

SUBJECT: Expanding sales taxes use by 4A economic development corporations

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 5 ayes — Oliveira, Greenberg, Keffer, Seaman, Siebert

0 nays

4 absent — Yarbrough, Luna, Raymond, Van de Putte

WITNESSES: None

BACKGROUND : Section 4A of the Development Corporation Act of 1979 allows economic development corporations to levy up to a half-cent sales and use tax for certain projects. Cities with section 4A development corporations can use this money to build business airports, recycling facilities and manufacturing and industrial facilities. In 1991, section 4B was added to the Act to allow certain cities to use sales and use taxes for such civic projects as athletic stadiums, convention centers, parks and museums as well as many of the commercial projects allowed under section 4A.

Cities with 4A status can change to 4B status in a two-step process. They must first abolish the 4A economic development corporation through one voter proposition and then create a 4B corporation with a separate voter proposition.

DIGEST: HB 1525 would allow cities with 4A economic development corporations to use sales and use taxes for projects traditionally reserved for 4B corporations. A city would be required to receive voter approval for each 4B project or category of 4B project it planned to undertake. In addition, the city would have to hold a public hearing prior to the election to inform residents of the impact of the proposed project or category of projects. If a project or category of projects failed to receive approval of a majority of voters in the election, the city could not hold another election on the same issue for at least one year.

HB 1525 would take immediate effect if finally approved by a two-thirds record vote of the membership in each house.

**SUPPORTERS
SAY:**

HB 1525 would give 4A economic development corporations the flexibility they need to undertake projects necessary for the public good and to enhance economic development and job creation in their areas. 4A corporations are currently at a competitive disadvantage with 4B corporations because they are not able to build tourist, entertainment and other facilities. HB 1525 would help even the playing field for all Texas cities by giving each corporation the same options.

HB 1525 would remove the risk 4A cities now face in trying to change to 4B status. Instead of two separate voter propositions, HB 1525 would allow 4A corporations to seek approval of 4B projects with just one ballot proposition for each project or category of projects.

For example, HB 1525 could help bring spring training baseball teams to Texas by allowing 4A cities the option of using sales taxes to build a 4B stadium project. The development of a major league baseball spring training facility in the Lower Rio Grande Valley could help Texas compete with other sunbelt states that now have a virtual monopoly on spring training camps.

HB 1525 would respect the will of voters. Citizens in 4A cities are the ones who have authorized and benefitted from the limited types economic development projects their corporations can undertake. Under HB 1525, local voters would have the final say about whether and how their tax money should be used for other economic development purposes.

**OPPONENTS
SAY:**

HB 1525 would expand the uses of sales and use taxes to include projects that should be left to the private sector. Local taxpayers in cities that would be affected by this bill do not need new tax burdens to fund private enterprises, especially sports and entertainment projects, which create mainly low-paying, seasonal jobs.

**OTHER
OPPONENTS
SAY:**

HB 1525 would not completely ameliorate the competitive economic disadvantage between 4A and 4B corporations because it would still be more difficult for cities with 4A status to take on 4B projects. Under HB 1525, cities with 4A status would have to hold an election to vote for each 4B project, while 4B corporations are automatically authorized to undertake 4B projects unless a petition requesting an election is received from more

than 10 percent of registered voters within 60 days of public notice. 4A corporations should be allowed to carry out 4B projects without the added expense of holding another election.

NOTES:

A related bill, HB 2162 by Oliveira, would amend the Development Corporation Act of 1979 to require economic development corporations to report on their activities and to authorize 4B projects for 4A corporations. The bill is pending in the House Economic Development Committee.