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BillAnalysis

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Texas Model of Limited Government is the Best Business Incentive

HB 108

by
Carine Martinez-Gouhier
Research Analyst

Key Points

- The Skills Development program funds specific training needs of certain businesses through public community or technical colleges or the Texas A&M Engineering Service (TEEX).
- In 2015, 87.4 percent of the businesses that benefited from the program were large businesses (500 or more employees).
- HB 108 would increase the focus of the fund on out-of-state applicants, possibly using Texan taxpayer money to fund the training needs of Texas businesses' out-of-state competitors.
- Taxpayers should not be forced to shoulder the cost of private businesses' training investments.

When a business decides to relocate to or expand its operations in a new community, several factors come into play, which generally include the cost of doing business in the community considered, the proximity of resources or services necessary to the business to operate, the proximity of customers, and the availability of a qualified workforce in the area.

Qualifications and training are important for both employees and employers. Developing new skills allows workers to competitively sell their manpower in the workplace. It is also in a business's best interest to have a well-trained workforce to successfully compete in the marketplace. This is why many employers offer professional training to their employees. In fact, for businesses, training is an investment. Businesses that decide to spend resources—time and money—in training programs do so because they expect a return on their investment. They alone can assess the pertinence of, and they should bear the responsibility and risks inherent to, such a choice.

HB 108 proposes to allow the Texas Workforce Commission (TWC) to use funds from the Skills Development Fund in order to "provide an intensive and rapid response to, and support services for, employers expanding in or relocating their operations to this state, with a focus on recruiting employers who will provide complex or high-skilled employment opportunities in this state." This could include providing "customized workforce training programs for an employer's specific business needs," as well as "leadership and direction to, and linkage among, out-of-state employers, economic development organizations, local workforce development boards, public junior colleges, and public technical institutes" in order to facilitate an employer's relocation or expansion in Texas.

The Skills Development program encourages individual businesses, business consortia, and trade unions with specific training needs to partner with a public community or technical college, the Texas A&M Engineering Service (TEEX), or a community-based organization to assess their training needs, build a fully customized training plan for existing or soon-to-be-hired employees, and apply for a grant. If the application is approved, the TWC authorizes a grant to the partner educational institution to fund the training program.

In 2015 alone, the program funded 47 out of 54 applications, supporting 67 businesses, with an average award of $450,315 to train a total of 3,664 newly hired employees and 9,431 employees in existing jobs. Micro employers (1 to 20 employees) received 0.1 percent of the total amount of funds awarded, small employers (21 to 99 employees) received 3.5 percent, medium employers (100 to 499 employees) received 9 percent, and large employers (500 and more employees) received 87.4 percent of the funds awarded.

A 2014 Comptroller report on manufacturing development in Texas found that 47.2 percent of economic development professionals and community leaders surveyed identified the Skills Development Fund as part of typical economic development packages for manufacturing businesses. The report also points out that "economic incentives . . . are one factor considered in the 'basket of goods,' but they are not always the determining factor" for manufacturing companies.

HB 108 would increase the focus on out-of-state applicants. The Skills Development Fund

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already allows the TWC to establish, by rule, additional incentive programs aimed at prospective employers willing to relocate or expand in Texas. Additionally, HB 108 provides for a "claw back" mechanism, making it a condition to receive a grant that "a recipient agree to repay the amount received and any related interest if the commission determines that the money was not used for the purposes for which the money was awarded." Since HB 108 is targeting "employers expanding in or relocating their operations to this state," these employers could apply to the Skills Development program once they have indeed expanded or relocated in Texas.

Economic Performance v. Spending Comparison—12 Largest States

State	Economic Performance	Per capita Spending	Eco Devo Spending Rank	Adjusted Poverty Rank
Texas	1	$4,098	15	17
North Carolina	8	$4,417	12	28
Georgia	17	$4,258	5	45
Florida	18	$3,724	20	49
Virginia	19	$5,483	2	12
Top 20 Avg		$4,396	11	30
Bottom 25 Avg		$5,934	20	36
New York	26	$7,091	30	46
California	31	$6,452	11	50
Pennsylvania	38	$5,688	15	24
Illinois	46	$5,397	19	30
New Jersey	47	$6,095	27	37
Ohio	49	$5,389	13	36
Michigan	50	$5,429	21	31

Source: Economic Performance Rankings: *Rich States Poor States*; Per Capita Spending: Ballotpedia; Economic Spending: W.E. Upjohn Institute for Employment Research; Poverty Rank: Texas Public Policy Foundation

Although created with the good intent of attracting businesses, creating jobs, and helping workers earn better wages, programs such as the Skills Development Fund first and foremost create winners and losers. As the numbers above demonstrate, large businesses—nearly 90 percent of the businesses that benefited from the program—are clearly the winners.

HB 108 would add to the government's range of options to pick winners and losers, by transferring taxpayer money to just a few select businesses, possibly even using Texans' taxpayer money to fund the training needs of out-of-state businesses that compete with Texas businesses. Transfer of wealth is not the Texas success story—in fact, it has never been successful anywhere. The Texas Model has demonstrated that it was creating the right incentives for businesses to invest in the Lone Star State: low spending per capita, low taxes, low regulation. As the table above shows, states that spend less leaving taxpayers—individuals and businesses alike—with more of their hard-earned money to invest as they see fit are the ones with the strongest economic growth.

Taxpayers should not be forced to shoulder the cost of private businesses' training investments with some businesses cashing in on the rewards while non-subsidized businesses are left with the unfair disadvantage of having to subsidize their competitors' training needs, sometimes leaving no room to fund their own. This is why increasing the scope of the Skills Development Fund to use taxpayer money to attract businesses from out of state is a step in the wrong direction for Texas.

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Carine Martinez-Gouhier is managing editor and research analyst at the Texas Public Policy Foundation. Prior to working at the Foundation, she worked as a research associate for the Charles Koch Institute in Washington DC, and previously as a policy analyst for Texas Action during the 84th Texas Legislature.

Areas of research and policy she has explored and worked on include corporate welfare and cronyism, economic freedom, capitalism, business ethics and corporate social responsibility, and K-12 education reform.

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901 Congress Avenue | Austin, Texas 78701 | (512) 472-2700 | (512) 472-2728 fax | www.TexasPolicy.com