HOUSE
RESEARCH
ORGANIZATION bill analysis 3/26/2007 HB 48
Chavez, Guillen

SUBJECT:	Allocations to the skills development fund and Texas Enterprise Fund
COMMITTEE:	Economic Development — favorable, without amendment
VOTE:	5 ayes — Deshotel, Straus, Dunnam, Morrison, Ortiz 0 nays 2 absent — Kolkhorst, Veasey
WITNESSES:	For —Don Baylor, Center for Public Policy Priorities; Wanda Garza, Texas Border Coalition (*Registered, but did not testify*: Steven Johnson, Texas Association of Community Colleges) Against — None On —Diane Rath, Texas Workforce Commission
BACKGROUND:	The 79th Legislature in 2005 enacted HB 2421 by Chavez, which established a funding mechanism for the Texas Enterprise Fund (TEF) and the skills development program. HB 2421 created the employment and training investment assessment (ETIA), a one-tenth of one percent assessment to be collected from employers as part of existing unemployment insurance and deposited in a holding fund. If the amount in the compensation fund exceeds 100 percent of its floor amount, funds from the holding fund are to be transferred to the TEF and the skills development program. HB 2421 allocated 67 percent of the holding fund to the Texas Enterprise Fund and the remaining 33 percent to the skills development program for the first year. Beginning on September 1, 2007, the allocation will change to 75 percent to the Texas Enterprise Fund and 25 percent to the skills development program.
DIGEST:	HB 48 would amend Labor Code, sec. 204.123(a) to set the amount allocated each year from the employment and training investment holding fund at 67 percent for the Texas Enterprise Fund and 33 percent for the skills development program.

The 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, 2007.

SUPPORTERS SAY:

HB 48 would result in more money for the skills development fund by retaining the percentage allocated to the fund in the most recent fiscal year, rather than diminishing that percentage beginning on September 1, 2007. Skills and workforce training is under-funded in Texas. The Texas Workforce Commission has said it receives three requests for training for every dollar it spends, demonstrating a need for skills development in Texas without a means to provide it.

The skills development program is a customized workforce training program, with funds distributed as a partnership grant between a business and a community college in the area. The job training can be either for new workers or for incumbent workers to acquire new skills. The program trains workers only when an employer has demonstrated a need and requested that employees be trained in a specific area. The funds for training are put to immediate and specific use.

One of the best ways to combat unemployment is to have a more stable, larger, and better trained workforce, and the skills development fund can help with this. As the cost of training increases, it would be beneficial to have a dedicated funding source for an effective training program.

The skills development fund would a better place to allocate more of the money from the employment and training investment assessment (ETIA) because the Texas Enterprise Fund uses money from current employers to attract future competitors. The TEF has been used primarily to attract out-of-state employers with money from in-state employers paying a state tax. Through this program, in-state employers use their own money to provide tax breaks to get their competition to Texas at their disadvantage. These are tax breaks for which in-state employers often are not eligible. Further, the TEF has benefited primarily urban areas of the state, while the skills development program benefits communities in all regions of Texas. The TEF rarely is used by itself but is often used in conjunction with other subsidies so that the benefit the TEF brings is low for each dollar spent.

OPPONENTS SAY:

The bill should not reduce the percentage of funds from the ETIA that were intended to go to the Texas Enterprise Fund beginning on September 1, 2007, The TEF is a job-creation program that not only encourages new job creation but brings higher-paying jobs into the state. It is an incentive program that is used to attract new businesses and to assist in the expansion of existing businesses.

Money from the TEF may be used only for economic development, infrastructure development, job training, and business incentives. It is a competitive grant process, and recipients cannot use the money indiscriminately. Recipients must demonstrate that they will use the funds for defined business development uses, and funding that is unused must be returned to the TEF. The TEF has been successful at creating more than 44,000 new jobs since its inception in 2003 and generating more than $15 billion in capital investments. Grant recipients estimate that their industries will create jobs with an average salary of $49,000 per year.

The TEF does not deplete the money from the ETIA holding fund. New employers will hire Texans as new employees – they then will pay money into the unemployment insurance fund to replenish any money given out as tax incentives to the TEF.

The ETIA money funding the TEF is surplus. The best way to use it is to build the economy and create jobs across the state. While the skills development program may train employees to perform better in their current jobs, the TEF brings new jobs to the state. These new jobs bring new money into the economy. Also, higher-paying jobs allow employees to spend their money in other portions of the economy, which allows the economy to grow and develop.

NOTES: According to the fiscal note, HB 48 would shift an estimated additional $6.4 million each fiscal year to the skills development fund, with a corresponding decrease of $6.4 million per fiscal year to the Texas Enterprise Fund.