

SUBJECT: Assistance to defense-dependent communities affected by base closing

COMMITTEE: Defense Affairs and State-Federal Relations —favorable, as amended

VOTE: 6 ayes — Corte, Campbell, Berman, Herrero, Hodge, Leibowitz
0 nays
3 absent — Merritt, P. Moreno, Noriega

WITNESSES: For — Connie Green, City of Killeen; Maureen Jouett, Citizens of the City of Killeen; Michael Smith, Texas Military Preparedness Commission - Office of the Governor; (*Registered, but did not testify*: Harold Oliver, Kelly USA).

Against — None

BACKGROUND: In 2005, the Department of Defense's (DOD) Base Realignment and Closure (BRAC) process will reassess U.S. military installations and infrastructure to ensure that they support U.S. military forces in their transformation to counter the threats faced by the country for the next 20 years. DOD will modify future military operations by reducing costs through base closures and shifting military forces from installations that no longer are needed. It is unknown how many of these installations may fall on the initial BRAC list set to be released in May 2005. Initial BRAC data collection and analysis began in January 2002, and the list of base closures will be finalized in November 2005.

Texas has 18 active military installations that collectively provide 230,000 direct jobs and a \$77.4 billion impact to the state. The state is home to over 113,000 active duty service members, which is about 11 percent of the total active force.

The 78th Legislature in 2003 enacted SB 652 by Shapleigh, which abolished the Office of Defense Affairs and the Texas Strategic Military Planning Commission and created the Texas Military Preparedness Commission (TMPC). TMPC, which has nine members appointed by the governor, meets at least quarterly, and reports to the governor. TMPC's mission is to develop a statewide strategy to assist defense-dependent

communities in preventing future base closures and realignments and to assist these communities in preparing for the next generation of the military in Texas.

The commissions is charged with helping defense communities already affected by BRAC. This is done through three statewide funding programs: the Defense Economic Adjustment Assistance Grant (DEAAG) Program, the Texas Military Value Revolving Loan fund, and the Defense Economic Readjustment Zone (DERZ) program.

The DEAGG assists adversely impacted defense-dependent communities in responding to defense closures or realignments of defense installations, or to reductions or termination of defense contracts. State grants are available to local municipalities, counties or regional planning commissions representing these communities. Funding is available to the local governments to meet matching federal funding requirements or for purchase of DOD property, new construction, rehabilitation of facilities or infrastructure, or purchase of capital equipment or insurance.

The Revolving Loan Fund helps defense-dependent communities with economic development projects that increase the military value of their installations. It provides a low-cost source of revenue to eligible communities that meet application criteria.

DERZ allows qualified businesses to receive tax incentives, such as sales tax refunds, franchise tax credits, and gross receipt tax write-offs, if they relocate to an area where a base closure or realignment has occurred. The franchise tax credit option expired in January 2005.

DIGEST: HB 2340, as amended, would amend sections of the Military Preparedness Act concerning funding for affected defense-dependant communities.

Defense-dependant communities adversely affected by BRAC could receive loans from the Revolving Loan Fund. The assistance would be used for economic development projects to minimize negative economic effects of base reduction on the defense community. TMPC would evaluate the projects to determine how they would help the community by assessing the jobs and economic impact that would result. If TMPC determined that the project would reduce negative effects and was satisfied with the community's ability to repay the loan and the feasibility of the project to ensure it would provide enough revenue or taxes to repay the loan, TMPC could award a loan to the community.

The bill also would allow TMPC to provide a loan from the Revolving Loan Fund to a defense community awarded new or expanded military missions for infrastructure projects. Positively affected communities would be evaluated for effectiveness, feasibility, and repayment capacity.

HB 2340 would require TMPC to give preference to adversely affected defense-dependant communities in awarding DEAGG grants. However, grants would be available to all eligible local governmental entities, including a defense base development authority, whether they were positively or adversely affected by BRAC. The bill would allow DEAGG grants to be available to an eligible local government for infrastructure and other projects to accommodate a new or expanded mission.

It would allow eligible companies to continue benefiting from the franchise tax exemption incentives allowed in the DERZ program by repealing sec. 2.03, ch. 1134, Acts of the 77th Legislature.

The bill provides that a defense-dependent community that contained, or was near, more than one military facility in which only one of the facilities was closed or had its operations significantly reduced could be considered an adversely affected community.

The bill would take effect immediately if it receives a two-thirds vote of all members of each house. Otherwise, it would take effect September 1, 2005.

**SUPPORTERS
SAY:**

In the last four BRAC rounds, Texas has lost 10 installations, which has cost the state thousands of jobs and billions of dollars in revenue. As the next round of BRAC decisions approaches, the defense sector must receive additional attention and considerations if the state is going to continue to expand the presence of the military.

The military continues to play a significant role in the overall economy of the state. It creates employment opportunities in both the large and small communities throughout the state. The military always has been a driving force in Texas' diverse economy. Texas also enjoys a rich military history, with historic active installations like Fort Sam Houston, Fort Bliss, Randolph Air Force Base, and Naval Air Station Corpus Christi. Because the military is such an important part of our heritage, Texans must continue to support state efforts to maintain the military presence and become more active in ensuring the success of defense communities.

Texas should prepare for the possibility that at least some bases will be negatively affected by the BRAC decision. Adversely affected communities will face the prospect of losing military personnel, realignment actions, or in the worst case, closure of their local bases. The closure of military installations could be devastating to certain communities and their economies.

The state also should anticipate and prepare for the likelihood that some bases will experience growth in troop strength, which could strain defense-dependent communities. Post-BRAC decisions can be just as hard on a community if they lack resources to meet immediate needs for infrastructure. TMPC estimates that as many as 25,000 new troops and their families could be relocated to Texas in the next two to three years. This could burden considerably schools, utilities infrastructure, housing, and roadways.

HB 2340 would provide more tools to defense-dependent communities by opening up funding programs to positively and negatively affected defense communities. The funding programs would be more flexible for this round of BRAC. Repayment would be ensured by the TMPC loan eligibility evaluation standards. Communities would know repayment was required and would have the incentive to use loans for feasible projects that added value to their communities.

Communities also would benefit from the continuation of the franchise tax exemption incentives provided under the DERZ programs. Lack of such incentives could reduce the willingness of companies to relocate to areas that have been negatively affected by BRAC.

**OPPONENTS
SAY:**

There are many unknowns concerning the post-effects of the 2005 BRAC decision. Although TMPC would evaluate the feasibility of a development project to repay a loan, base closures could result in great economic impact for some communities from which they might never be able fully to recover. It is quite possible that a development project approved for a loan might never gain sufficient revenue or taxes. The state might not see repayment of loans if communities were not able to achieve the proper revenue or taxes from their projects.

NOTES:

The committee amendment would allow a financial loan for an infrastructure project to a defense community awarded new or expanded military missions. It also would allow a defense base development

authority to be directly eligible for DEAAG funding. The amendment would clarify that a defense-dependent community that contained or was near more than one military facility in which only one of the facilities was closed or had its operations significantly reduced could be considered an adversely affected community.