

SUBJECT: Industrial development corporation revisions

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 7 ayes — Oliveira, Yarbrough, Davis, Luna, Raymond, Solomons, Van De Putte
0 nays
2 absent — Moffat, Shields

WITNESSES: For — Joe Newman, Texas Economic Development Council
Against — None

BACKGROUND: The Development Corporation Act of 1979 (VACS art. 5190.6) allows certain cities to levy a 0.5 percent sales tax, with voter approval, to finance industrial development corporations. The act groups cities into two categories and limits how a city may use its development corporation funds on the basis of its category.

Cities covered by Sec. 4(A) of the act (primarily those outside the counties of Harris, Dallas, Bexar, Tarrant, El Paso and Travis) may use industrial development funds for expansion of manufacturing and industrial facilities, transportation facilities such as airports and ports, sewage or solid waste disposal facilities, pollution facilities and warehouse and distribution centers.

Sec. 4(B) of the act was enacted in 1991 specifically to help the City of Arlington pay off bonds for the Texas Rangers baseball stadium. It allows cities in counties of 750,000 or more population (the four largest counties) to use revenue from a 0.5 percent sales tax to finance land and facilities for professional and amateur sports, public parks, entertainment and convention facilities, city buildings, museums, exhibition facilities and related buildings such as stores, restaurants and parking facilities. A 1993 amendment allows all 4(A) cities to do 4(B) projects.

Cities appoint the seven members of a development corporation's board, four of whom must be members of the city's governing board and three of whom may not be employees, officers or member of the city government. Board members must be residents of the city.

DIGEST:

CSHB 1706 would allow a 4(B) corporation to spend revenues for promotional purposes and to contract with private corporations to carry out industrial development programs.

It would allow members of the board of directors to be persons who own real property located in the city rather than residents of the city.

The bill would delete a provision requiring that a development corporation stop collecting its tax once bonds or other obligations are paid in full.

The bill would redefine a city eligible under the Development Corporation Act as any city that was not nor has never been at the time it created a development corporation part of an authority created by San Antonio, Austin, Corpus Christi, Houston, Dallas, Fort Worth, Laredo or El Paso.

The provisions of the bill would expire September 1, 1997.

The bill would take effect immediately if approved by a two-thirds vote of the membership of each house.

**SUPPORTERS
SAY:**

CSHB 1706 would clarify that cities are allowed to spend revenues for promotional purposes. Current law specifically allows cities to promote new or expanded businesses but does not specifically allow them to use revenues for promotion. It would also clarify that cities can enter into promotional contracts over a long period of time.

Many cities have no bond obligations, but use development corporation funds to promote tourism. The bill would delete a requirement that economic development sales taxes be discontinued after bonds or other obligations are paid in full, since many cities do not pay bond debt with tax revenues. The bill would allow cities to continue to collect the tax as long as they needed.

The bill would broaden the eligibility for board members by allowing persons to be on the board who do not live in, but own property in the city. Many civic-minded citizens in small Texas communities do not necessarily live in the city and are prohibited from being a board member. Property owners have a vested interest in the city and community because they are taxpayers and should be able to serve on the industrial corporation board.

The bill's provisions would sunset on September 1, 1997, because the Legislature intends to study the issue of development corporations before the 1997 legislative session.

**OPPONENTS
SAY:**

The amount of tax revenue that could be used for promotional purposes should be limited to no more than 25 percent of tax revenues. Development corporations are intended to be used primarily for concrete projects.

NOTES:

Rep. Ramsay plans to offer a floor amendment deleting the section that would redefine eligible cities under 4(B).

The original bill would have expanded the number of cities eligible under 4(B). It would have limited the amount a development corporation could spend for promotional purposes to 25 percent of tax revenues and would have deleted provisions specifying that the amount of tax that could be collected be no more than 0.5 percent. The committee substitute added the sunset date of September 1, 1997.