
**HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2008**

**A REPORT TO THE
HOUSE OF REPRESENTATIVES
81ST TEXAS LEGISLATURE**

**JOSEPH D. DESHOTEL
CHAIRMAN**

**COMMITTEE CLERK
BENJAMIN FITZGIBBONS**



Committee On
Economic Development

January 12, 2009

Joseph D. Deshotel
Chairman

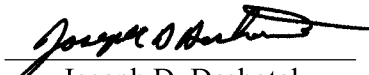
P.O. Box 2910
Austin, Texas 78768-2910

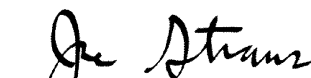
The Honorable Tom Craddick
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701


Dear Mr. Speaker and Fellow Members:

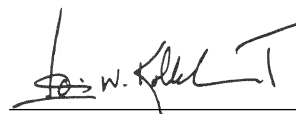
The Committee on Economic Development of the Eightieth Legislature hereby submits its interim report including recommendations for consideration by the Eighty-first Legislature.

Respectfully submitted,


Joseph D. Deshotel


Joe Straus, Vice Chair


Jim Dunnam


Lois Kolkhorst, CBO


Geanie Morrison


Marc Veasey


Solomon Ortiz Jr.

Joe Straus
Vice-Chairman

Members: Lois Kolkhorst, Marc Veasey, Solomon Ortiz, Jr., Geanie Morrison, Jim Dunnam

TABLE OF CONTENTS

INTRODUCTION 4

INTERIM STUDY CHARGES.....5

CHARGE 1.....7
 Background.....8
 Recommendations to the 81st Legislature.....18

CHARGE 2.....20
 Background.....21
 Recommendations to the 81st Legislature.....23

CHARGE 3.....25
 Background.....26
 Recommendations to the 81st Legislature.....30

CHARGE 4.....32
 Recommendations to the 81st Legislature.....32

ENDNOTES.....33

INTRODUCTION

At the beginning of the 80th Legislature, the Honorable Tom Craddick, Speaker of the Texas House of Representatives, appointed seven members to the House Committee on Economic Development. The committee membership includes the following: Joseph Deshotel, Chairman; Joe Straus, Vice Chair; Lois Kolkhorst, CBO; Marc Veasey; Solomon Ortiz, Jr.; Geanie Morrison; Jim Dunnam.

During the interim, the committee was assigned four charges by the speaker: 1) Study the performance of the Texas Enterprise Fund, the Texas Emerging Technology Fund, the Texas Economic Development Act, the Texas Enterprise Zone Program, and other economic development tools in promoting economic development in Texas, and recommend any needed statutory changes. 2) Review the overall history, goals, and implementation of the various funds established by Article 5190.14, Vernon's Texas Civil Statutes. Identify and recommend any changes necessary to clarify or improve the statute. 3) Study the use of the Texas Economic Development Act since its enactment as HB 1200, 77th Legislature, Regular Session. Determine how the act may be enhanced to better attract significant capital investments by science and technology industries developing alternative energy sources. (Joint Interim Charge with the House Committee on Energy Resources). 4) Monitor the agencies and programs under the committee's jurisdiction.

The committee has completed all hearings and research and has filed its report. The committee would like to express great appreciation to each member's staff for their assistance and efforts throughout the interim. In addition, the committee would like to thank all participants who have provided important testimony and input through the process. Finally, the committee would like to thank the leadership and staff of the Texas Workforce Commission, Economic Development and Tourism Office within the Governor's office, Texas Comptroller's office, Texas Department of Agriculture, Texas Education Agency, and to the staff of the Texas House of Representatives for their time, participation, and efforts on behalf of the committee.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

INTERIM STUDY CHARGES

- CHARGE 1** Study the performance of the Texas Enterprise Fund, the Texas Emerging Technology Fund, the Texas Economic Development Act, the Texas Enterprise Zone Program, and other economic development tools in promoting economic development in Texas, and recommend any needed statutory changes.
- CHARGE 2** Review the overall history, goals, and implementation of the various funds established by Article 5190.14, Vernon's Texas Civil Statutes. Identify and recommend any changes necessary to clarify or improve the statute.
- CHARGE 3** Study the use of the Texas Economic Development Act since its enactment as HB 1200, 77th Legislature, Regular Session. Determine how the act may be enhanced to better attract significant capital investments by science and technology industries developing alternative energy sources. (Joint Interim Charge with the House Committee on Energy Resources)
- CHARGE 4** Monitor the agencies and programs under the committee's jurisdiction.

CHARGE 1

Study the performance of the Texas Enterprise Fund, the Texas Emerging Technology Fund, the Texas Economic Development Act, the Texas Enterprise Zone Program, and other economic development tools in promoting economic development in Texas, and recommend any needed statutory changes.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on March 13, 2008, to discuss Interim Charge #1.

BACKGROUND

The Enterprise Fund

The passage of SB 1771, 78th Legislature, Regular Session, created the Texas Enterprise Fund to enhance economic development activities within the state. The bill provides the Governor, with written consent from both the Lieutenant Governor and the Speaker of the House, a means of providing financial resources as an incentive tool to attract new businesses to the state. This tool allows state leadership the capability to respond quickly to economic opportunities in order to be competitive with other states in business recruitment and expansion.

The fund provides the state with recruitment leverage by creating a business friendly environment that quickly responds to economic development opportunities in a fast-paced, changing economy. The fund further provides flexibility in negotiations with prospective companies with the ability to customize incentives to each project, thus providing Texas with an infrastructure conducive to growing high-wage, high-skilled employment opportunities for future Texans.

The Enterprise Fund can be used as an incentive for a variety of economic development projects including job training programs, infrastructure and community workforce development, and business recruitment. The review process for eligible Enterprise Fund projects take into account possible job creation and wages, the potential capital investment to the state, as well as the financial strength of the applicant, the applicant's business history, analysis of the related business sector and public and private financial support.

Current Business Climate - Since the implementation of the Texas Enterprise Fund in 2003, Texas leadership has brought more than 51,000 jobs and more than \$13.6 billion in capital investment to Texas.¹ The Texas Legislature has continued to nurture a business friendly environment in Texas and has had a very large, positive impact to the state. In January 2008, Chief Executive Magazine ranked Texas as the best state for which to do business for the third straight year. Site Selection Magazine, an influential trade magazine that represents a business perspective focused on location and expansion decisions, had Texas ranked number one for the Executive Survey Business Climate Rankings 2007, according to corporate real estate executives polled across the country. In July 2007, Forbes Magazine ranked Texas in the top five of the 2007 Best States for Business.²

OFFICE OF THE GOVERNOR

TEXAS ENTERPRISE FUND (TEF)
AS OF JANUARY 31, 2008

Company	Location	Industry	Jobs	Capital Investment ¹	TEF Grant ²	Annual Gross State Product Impact ³	Total Project Return (GSP/TEF) Jobs & Inv.	Annual State Return (GSP/TEF)	Total Project Return (Direct Jobs & Inv.)	Date Announced	Disbursements		Clawback ⁴
											Amount	Date	
FY2004 - FY2005 TEF PROJECTS UNDER CONTRACT >>			34,289	\$ 6,500,281,413	\$ 278,864,000	\$ 3,991,499,449	177,337	35.4 X	251%		\$ 279,864,000	\$ 207,289	
Countrywide Financial	Richardson	Financial Services	7,500	\$ 200,000,000	\$ 20,000,000	\$ 2,254,500,000	26,586	113.2 X	358%	12/04	\$ 10,000,000	\$ 10,000,000	
TX Inst. for Genetic Med.	Houston & College Station	Biotech	5,000	\$ 45,700,000	\$ 50,000,000	\$ 2,744,000,000	31,152	54.9 X	100%	07/05	\$ 50,000,000	\$ 50,000,000	
Washington Mutual	San Antonio	Financial Services	4,200	\$ 50,000,000	\$ 15,000,000	\$ 1,711,233,655	9,082	11.4 X	237%	05/05	\$ 5,000,000	\$ 5,000,000	
Stemtech	Austin	High-tech Consortium	4,000	\$ 150,000,000	\$ 40,000,000	\$ 245,500,000	4,623	6.1 X	194%	03/04	\$ 9,000,000	\$ 9,000,000	
Voyant	Dallas	Aviation	3,000	\$ 599,000,000	\$ 35,000,000	\$ 2,247,295,000	29,377	84.1 X	368%	02/04	\$ 35,000,000	\$ 35,000,000	
UTHSC, MDA, GEMS	Houston	Biomedical	2,253	\$ 55,000,000	\$ 25,000,000	\$ 181,798,146	4,840	7.3 X	103%	05/04	\$ 15,000,000	\$ 15,000,000	
Tyson Foods	Sherman	Food Processing	1,600	\$ 97,150,000	\$ 7,000,000	\$ 800,000,000	4,648	114.3 X	159%	01/05	\$ 3,500,000	\$ 3,500,000	
Texas Energy Center	Sugarland	Energy Cluster	1,500	\$ 20,000,000	\$ 3,600,000	\$ 48,100,000	2,590	13.6 X	571%	03/04	\$ 500,000	\$ 500,000	
Texas Instruments****	Richardson	Semi-conductor	1,000	\$ 3,000,000,000	\$ 50,000,000	\$ 323,035,000	4,035	6.5 X	284%	06/03	\$ 12,500,000	\$ 12,500,000	
Home Depot	Austin & New Braunfels	IT & Distribution	843	\$ 809,170,000	\$ 8,500,000	\$ 48,661,267	1,074	5.8 X	270%	07/04	\$ 5,000,000	\$ 5,000,000	
OTGO Petroleum	Houston & Corpus Christi	Oil & Refinery	820	\$ 828,000,000	\$ 5,000,000	\$ 42,500,000	3,611	8.5 X	216%	04/04	\$ 5,000,000	\$ 5,000,000	
Cabell's	Buda & Fort Worth	Tourist Destination	606	\$ 120,000,000	\$ 600,000	\$ 145,140,000	1,002	243.5 X	2716%	05/04	\$ 400,000	\$ 400,000	
Maxim Integrated Products	San Antonio	Semi-conductor	509	\$ 90,000,000	\$ 1,500,000	\$ 729,588,113	1,456	85.4 X	1258%	12/03	\$ 1,500,000	\$ 1,500,000	
Ruff Foods	Denison	Food Processing	423	\$ 48,880,413	\$ 1,500,000	\$ 124,681,625	1,652	83.1 X	270%	09/05	\$ 1,500,000	\$ 1,500,000	
Alphaborn	Woodlands	Chemicals	326	\$ 226,725,000	\$ 2,750,000	\$ 56,758,944	1,221	20.6 X	2212%	10/04	\$ 2,750,000	\$ 2,750,000	
JTEKT Automotive Powertrains	Ennis	Automotive Parts	200	\$ 30,000,000	\$ 333,000	\$ 152,671,470	562	45.8 X	1742%	08/04	\$ 333,000	\$ 333,000	
Raytheon	Midcreek	Aerospace & Defense	200	\$ 21,700,000	\$ 1,900,000	\$ 125,300,000	338	125.3 X	409%	11/05	\$ 500,000	\$ 500,000	
Ineos USA LLC	League City	Petrochemicals	150	\$ 5,720,000	\$ 750,000	\$ 18,478,908	228	24.6 X	531%	01/05	\$ 250,000	\$ 250,000	
Lee Container	Nacogdoches	Manufacturing	105	\$ 5,638,000	\$ 300,000	\$ 22,302,111	242	74.3 X	178%	10/04	\$ 300,000	\$ 300,000	
Superior Essex Comm.	Brownwood	Telecommunications	50	\$ 7,600,000	\$ 250,000	\$ 12,750,000	108	51.0 X	804%	08/04	\$ 250,000	\$ 250,000	
Baylor College of Medicine	Houston	Agriculture		\$ 51,000,000	\$ 2,000,000						\$ 1,000,000	\$ 1,000,000	
LEARN & VISURE	Statewide	Higher Education			\$ 9781,000					08/04	\$ 6,000,000	\$ 6,000,000	

Notes: (1) Based on Company Commitments and Representations
 (2) Amount granted per the contract. Prior disbursements disclosed upon previous performance and any encumbrance of disbursements based on performance.
 (3) Economic impact reports by Industries, Economics, Energy
 (4) Includes repayment available due to encumbrance of disbursements and opportunity losses of additional disbursements based on performance. If not. For Growth Ment. clawback from Lantion non-statement of Job target.
 (5) T1 grant utilized by University of Texas at Dallas, 2007 Annual Compliance Verification

Company	Location	Industry	Jobs*	Capital Investment**	TEF Grant***	Annual Gross State Product Impact***	Total Jobs****	Annual State Return (GP/TEF)	Total Project Return (Direct Jobs & Inv.)	Date Amounted	Disbursements Amount	Disbursements Date	Clawback****
FY2006 - FY2007 TEF PROJECTS UNDER CONTRACT >>													
			17,432	\$ 9,064,745,000	\$ 89,514,392	\$ 3,666,427,830	45,384	41.0 X	612%		\$ 48,824,108		\$ 9,770
Backspace	San Antonio	Web Hosting	4,000	\$ 111,390,000	\$ 22,800,000	\$ 155,488,638	10,380	7.0 X	287%	08/07	\$ 5,000,000	08/07	
Hillar Cheese	Dallas	Dairy	1,982	\$ 190,000,000	\$ 7,500,000	\$ 41,975,000	3,208	5.6 X	222%	11/05	\$ 4,000,000	02/05	\$ 9,770
Fidelity Global Brokerage	Town of Westlake	Financial Services	1,535	\$ 200,000,000	\$ 8,500,000	\$ 222,840,053	3,468	25.2 X	493%	02/07	\$ 4,500,000	03/07	
Scott & White Memorial	Temple	Health Care Research	1,485	\$ 63,000,000	\$ 5,000,000	\$ 260,475,000	3,763	34.7 X	472%	11/07	\$ 3,000,000	11/07	
Sanderson Farms	McLennan County	Poultry Processing	1,312	\$ 73,000,000	\$ 500,000	\$ 197,336,592	4,487	37.4 X	3577%	01/06	\$ 500,000	04/06	
ADP	El Paso	Solutions Center	1,028	\$ 23,908,000	\$ 3,000,000	\$ 70,007,049	1,619	23.3 X	277%	02/06	\$ 1,181,807	03/07	
Maxim Integrated Products	Irving	Semi-conductor	1,000	\$ 200,000,000	\$ 5,000,000	\$ 268,000,000	2,830	53.6 X	453%	05/07	\$ 2,000,000	06/07	
Samsung	Austin	Semi-conductor	900	\$ 2,500,000,000	\$ 16,800,000	\$ 297,279,000	3,358	27.5 X	712%	04/06	\$ 4,000,000	05/06	
T-Mobile	Frisco	Wireless Communications	855	\$ 20,700,000	\$ 2,150,000	\$ 99,850,000	2,062	27.8 X	317%	11/05	\$ 1,500,000	03/06	
Lockheed Martin	Houston	Aerospace	800	\$ 58,000,000	\$ 5,400,000	\$ 619,510,000	2,043	113.0 X	338%	09/06	\$ 4,000,000	05/07	
Fordmark	McKinney	Insurance	500	\$ 26,600,000	\$ 2,000,000	\$ 31,000,000	1,150	15.5 X	382%	03/06	\$ 1,500,000	04/06	
Hewlett-Packard	Austin / Houston	Data Center	420	\$ 2,000,000,000	\$ 5,000,000	\$ 56,800,000	978	11.3 X	249%		\$ 3,000,000	09/06	
Rockwell Collins, Inc.	Richardson	Aerospace	334	\$ 6,782,500	\$ 1,673,382	\$ 209,868,520	1,282	125.1 X	309%	01/08	\$ 808,196	12/07	
Moliva	Port Arthur	Oil & Gas Refining	300	\$ 3,500,000,000	\$ 2,000,000	\$ 600,000,000	2,760	308.0 X	5744%		\$ 1,300,000	06/06	
Comconia	Dallas	Financial Services	200	\$ 16,250,000	\$ 3,600,000	\$ 26,202,542	688	7.5 X	189%	03/07	\$ 1,500,000	09/07	
Allied Production Solutions	Guilford	Oil & Gas Production	200	\$ 16,325,000	\$ 800,000	\$ 21,086,232	200	28.4 X	472%	09/07	\$ 400,000	10/07	
Authentic	Arlington	Nanotechnology	120	\$ 6,500,000	\$ 1,000,000	\$ 316,895,004	315	316.8 X	293%		\$ 400,000	11/07	
Newly West Foods	Mount Pleasant	Food Products	115	\$ 27,000,000	\$ 450,000	\$ 110,755,000	282	246.1 X	681%	04/06	\$ 250,000	03/06	
Trace Engines	Midland	Aerospace	114	\$ 9,655,000	\$ 456,000	\$ 85,775,000	338	210.0 X	294%	09/06	\$ 250,000	08/06	
Alloy Polymers	Houston County	Plastics Compounding	92	\$ 15,800,000	\$ 200,000	\$ 17,334,820	135	85.7 X	811%	10/06	\$ 100,000	10/06	
FY2008 - FY2009 TEF PROJECTS UNDER CONTRACT >>													
			337	\$ 41,835,000	\$ 4,000,000	\$ 307,035,458	2,043	307.0 X	364%		\$		\$ 287,059
Alamy Engr Composites	El Paso	Aerospace Mfg	337	\$ 41,835,000	\$ 1,000,000	\$ 307,035,456	2,043	307.0 X	364%	01/08			\$
TEF PROJECTS ANNOUNCED, CONTRACT PENDING >>													
				\$	\$	\$							
TOTAL TEF PROJECTS ALLOCATED >>													
			51,818	\$ 15,008,661,913	\$ 370,376,392	\$ 1,373,463,288	47,427	41.0 X	612%		\$ 52,848,108		\$ 9,770
AVAILABLE BALANCE FOR FISCAL YEAR 2008 >>													
				\$ 295,841,481									

Notes: (*) Based on Company Commitments and Representations
 (**) Amount granted for the contract. Total disbursements depend upon in-state performance and any enforcement of disbursements based on performance.
 (***) Economic Impact Report by Independent Economic Analysis
 (****) Includes repayment provided due to enforcement of disbursements and/or supply issues of additional disbursements based on performance. TX, Inc. For Geographic, Med, Aerospace from Union non-disbursement of "Jet Inlay"
 (*****) If grant utilized by University of Texas at Dallas, 2007 Annual Compliance Verification

Office of the Governor

Texas Enterprise Fund Projects - Disbursed, Announced & Committed As of January 31, 2008

- Central Texas Region**
 - Cabela's - Buda, \$0.6MM***
 - Hewlett-Packard - Austin, \$5MM***
 - Home Depot - Austin, \$8.5MM***
 - Indymac Bank - \$4M committed, DNA*
 - LEARN & TIGRE - Network Infrastructure**
 - Samsung - Austin, \$10.8MM
 - Scott & White Memorial - Temple, \$7.5MM
 - Sematech - Austin, \$40MM
 - Viasys - \$0.5MM committed, DNA*
- Gulf Coast Region**
 - Baylor (Research) - Houston, \$2MM
 - CITGO - Houston, \$5MM***
 - Energy Center - Sugarland, \$3.6MM
 - General Dynamics - \$1.3MM committed, DNA*
 - Hewitt - \$4MM committed, DNA*
 - Hewlett-Packard - Houston, \$5MM***
 - Ineos USA - League City, \$0.75MM
 - Huntsman - The Woodlands, \$2.75MM
 - LEARN & TIGRE - Network Infrastructure**
 - Lockheed Martin - Houston, \$7.5MM
 - Merit Medical - \$0.75MM committed, DNA*
 - Motiva - Port Arthur, \$2MM
 - NASA - \$5.1MM committed, DNA*
 - TIGM - Houston/College Station, \$50MM***
 - Union Tank Car - \$2MM committed, DNA*
 - UTHSC/MDA - Houston, \$25MM
- North Texas Region**
 - Allied Production Solutions - Gainesville, \$800K
 - Authentix - Addison, \$1MM
 - Cabela's - Ft. Worth, \$0.6MM***
 - Comerica - Dallas, \$3.5MM
 - Countrywide - Richardson, \$20MM
 - Fidelity - Town of Westlake, \$8.5MM
 - Johns Manville - \$0.5MM committed, DNA*
 - JTEKT Automotive - Ennis, \$0.333MM
 - LEARN & TIGRE - Network Infrastructure**
 - LM Glasfiber - \$5.2MM committed, DNA*
 - Maxim - Irving, \$5MM
 - Pratt Ind - \$3.3MM committed, DNA*
 - Raytheon - McKinney, \$1MM
 - Ruiz Foods - Denison, \$1.5MM
 - Sanderson Farms - McLennan County, \$0.5MM
 - Rockwell-Collins, Inc. - Richardson, \$1.678MM
 - Schott Solar - Arlington, \$3M Committed, DNA*
 - T-Mobile - Frisco, \$2.15MM
 - Texas Instruments/UTD - Richardson, \$50MM
 - Torchmark - McKinney, \$2MM
 - Tyson Foods - Sherman, \$7MM
 - Vought - Dallas, \$35MM
- South Texas Region**
 - Albany Engr Composites - Boerne, \$1MM
 - CITGO - Corpus Christi, \$5MM***
 - Dunlop Aerospace - \$0.43MM committed, DNA*
 - Home Depot - New Braunfels, \$8.5MM***
 - LEARN & TIGRE - Network Infrastructure**
 - Maxim - San Antonio, \$1.5MM
 - Rackspace - San Antonio, \$22MM
 - Washington Mutual - San Antonio, \$15MM
- Upper Rio Grande Region**
 - ADP - El Paso, \$3MM
 - LEARN & TIGRE - Network Infrastructure**
- Valley Region**
 - Boeing - \$45MM committed, DNA*
 - LEARN & TIGRE - Network Infrastructure**
- East Texas Region**
 - Alloy Polymers - Houston County, \$0.2MM
 - Campbell's Soup - \$1MM committed, DNA*
 - LEARN & TIGRE - Network Infrastructure**
 - Lee Container - Nacogdoches, \$0.3MM
 - Newly Weds Foods - Mt. Pleasant, \$0.45MM
- West Texas Region**
 - Dyncorp - \$0.94MM committed, DNA*
 - Hijmar Cheese - Dalhart, \$7.5MM
 - IBM - \$2.5MM committed, DNA*
 - LEARN & TIGRE - Network Infrastructure**
 - Superior Essex - Brownwood, \$0.25MM
 - Trace Engines - Midland, \$0.456MM

Notes: * DNA - Did Not Accept
 ** \$9.781MM Allocated Statewide
 *** TEF Shared by Both Locations

TEF Map 01-31-2008

End note 4

The Texas Emerging Technology Fund

The passage of HB 1765, 79th Legislature, Regular Session, created the Texas Emerging Technology Fund to be a general revenue fund used for research and development activities in emerging technology industries. Many states were outcompeting Texas by investing billions of dollars for research and development funding for emerging technologies. Although local and state economic development initiatives were in place within the state of Texas, none allocate the necessary funds to provide incentives and foster emerging technology concepts that have the potential to become marketable products.

The program partners the state, higher education institutions, and the private sector to focus on research superiority within Texas' Institutions of Higher Education to attract the best research talent in the world, use that talent to create early-stage research and development within Texas higher education institutions, and increase the transfer capabilities to expedite the commercialization of specific emerging technologies to create or attract private sector entities that have the potential to create, or substantially increase, high paying jobs in the state.⁶

Research Superiority - The Emerging Technology fund provides for an allocated amount of funding incentives for public and private institutions of higher education within the state to actively recruit and acquire the most talented, qualified researchers from outside of Texas to enhance the facilitation of certain emerging technology fields within the state.

Matching Awards - The Emerging Technology Fund requires amounts allocated from the fund to be reserved to match funding from research sponsors other than this state, including federal research sponsors, and further requires that the Emerging Technology Advisory Committee recommend proposals that are eligible for match funding to the Governor, Speaker of the House, and Lieutenant Governor.

Commercialization Awards - The fund provides awards that allow selected early-stage investments in new, technology-based, private entrepreneurial entities that collaborate with private and public institutions of higher education in Texas. Commercialization awards are granted based on a guarantee by contract that a substantial percentage of any new or expanded commercialization or manufacturing of any real or intellectual product resulting from the award will be established in the state of Texas.

Regional Centers of Innovation and Commercialization - In regard to the disbursement of the fund, the state of Texas is divided up into seven geographic regions. Within each region there is a designated Regional Center for Innovation and Commercialization which handles local and regional access to the fund. An eighth center, the Texas Life Science Center, was designated to focus on biotechnology and life science applications from throughout the state. The Regional Centers of Innovation and Commercialization evaluate the applications they receive from entities within their region and make recommendations to the statewide Emerging Technology Fund Advisory committee. The committee evaluates these projects and makes funding recommendations to the Speaker of the House, The Governor, and the Lieutenant Governor who unanimously determine awards.⁷

Texas Economic Development Act - (See Charge 3, pg 25).

Enterprise Zone Program

The Texas Enterprise Zone Program became available in 1987 for local jurisdictions and the state to partner together to offer local and state incentives for businesses expanding or locating within an enterprise zone to bring economic development into certain areas. The Texas Enterprise Zone Program was created as an economic development tool to be utilized by local communities by partnering with the state of Texas to promote capital investment and job creation within economically distressed areas.

The Texas Enterprise Zone Program created a process that clearly identifies and defines distressed areas within the state and provides both local and state government incentives to encourage private investment in those areas by the provision of tax incentives and economic development program benefits for the creation and retention of high paying, quality jobs. Economic development is further encouraged by allowing enterprise program projects to be designated outside of an enterprise zone, with a higher threshold of hiring low-income and/or enterprise zone residents.

Program Participation Process - The Texas Enterprise Zone Program process begins by a specific community nominating a local business for enterprise project designation, the business then becomes eligible to receive state tax incentives under the program such as state sales and use tax refunds. Each local community has a limited number of projects allocated for a state maximum of 105 program slots that can be awarded per biennium. Any designations remaining at the end of a biennium can be carried forward to the next biennium. Designation of an enterprise project is up to a period of five years. In addition to the five year designation period, a ninety day designation period window is available prior to the quarterly deadline that takes place on the first working day of March, June, September, and December. Employment and capital investment commitments must be incurred and met within the ninety day window of the project designation expiration date.

Further requirements affirm that projects may be located in or outside of an Enterprise Zone. However, if located within a zone the company must commit that twenty five percent of their new employees will meet economically disadvantaged, low-income or enterprise zone residency requirements. If a project is located outside of a zone, the company must commit that thirty five percent of their new employees will meet low-income or enterprise zone residency requirements. The jobs created through the program must exist through the end of the designation period or at least three years after the date on which a state benefit is received, whichever is longer.

TEXAS ENTERPRISE ZONE PROGRAM

Enterprise Projects Approved – State Fiscal Year 2007

East (\$52.3M)

Longview – Sysco Food Services, \$31M
 Kilgore – Orgill, Inc., 21.3M

South (\$56.3M)

San Patricio County – Sherwin Alumina, \$56.4M

Gulf Coast (\$48M)

Tomball – BJ Services Company, \$48M

Upper Rio Grande (\$29M)

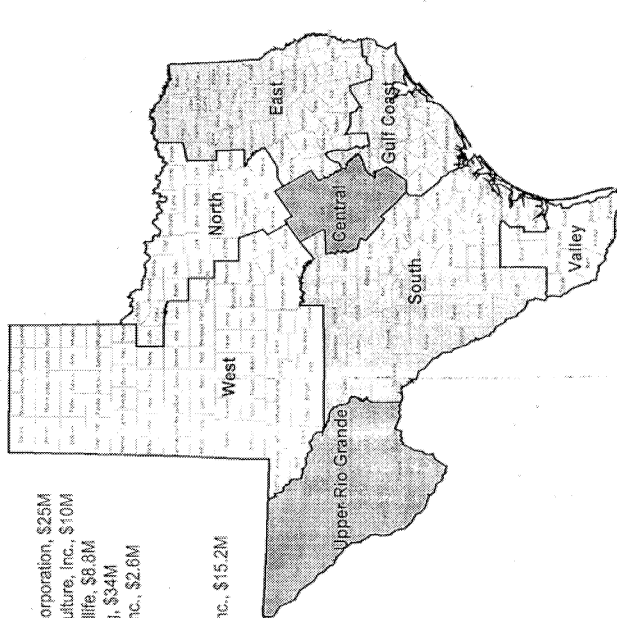
El Paso – ADP, Inc., \$25M
 Wickett – Rattlesnake Energy, \$4M

West Texas (\$80.4M)

Amarillo – Health Care Service Corporation, \$25M
 Hamlin – Mesquite Fuels & Agriculture, Inc., \$10M
 Hamlin – Pied Piper Pet and Wildlife, \$8.8M
 Randall County – Owens Coming, \$34M
 Stamford – Stamford Millworks, Inc., \$2.6M

Valley (\$15.2M)

Brownsville – Keppel AmFELS, Inc., \$15.2M



Texas Enterprise Projects with projected capital investment - \$274.2M

Other Economic Development Tools

As Texas continues to grow, it is apparent that strong economic development and growth require a multi-faceted portfolio to compete with other states. Texas has been identified as a friendly legislative and regulatory environment for business. In continuing such collaborative efforts to enhance opportunities for economic development in Texas, the committee heard testimony from Texas Department of Agriculture Commissioner, Todd Staples. Several tools were highlighted as successful in growing the economy of the state with an emphasis on rural Texas development.¹¹

The Texas Capital Fund program - This program is administered by the Texas Department of Agriculture through an interagency agreement with the Office of Rural Community Affairs (ORCA). The Fund is part of the U.S. Department of Housing and Urban Development's Community Development Block Grant programs and is known as the Texas Community Development Program in the state. The Texas Capital Fund program is an incentive program that encourages the development, retention, or expansion of businesses by providing funds to applicants who are eligible and are awarded for the direct purpose of assisting in the creation of new, permanent jobs or the retention of existing ones, for low and moderate income persons. There are over 1,200 counties and cities in the state that are eligible to receive awarded funds to make public infrastructure improvements and or real estate improvements to support a business that is beginning operations or expanding within the specific applicant's jurisdiction. The award is contingent upon the business making a capital investment and creating or retaining Texas jobs.¹²

Bio-fuels Incentive Program - As estimated by the Texas Department of Agriculture, there is a demand for incentive funds regarding this program at \$102 Million Dollars. Biofuel production is a market that is growing nationally, and Texas has the incentive programs in place to encourage and create biofuel production, but does not have the necessary funding in place to do so. With a new, emerging energy market for alternative energy fuels, Texas has the potential to forge ahead of other states and lead the way in developing and expanding different types alternative energies, yet in order to create such an infrastructure, the legislature must first provide the funding for these incentives to entice businesses to invest in the future of Texas.¹³

Texas Agricultural Finance Authority (TAFA) - The TAFA is a public authority within the Texas Department of Agriculture that provides financial assistance to individuals and businesses that are deemed creditworthy. Applicants can qualify for specific programs such as the Young Farmer Loan Guarantee Program, Interest Rate Reduction Program, or the Rural Municipal Finance Program.¹⁴

RECOMMENDATIONS TO THE 81ST TEXAS LEGISLATURE

1. The Legislature should continue to monitor the use of the Texas Enterprise Fund and identify further funding opportunities available to expand incentives and programs to small businesses in Texas without having a negative effect on existing programs. Identify programs that could be utilized to increase financial loans to low and moderate income citizens and other non-traditional borrowers.
2. Identify and evaluate the impact the Texas Enterprise Fund has on historically underutilized and minority owned businesses and identify legislative opportunities to enhance the use of the fund to provide loans and microloans to small business entities in the state.
3. Evaluate the utilization of the Emerging Technology Fund and the impact the fund has on the overall competitiveness of our university technology transfer capabilities. The Legislature should continue to identify ways to improve and enhance the transfer capabilities through technology developed by Texas Universities in establishing private sector businesses.
4. Review the process within the Texas Enterprise Zone Program that allocates a defined number program slots per municipality that are designated for Carry-over. Identify options to further enhance municipal opportunities for the use of allocated slots that go unused in other areas of the state. The Legislature should consider opportunities to allow unused program slots to be transferred and utilized before any carry-over of funds occur.
5. The Legislature should consider passing legislation for the further utilization of vocational and technical skills courses in high schools as a source of hands-on training for future careers. Monitor current practices and identify opportunities to enhance collaboration with community colleges and technical schools in preparing high school graduates who do not pursue a Baccalaureate Degree to get real world education and higher levels of training needed to be successful. Identify ways to enhance the use of these programs to create and cultivate an educated, prepared workforce.

CHARGE 2

Review the overall history, goals, and implementation of the various funds established by Article 5190.14, Vernon's Texas Civil Statutes. Identify and recommend any changes necessary to clarify or improve the statute.

COMMITTEE WORK

The House Committee on Economic Development met in a public hearing on June 9, 2008, to discuss Interim Charge #2.

BACKGROUND

Article 5190.14, Vernon's Texas Civil Statutes authorizes three trust funds used to attract large sporting events or other events that would go to other states unless Texas provides incentives to gain a competitive edge in attracting venues described in the statute. The state sets aside the unanticipated tax gains that result from local cities or counties hosting qualifying events, and returns a portion of those gains to the host locality to offset the expenses that come with hosting the event.

Other Events Trust Fund - Set up for specific, announced events. This fund has no limitations based on municipal or county size and is eligible for the reimbursement of the incremental increases in the General Sales and Use Tax, the Motor Vehicle Rental Tax, Hotel Tax, Mixed Beverage Tax and Title 5 of the Alcoholic Beverage Code. A city or county hosting a qualified event will initiate the application for the fund and work with the Comptroller's office to establish the basis of the expense reimbursement, which is the amount of incremental tax gains that would result from the event. The economic impact "window" for the Other Events Trust Fund used to identify the local expenses incurred in preparing and hosting an event is 14 days.

Motor Sports Racing Trust Fund - Set up for automobile racing events sanctioned by the Automobile Competition Committee for the United States and held at a temporary venue. This fund has specific population requirements to qualify. Eligible counties must have a population of 1 million people or more and a municipality must have a population of 500,000 citizens or more. Taxes that are eligible for reimbursement for this fund are the General Sales and Use Tax, the Motor Vehicle Rental Tax, Hotel Tax, Mixed Beverage Tax and Title 5 of the Alcoholic Beverage Code. An eligible city or county hosting a qualified event will initiate the application for the fund and work with the Comptroller's office to establish the basis of the expense reimbursement, which is the amount of incremental tax gains that would result from the event. The economic impact "window" for the Motor Sports Racing Trust Fund used to identify the expenses incurred in preparing and hosting an event is 30 days.

Sporting Event Trust Fund - Eligible events for this fund are the NCAA regional tournament or playoff game, Senior Olympic Activity, a major sporting or athletic event sanctioned by a site selection organization through a competitive selection process in which one site outside of Texas was considered. This fund has specific population requirements to qualify. Eligible counties must have a population of 800,000 people or more and a municipality must have a population of 500,000 citizens or more. Taxes that are eligible for reimbursement for this fund are the General Sales and Use Tax, the Motor Vehicle Rental Tax, Hotel Tax, Mixed Beverage Tax and Title 5 of the Alcoholic Beverage Code. An eligible city or county hosting a qualified event will initiate the application for the fund and work with the Comptroller's office to establish the basis of the expense reimbursement, which is the amount of incremental tax gains that would result from the event. The economic impact "window" for the Sporting Events Trust Fund used to identify the expenses incurred in preparing and hosting an event is 30 days.

Special Events Trust Fund - Although this trust fund is not authorized by Article 5190.14, Vernon's Texas Civil Statutes, due to the similar impact it has in providing incentives for hosting special events that have an unanticipated, positive economic impact to the state, the fund merits mention within this report.

The Special Events Trust Fund is authorized by chapter 398 of the Local Government Code, and defines eligible events as an event held in a public place, selected by an organization with a competitive selection process in which at least one site outside of Texas was considered. This fund has no limitations based on municipal or county size and is eligible for the reimbursement of the General sales and Use Tax. An impact study is conducted and is reviewed by the Comptroller. If approved, the application must then be approved by the Governor, Speaker of the House, and Lieutenant Governor. The economic impact "window" for the Special Events Trust Fund used to identify the expenses incurred in preparing and hosting the event is a maximum of 30 days.

RECOMMENDATIONS TO THE 81ST TEXAS LEGISLATURE

1. Extend the timeframe for allowable expenditures for the events held under the Other Events Trust Fund from two weeks to one year to ensure all expenses incurred in hosting an event are considered when reimbursing the host location.
2. Review events listed in the Sporting Event Trust Fund that may occur in communities that do not have the population requirement to qualify for reimbursement. Consider removing the population requirement to enhance the possible, positive impact such an event could have on the local, regional and state economy.
3. Identify whether there is a need to make the trust fund programs more transparent and user friendly for applicants. If so, authorize the Comptroller's office to promulgate rules for the various trust funds to enhance their ability to create more streamline application and reimbursement procedures.

CHARGE 3

Study the use of the Texas Economic Development Act since its enactment as HB 1200, 77th Legislature, Regular Session. Determine how the act may be enhanced to better attract significant capital investments by science and technology industries developing alternative energy sources. (Joint Interim Charge with the House Committee on Energy Resources)

COMMITTEE WORK

The House Committee on Economic Development met in a joint public hearing with the House Energy Resources Committee on April 17, 2008, to discuss Interim Charge #3.

BACKGROUND

The Texas Economic Development Act (act) - HB1200, 77th Legislature, Regular Session, was enacted in 2001 to encourage companies with large-scale capital investments to move to Texas and create new, high-paying jobs. A significant portion of the economy in Texas is based in the manufacturing industry and by enacting aggressive economic development laws, the overall health and growth in the manufacturing sector has continued to attract business and create jobs.

The act provides a means to local government officials and economic development professionals to be competitive with other states in providing incentives that will bring large-scale investments and projects to the state by providing school districts with an effected local economic development option. The act authorizes school districts to negotiate limitation on appraised value of property for maintenance and operation property taxation with qualifying business entities. The act provides an incentive to the owner of qualified property to apply to a school district for a limitation on the appraised value of the property. The land must be located in an enterprise zone or a reinvestment zone.

To receive a limitation, the applicant would have to own qualified property, meaning land, new buildings, other new improvement, or tangible personal property that is not part of a school tax-abatement agreement and is first placed in service in new buildings or improvement or on the land on which they were located, if necessary for the business to be conducted there. Requirements for qualified property is to be in a reinvestment zone and devoted to creating or enhancing manufacturing, research and development; a clean coal project; renewable energy electric generation; nuclear electric power generation; or electric power generation using integrated gasification combined cycle technology.

To receive the appraised value limitation during the two-year qualified period, the applicant must build or install qualified investments exceeding a specific amount. The required minimum investment amount is determined through a process of dividing all the state's school districts into five categories with a differing range of taxable property value. Rural districts are divided separately into five categories and encompass differing range of taxable industrial property value.

Investment Amount: Non-rural Districts

Non-rural school districts placed in five categories based on their total amount of taxable property.



Category	Total Taxable Value of Property	Minimum Qualified Investment
I	\$10 billion or more	\$100 million
II	\$1 billion or more but less than \$10 billion	\$80 million
III	\$500 million or more but less than \$1 billion	\$60 million
IV	\$100 million or more but less than \$500 million	\$40 million
V	Less than \$100 million	\$20 million

Investment Amount: Rural Districts

Rural school districts placed in five categories based on their amount of taxable industrial property.



Category	Taxable Value of Industrial Property	Minimum Qualified Investment
I	\$200 million or more	\$30 million
II	\$90 million or more but less than \$200 million	\$20 million
III	\$1 million or more but less than \$90 million	\$10 million
IV	\$100,000 or more but less than \$1 million	\$5 million
V	Less than \$100 million	\$1 million

Recent changes to Chapter 313, Tax Code, value limitation agreements - During the 80th legislative session, several bills were passed that impacted chapter 313 value limitation agreements. There were two bills that made substantive changes. HB 2994 which expanded the types of property eligible for value limitation agreements by adding nuclear power facilities, advanced clean energy products, and electric power generation using integrated gasification combined cycle technology. HB 1470 which not only extended the expiration date of the act to December 31, 2011 but most notably, it gave school districts the authorization to waive the minimum number of jobs required by the act if that number exceeds the industry standard for the type of facility in question. The significance of removing the job requirement is the effect it has on the original intent of HB 1200 as passed by the 77th Legislature which was, in part, to bring new jobs to specific areas of the state defined in the act.

Tax Incentives and Limitations for Wind Energy - Alternative energy production is a vital part of this nation's future. Not only does the production of alternative energies relieve the overwhelming demand for energy on the global market, but provides jobs and economic capital to local and state economies here in the United States. Chapter 313 of the Texas Tax code, which was created to allow school districts to bring in new taxable property for manufacturing and job creation within that school district by offering a tax credit as well as an 8-year limitation on the appraised value of the property. In recent years, wind farm infrastructure generation entities have taken advantage of these incentives and limitations to locate alternative energy wind farms in Texas.

Since 2003, 74 of the 117 total projects have been wind generation projects which resulted in an investment of over \$7 billion and applications to qualify for project designation is consistently increasing.¹⁷ HB 1470, 80th Legislature, Regular Session, further conformed chapter 313 tax incentives to be used for wind turbine farms by giving school districts the authorization to waive the minimum number of jobs required by the Economic Development Act if that number exceeds the industry standard.

As of now, Ch. 313, created by the Economic Development Act, is the best program or vehicle available to provide incentives and tax limitations to encourage wind production in the state. The large amount of interest generated from these incentives as well as the state's renewable energy portfolio, has made Texas the leader in U.S. wind energy production and is leading the nation in new wind power capacity installed with three of the five largest wind farms in the world located here in the state.¹⁸ These projects are unique in bringing increased capital to areas of rural Texas, where other economic development tools do not apply as well, and will bring large capital investments to different, varied parts of the state. Although job creation is limited, the creation of projects to harness Texas' limitless, clean wind energy and provide additional power to meet the ever-growing demand is vital to enhance economic development in Texas. These projects also provide land owners a new means of income for the use of their land, and local businesses and individuals benefit from the increase in capital in the area through secondary impacts that positively benefit local and state economies.

RECOMMENDATIONS TO THE 81ST TEXAS LEGISLATURE

1. The Legislature should determine the original intent of HB 1200, 77th Legislature, and identify whether the legislation is continuing to provide tax incentives to create jobs. Review the changes made to Chapter 313 of the Texas Tax Code since its inception as HB 1200, 77th Legislature. The Legislature should determine whether there is a need to modify the legislation to ensure that local economic development incentives do not go to non-job creating projects.
2. The demand for alternative energy within the state has grown rapidly in Texas over the past few years. Texas leads the nation in wind energy projects and infrastructure. To date, the best vehicle for wind energy tax incentives and limitations is Chapter 313 of the tax code originally designed to benefit manufacturing companies and other entities that would provide jobs to the state. The Legislature should use the tax limitations and tax credit provisions within HB 1200, 77th Legislature, as a template to create and adopt separate legislation that would provide a format for incentives or tax abatements specifically designed for alternative energy infrastructure creation and growth. This would allow for more applicable incentives to the alternative energy industry as well as maintain the original purpose of HB 1200, 77th Legislature, which is job-creation vehicle.
3. Identify ways to enhance the ability of the state to provide incentives to create and maintain jobs in areas of Texas that have been negatively impacted by natural disasters. Provide further incentive opportunities for business entities to give greater consideration in investing in these areas for rapid revitalization and redevelopment.

CHARGE 4

Monitor the agencies and programs under the committee's jurisdiction.

COMMITTEE WORK

The House Committee on Economic Development monitored the agencies and programs under its jurisdiction throughout the 80th Legislative Interim.

RECOMMENDATIONS TO THE 81ST TEXAS LEGISLATURE

The committee does not have any recommendations at this time regarding the agencies under its jurisdiction.

ENDNOTES

¹ Office of the Texas Governor website:

[http://governor.state.tx.us/priorities/economy/investing_for_growth/texas_enterprise_fund/].

² Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

³ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008

⁴ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

⁵ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

⁶Office of the Texas Governor website:

[http://governor.state.tx.us/priorities/economy/investing_for_growth/emerging_technology_fund/].

⁷ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

⁸ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

⁹ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

¹⁰ Aaron Demerson, Executive Director, Economic Development and Tourism, Office of the Governor, written testimony submitted March 13, 2008.

¹¹ Todd Staples, Commissioner, Texas Department of Agriculture, oral testimony submitted March 13, 2008.

¹² Texas Department of Agriculture website:

[http://www.agr.state.tx.us/agr/program_render/0,1987,1848_5363_0_0,00.html?channelId=5363]

¹³Texas Department of Agriculture website:

[http://www.agr.state.tx.us/agr/program_render/0,1987,1848_6061_0_0,00.html?channelId=6061].

¹⁴ Texas Department of Agriculture website:

http://www.agr.state.tx.us/agr/program_render/0,1987,1848_6051_0_0,00.html?channel=6051

¹⁵ Robert Wood, Director, Local Government Assistance and Economic Development, Office of the Texas Comptroller of Public Accounts, written Testimony submitted April 17, 2008.

¹⁶ Robert Wood, Director, Local Government Assistance and Economic Development, Office of the Texas Comptroller of Public Accounts, written Testimony submitted April 17, 2008.

¹⁷ Paul Sadler, Executive Director, The Wind Coalition, written Testimony submitted April 17, 2008.

¹⁸Paul Sadler, Executive Director, The Wind Coalition, written Testimony submitted April 17, 2008.