NOTES: The committee amendment would remove language in the filed version of HB 782 that would limit the bill's scope to cities with a population of more than 100,000.

The companion bill, SB 1044 by Carona, has been referred to the Senate Intergovernmental Relations Committee.