

SUBJECT: Including military facilities as eligible economic development projects

COMMITTEE: Defense Affairs and State-Federal Relations — committee substitute recommended

VOTE: 5 ayes — Corte, Campbell, Herrero, Hodge, Leibowitz

0 nays

4 absent — Berman, Merritt, P. Moreno, Noriega

WITNESSES: For — Carlton Schwab, Texas Economic Development Council

Against — None

On — Bob Bearden, Comptroller's Office; Zindia Thomas, Attorney General's Office

BACKGROUND: The Development Corporation Act (DCA) of 1979 authorizes Texas cities to establish nonprofit economic development corporations. The purpose of a development corporation created under this act is to develop industrial and manufacturing enterprises to promote employment and the public welfare. Sec. 4(b) establishes the Texas Small Business Industrial Development Corp. (TSBIDC), which can make loans to development corporations in the state.

Under the DCA, cities can raise funds for economic development projects through voter-approved local sales taxes ranging from one-eighth cent to one-half cent on the dollar, commonly referred to as "4A/4B" funds, which are named after the section of the act in which they are established. Sec. 4(i) defines an economic development project as the use of funds financed through the purchase of bonds by TSBIDC that are suitable for the promotion of economic development.

Current law authorizes economic development projects to be exempt from ad valorem taxes, sales and use taxes, or any other taxes levied or imposed by the state or any political subdivision of the state.

Communities formerly were able to use the DCA to raise funds for infrastructure development around military bases as economic development projects. In 2003, however, the 78th Legislature enacted HB 2912 by Homer, et al., which revised the types of projects eligible for support by an economic development corporation. The legislation removed communities' ability to use 4A/4B funds to address economic development needs around military facilities.

DIGEST:

CSHB 548 would allow communities to use 4A/4B funds to increase the value of military facilities and address economic development needs in and around the facilities. Eligible military facilities would include closed or realigned bases.

The bill would expand the definition of an economic development "project" to include infrastructure, improvements, land acquisition, buildings, or expenditures for the creation or retention of "primary jobs" or that are found to be required or suitable for:

- promoting or supporting a military base in active use to prevent the possible future closure of realignment of the base;
- attracting new military missions to a military base in active use; or
- redeveloping a military base that has been closed or realigned, including a military base closed or realigned according to the recommendation of the Defense Base Closure and Realignment Commission.

CSHB 548 also would amend the definition of "primary job" to include employment within the Armed Forces, Army, Navy, Air Force, Coast Guard, Marine Corps and military bases.

The bill 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, 2005.

**SUPPORTERS
SAY:**

Use of 4A/4B funds to address economic development needs around military facilities would help promote or support local bases, attract new missions, and redevelop or transform closed or realigned facilities. According to the Texas Military Preparedness Commission (TMPC), there are 18 active military installations in Texas, encompassing 230,000 direct

jobs and a \$77 billion impact to the state. It is unknown how many of these installations may fall on the Base Realignment and Closure (BRAC) list set to be released in May 2005. BRAC is a process by which the Defense Department leadership modifies future military operations by reducing costs through base closures and moving military forces away from installations that are no longer needed. The 4A/4B funds would provide another option needed to help cities prevent base closures in the state.

The state must realize the economic value of federal military facilities and try to tie every thread it can to keep them here. The military facilities may be the greatest economic generators the state has, so everything should be done to see that they remain and prosper. Although local government codes provide for funding for economic development around military installations, a 4A/4B funding option also is necessary because the state cannot afford to lose any bases under BRAC.

The removal of cities' ability to use 4A/4B funds to address economic development needs around military facilities by CSHB 2912 was essentially an oversight in drafting. This bill would correct that oversight and restore the funding option for cities.

While it is possible that a city may not use the 4A/4B funds for the purpose for which they were designated, that is a risk when these funds are used for any project and would not apply only to funds allotted for military facilities.

**OPPONENTS
SAY:**

Providing this additional option for use of 4A/4B funds could divert money needed for other projects, including road repair, job recruitment and emergency services funding for police and fire departments.

HB 2912 last session purposefully removed the use of 4A/4B funds as an option for military installation development because cities have other sources for such funding. Also, cities too easily can use 4A/4B funding outside the bounds of what is designated.

NOTES:

The committee substitute revised the original bill by including Coast Guard jobs within the definition of primary jobs. It also added closed or realigned military bases to the military facilities that could qualify as authorized economic development projects.

The Legislative Budget Board reports that although no significant fiscal implication to the State is anticipated, the bill could affect taxable property values and related ad valorem taxes as well as other taxes collected by units of local government.

The Senate passed the companion bill, SB 252 by Estes, on the Local and Uncontested Calendar on March 17. The House Defense Affairs and State-Federal Relations Committee reported SB 252 favorably, without amendment, on March 31, making it eligible to be considered in lieu of HB 548.