



SUMMARY OF STATE INCENTIVES & PROGRAMS

Summary Includes:

- Texas Enterprise Fund
- Emerging Technology Program
- Texas Enterprise Zone Program
- Sales and Use Tax Exemptions
- Chapter 380
- Texas Economic Development Act
- Ad Valorem/Property Tax Exemption
- Freeport Exemption
- Permit Assistance
- Economic Development and Diversification In-State Tuition for Employees

DISCLAIMER: *The material contained in this Summary of State Incentives is provided for informational purposes only and cannot be construed as a commitment. Assumptions are based on creating jobs and providing a capital investment. Total jobs and capital investment have been included as eligible costs for the various incentive programs available. However, actual jobs and capital investment may vary from the assumptions made due to final determination of program eligibility and site location.*

TEXAS ENTERPRISE FUND: The 78th Texas Legislature established the Texas Enterprise Fund to provide financial resources to help strengthen the state's economy. The Governor, Lieutenant Governor, and the Speaker of the House must unanimously agree to support the use of the Texas Enterprise Fund for each specific project. Projects that are considered for Enterprise Fund support must demonstrate a project's worthiness, maximize the benefit to the State of Texas and realize a significant rate of return of the public dollars being used for economic development in Texas. Capital investment, job creation, wages generated, financial strength of the applicant, applicant's business history, analysis of the relevant business sector, and federal and local government and private sector financial support of a project will all be significant factors in approving the use of the Enterprise Fund.

EMERGING TECHNOLOGY PROGRAM: The \$200 million Texas Emerging Technology Program is designed to help Texas create jobs and grow the economy over the long-term by expediting the development and commercialization of new technologies and attracting and creating jobs in technology fields that will form the backbone of our economy. The program will work through partnerships between the state, institutions of higher education and private industry to focus greater attention on the research, development and commercialization of emerging technology. The Emerging Technology Program is dedicated to three areas:

1. Regional Centers of Innovation and Commercialization (RCICs). These centers will become concentrated with applied R&D activities, be incubators (including specialized workforce training) for startup firms and encourage expansion of existing companies resulting from commercializing their developments.
2. Matching grant funds. Applied technology research and development projects that accelerate commercialization into production and have a demonstrated ability to receive or have received federal grants or non-state grants may apply for matching dollars from the Emerging Technology Fund. Grants such as Small Business Innovation Research grants, Small Business Technology Transfer grants, etc
3. Attracting research talent. The state will help Texas public universities attract highly renowned research teams from universities and institutions in other states.

For more information regarding the application process or funding, please contact Mark Ellison with the Office of the Governor at 512/463-1472.

TEXAS ENTERPRISE ZONE PROGRAM: A community with less than 250,000 in population may have up to four enterprise projects. A community with 250,000 in population or greater may have up to six enterprise projects. Upon a community designating a business as an enterprise project, and upon that project's designation being approved by the state, the business would be eligible for the following incentives: State Sales and Use Tax refunds. Beginning September 1, 2003 an enterprise project is eligible for a refund for state sales and use taxes paid for building materials, machinery and equipment, electricity and natural gas purchased and consumed in the normal course of business and depending on investment amount and number of jobs created/retained. The refund can be an amount ranging from a minimum of \$2,500 per job to a maximum of \$7,500 per job as follows:

1. If project investment amount is greater than \$40,000 and less than \$400,000, then refund amount is \$2,500 per job up to a maximum of 10 jobs created/retained;
2. If project investment amount is equal to or greater than \$400,000 and less than \$1,000,000, then

refund amount is \$2,500 per job up to a maximum of 25 jobs created/retained;

3. If project investment amount is equal to or greater than \$1,000,000 and less than \$5,000,000, then refund amount is \$2,500 per job up to a maximum of 125 jobs created/retained;

4. If project investment amount is equal to or greater than \$5,000,000 and less than \$150,000,000, then refund amount is \$2,500 per job up to a maximum of 500 jobs created/retained;

5. If project investment amount is equal to or greater than \$150,000,000 and less \$250,000,000, then refund amount is \$5,000 per job up to a maximum of 500 jobs created/retained;

6. If project investment amount is equal to or greater than \$250,000,000, then refund amount is \$7,500 per job up to a maximum of 500 jobs created/retained;

Receipts for purchases of building materials and machinery and equipment and payroll information are required to be retained as part of the audit process. (Note: All contracts should separate the costs for building materials and/or equipment from the costs of labor and services in order to be eligible.) The refund for sales and use tax must be for all eligible items for use at the qualified business site.

STATE SALES & USE TAX EXEMPTIONS: Manufacturing Machinery & Equipment Leased or purchased machinery, equipment, replacement parts, and accessories that have a useful life of more than six months, and that are used or consumed in the manufacturing, processing, fabricating, or repairing of tangible personal property for ultimate sale, are exempt from state and local sales and use tax. Texas businesses are exempt from paying state sales and use tax on labor for constructing new facilities. Texas businesses are exempt from paying state sales and use tax on the purchase of machinery exclusively used in processing, packing, or marketing agricultural products by the original producer at a location operated by the original producer. Natural Gas & Electricity Texas companies are exempt from paying state sales and use tax on electricity and natural gas used in manufacturing, processing, or fabricating tangible personal property. The company must complete a "predominant use study" that shows that at least 50% of the electricity or natural gas consumed by the business directly causes a physical change to a product.

CHAPTER 380: Section 380.001 of the Local Government Code authorizes municipalities to offer a range of incentives designed to promote state or local economic development. Specifically, it allows for the provision of loans and grants of city funds, as well as the use of city staff, city facilities or city services, at minimal or no charge. To establish a loan or grant or to offer discounted or free city services, the city must meet the requirements contained in the Texas Constitution and in applicable Texas statutes. Additionally, cities must review their city charters and any other local provisions that may limit the city's ability to provide such a grant or loan. To determine the latitude of whether a municipality is able to offer a particular incentive or combination of incentives, local communities should consult their city attorney.

TEXAS ECONOMIC DEVELOPMENT ACT: In 2001, the 77th Texas Legislature enacted House Bill 1200 creating Tax Code Chapter 313, Texas Economic Development Act, to encourage large-scale manufacturing, research and development, and renewable energy capital investment projects to the State of Texas. It requires companies to invest a specified amount of money to qualify for a tax credit and an eight-year limitation on the appraised value of a property for the maintenance and operations portion of the school district property tax. The local school district must elect to

participate in order for the Company to recognize this benefit. The qualifying investment amount is determined on a sliding scale that begins at \$100 million for large urban areas and \$30 million for rural areas. The qualifying investment amount is reduced for areas with a lower tax base. For detailed information regarding this incentive, please contact Tim Wooten with the Comptroller of Public Accounts at 512/305-9838.

AD VALOREM/ PROPERTY TAX EXEMPTION: A Texas constitutional amendment providing an exemption from property taxation for pollution control was approved in 1993. The intent was to ensure that compliance with environmental mandates, through capital investments, did not result in an increase in a facility's property taxes. A facility must first receive a determination from the Texas Commission on Environment Quality (TCEQ) that property is for pollution control purposes. That positive use determination is then provided to the local appraisal district, which must accept the TCEQ's decision and grant the property an exemption from property taxes. To be eligible for a positive use determination, the property must have been purchased, acquired, constructed, installed, replaced, or reconstructed after January 1, 1994 to meet or exceed federal, state, or local environmental laws, rules, or regulations. For detailed information regarding this incentive, please contact David Greer with the Texas Commission on Environmental Quality at 512/239-5344.

FREEPORT EXEMPTION: A community may choose to offer the Freeport exemption for various types of goods that are detained in Texas for a short period of time. Freeport property includes goods, wares, merchandise, ores, and certain aircraft and aircraft parts. Freeport property qualifies for an exemption from ad valorem taxation only if it has been detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabricating.

PERMIT ASSISTANCE: TCEQ and the Office of the Governor Economic Development & Tourism division have established a relationship to assist companies, which may experience unwarranted delays in their environmental permitting process for projects that could affect job creation or have a high economic impact.

ECONOMIC DEVELOPMENT & DIVERSIFICATION IN-STATE TUITION FOR EMPLOYEES: The Economic Development and Diversification In-state Tuition incentive may be offered to qualified businesses that are in the decision-making process to relocate or expand their operations into Texas. The incentive allows employees and family members of the qualified businesses to pay in-state tuition fees if the individual files with a Texas institution of higher education. Without this incentive designation, a student must reside in Texas for a 12-month period to be entitled to pay the tuition fees of a Texas resident.