

SUBJECT: Allowing development corporations for economic development programs

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 7 ayes — Solis, Keffer, Deshotel, Homer, Luna, McClendon, Yarbrough

0 nays

2 absent — Clark, Seaman

SENATE VOTE: On final passage, March 15 — 30-0

WITNESSES: (*On House companion bill, HB 1439:*)

For — Mayor Howard W. Peak, San Antonio; Frank Garza, City of San Antonio; Jim Greenwood, Greater San Antonio Chamber of Commerce; Gerald Lee, San Antonio Hispanic Chamber of Commerce; Mario Hernandez, San Antonio Economic Development Corporation; Sister Avelina Sosa and Patricia Ozuna, San Antonio Communities Organized for Public Service; Joseph M. Aguilar, Sr., Sister Bernie Barrett, Dalila Cruz, Esperanza C. Hernandez, Alfredo Limon, Joseph M. Oubre, and Joe O. Soliz, San Antonio Communities Organized for Public Service and Metro Alliance; Andres Ibarries and Rosalie Tristan, Valley Interfaith; Pedro Hernandez, El Paso Inter-Religious Sponsoring Organization; Eddie Martinez; William and Marilyn Stavinoha; *Registered but did not testify:* Patrick Bresette, Center for Public Policy Priorities; Reymundo Ocañas, Texas Association of Community Development Corporations; Shanna Igo, Texas Municipal League; Peggy Croslin, City of Round Rock; Sally Velasquez, City of Eagle Pass; Rita Elizondo, San Antonio Hispanic Chamber of Commerce; Tom Utter, City of Corpus Christi; Jose Hinojosa, Valley Interfaith; Enriqueta Quinonez, The Border Organization

Against — None

On — Diane Rath, Texas Workforce Commission; Barbara Truesdale, Comptroller's Office

BACKGROUND: Under current law, a city may impose a sales and use tax for certain economic development purposes, subject to voter approval. The Development Corporation Act of 1979 (Art. 5190.6, V.T.C.S.) authorizes a city to create a “4A” or “4B” development corporation, depending on the size of the city, funded by a tax of up to one-half of 1 percent to promote new and expanded industry and manufacturing activity. Local Government Code, chapters 334 and 335 allow a city to impose a tax of up to one-half of 1 percent to undertake “venue projects,” including arenas and stadiums, convention centers or related improvements, tourist development along an inland water way, parks and recreation systems, and any other economic development project authorized by law.

A 1999 attorney general’s opinion (JC-0118) determined that these laws do not authorize cities to use a sales and use tax to fund economic development programs such as job training, except for certain programs allowed by a 4A corporation. 4A corporations may be created only by a city with fewer than 50,000 people or by a city in a county with fewer than 500,000 people.

DIGEST: CSSB 607 would add allow a city to create a municipal development corporation to operate, or contract with nonprofit organizations for, economic development programs, including job training, early childhood development, after-school programs, scholarships, literacy promotion, and any other undertaking that the corporation determined would facilitate the development of a skilled workforce. The city could impose, with voter approval, a sales and use tax of up to one-half of 1 percent for a maximum of 20 years to fund the corporation’s activities. A city could not adopt a sales and use tax that would result in a combined rate of all local sales and use taxes of more than 2 percent in any part of the city.

The corporation would have to be governed by a board containing an odd number of directors between 5 and 15, as determined by the city’s governing body, and not to exceed the number of members of the city’s governing body. Board members would have to be appointed by the city’s governing body and would serve staggered two-year terms at the will of the governing body.

The corporation would have to prepare an annual budget approved by the municipal governing body, which could make changes to the budget by a two-thirds vote.

The bill also would:

- ! require each municipal development corporation to submit an annual report to the comptroller and require the comptroller to submit a biennial report to the Legislature on the use of the sales and use tax imposed under the bill;
- ! subject the corporation to open records statutes; and
- ! exempt property owned by the corporation from taxation.

This 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, 2001.

**SUPPORTERS
SAY:**

CSSB 607 would give cities a more flexible tool to promote economic and workforce development by allowing them to create municipal development corporations funded by a voter-approved sales and use tax to operate or fund economic development programs, such as job training or early childhood development. Although cities already may create development corporations funded by a sales and use tax or impose a sales and use tax for economic development, the money generated through these taxes may not be used for economic development programs.

The development of a highly skilled and educated workforce is crucial for attracting economic investment and for eliminating unemployment and underemployment. Many cities, though, have little additional money to direct toward workforce development. This bill would create a dedicated stream of funding for workforce development for cities that receive voter approval for a sales and use tax, while providing flexibility for cities to tailor the programs funded by the tax to address their local workforce needs.

Although Texas currently has a low level of unemployment, many workers continue to receive wages that are inadequate to support themselves and their families. By helping these workers to receive additional education and long-term training that would qualify them for higher-paying jobs, CSSB 607

would help move these workers into better jobs and raise their standards of living. By improving the lifetime earnings of participants, the bill also would result in increased tax revenues for cities.

Any money that a city chose to invest in child care, and possibly in child development programs, under this bill also would be eligible as a local match to draw down additional federal child-care funding. With about 40,000 children now on a waiting list to receive child-care funding assistance in the state, additional local-match funds to draw down more federal dollars are greatly needed.

CSSB 607 would allow the creation of a new type of development corporation, rather than expanding the authority of 4A or 4B corporations, because the mission of providing workforce development programs is significantly different from building infrastructure and requires a different focus. A corporation also could create new workforce development programs if local nonprofit organizations did not operate appropriate and needed programs for the corporation to fund. The authority to make decisions about which programs to fund would be invested in the corporation, rather than directly with the city governing body, because requiring the governing body to make every decision would increase the governing body's workload significantly. A city's governing body, however, would maintain control over the distribution of these funds through approval of the corporation's budget and the authority to remove members of the corporation. The provision requiring a city to conduct a review of the corporation every five years also would provide implicit authority to dissolve the corporation if the city was dissatisfied with it.

OPPONENTS
SAY:

SB 607 unnecessarily would proliferate the number of economic development corporations that would have to be created and overseen by a municipality. Rather than creating a new development corporation for every purpose, the Legislature should enlarge the authority of the corporations authorized under current law.

The bill would create an unnecessary level of bureaucracy and could reduce accountability by requiring a city to create a corporation to spend the money generated by a sales and use tax imposed under the bill's provisions. A city does not need an additional corporation to administer these funds, which

most likely would be granted to nonprofit organizations operating job-training or other job-resource programs. These decisions should be made by elected city officials who are accountable to the city's voters.

Unlike the Development Corporation Act, SB 607 would not authorize a city to dissolve a municipal development corporation, nor would it provide explicitly for dissolving a district upon the presentation of a petition of the voters of a city. Voters should be able to dissolve a development corporation if they no longer consider it useful or no longer want to use their tax dollars to support it. Although the bill would direct the governing board to review the corporation every five years, it would not authorize the city to dissolve the corporation if the governing body's review was unfavorable.

NOTES:

The committee substitute added a provision that would require the governing body of a municipality to undertake a performance review of the municipal development corporation once every five years. The substitute also expanded the definition of educational institutions that could receive funding from the corporation for scholarships and specified requirements for the receipt of a scholarship. The substitute also modified the findings and purposes listed in the act and added a description of the kinds of early childhood programs that could be funded by the corporation.

The companion bill, HB 1439 by McClendon, was considered in a public hearing by the House Economic Development Committee on February 28 and left pending.