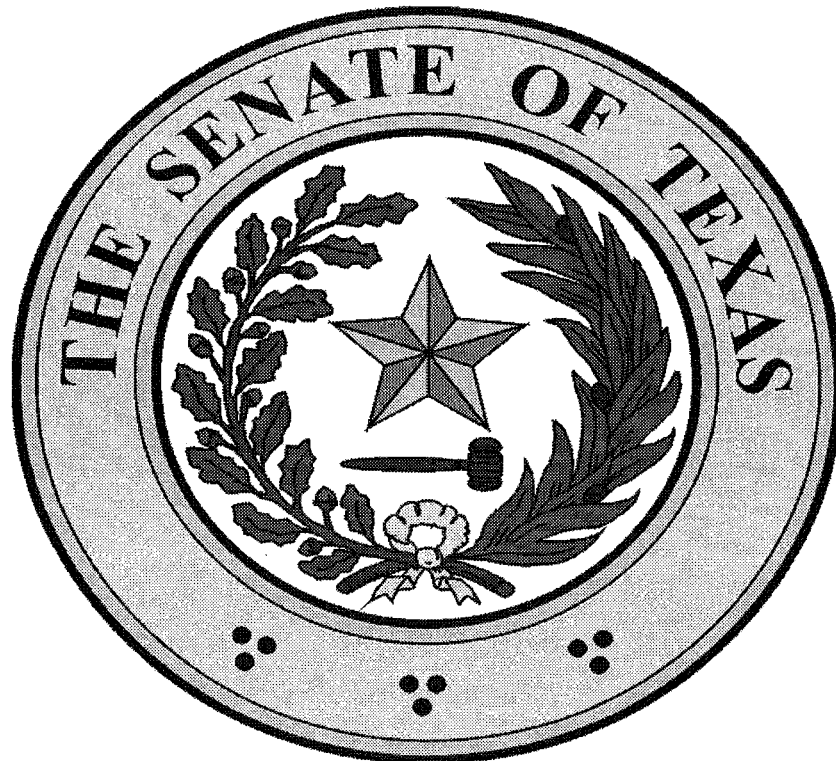


TEXAS SENATE COMMITTEE ON ECONOMIC DEVELOPMENT



INTERIM REPORT TO THE 83RD LEGISLATURE ON CHARGES 1, 2 AND 3

January 2013

The Senate Committee on Economic Development



SENATOR ROBERT F. DEUELL
CHAIR

January 31, 2013

The Honorable David Dewhurst
Lieutenant Governor of Texas
P.O. Box 12068
Austin, Texas 78711

Dear Governor Dewhurst:

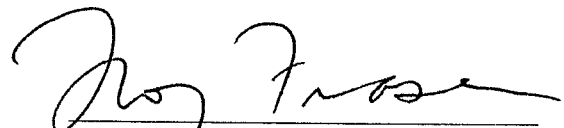
The Senate Committee on Economic Development hereby submits its 82nd interim report. The report reflects testimony and input from various state agencies, organizations and other interested entities.

The Committee appreciates the opportunity to address these important charges. It is our sincere hope that the work of this Committee will assist in resolving some of these challenging issues. We thank you for your continued leadership and support.

Respectfully Submitted,




Senator Robert F. Deuell, Chairman



Senator Troy Fraser, Vice Chairman

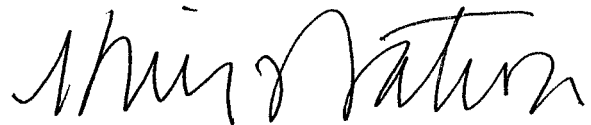


Senator Brian Birdwell

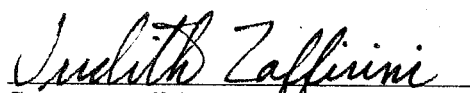


Senator Kevin Eltife

Senator Chris Harris



Senator Kirk Watson



Senator Judith Zaffirini

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TEXAS SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Interim Charges

1. Evaluate programs in Texas that are targeted to help the unemployed return to work, with a specific focus on the long-term unemployed. Evaluate and make policy recommendations for getting Texans back to work as soon as possible, enhancing job training/re-training for the long-term unemployed, and maximizing federal resources while maintaining flexibility in state programs assisting the unemployed.
2. Evaluate the economic benefits of economic development incentives targeting the 25 largest industries in this state, including energy, manufacturing, healthcare, tourism, etc. Determine the effectiveness of state programs designed to encourage and assist the growth of these industries. Consider further incentives targeting niche markets such as the creation of data centers, film incentives, etc., and make recommendations on whether incentives should be offered for specific industry clusters.
3. Evaluate the current financing mechanism for the Unemployment Compensation Trust Fund, and make recommendations to improve the long-term financial health and stability of the Fund.
4. Monitor the implementation of legislation addressed by the Senate Committee on Economic Development, 82nd Legislature, Regular and Called Sessions, and make recommendations for any legislation needed to improve, enhance, and/or complete implementation. Review the implementation of SB 1048, relating to public-private partnerships and analyze any recommendations made by the committee created by the Legislation.

Executive Summaries and Recommendations

Committee Charge # 1:

Evaluate programs in Texas that are targeted to help the unemployed return to work, with a specific focus on the long-term unemployed. Evaluate and make policy recommendations for getting Texans back to work as soon as possible, enhancing job training/re-training for the long-term unemployed, and maximizing federal resources while maintaining flexibility in state programs assisting the unemployed.

Executive Summary

The Texas Workforce Commission's (TWC) administration of the unemployment insurance system is typically the starting place for assistance available to unemployed job seekers, however, TWC and the state's 28 local workforce development boards, which together comprise Texas Workforce Solutions, work closely with the state's economic development entities to create innovative workforce programs that help workers find jobs and employers find skilled labor.

In FY 2012, more than 920,000 individuals who received Texas Workforce Solutions employment services found work and more than 90,000 local employer establishments received workforce business services. While Texas saw jobs added during every month of FY 2012, the state continued to experience layoffs as more than 425,000 individuals received initial unemployment payments. Texas Workforce Solutions assisted job seekers and dislocated workers across Texas with reemployment and rapid response services to quickly help these workers find new employment opportunities, while minimizing the economic effect of local layoffs. TWC took steps to assist the long-term unemployed by using \$3 million in Reemployment Eligibility Assistance to maintain higher service levels, including additional employment counseling staff.

Texas Workforce Solutions provided services to employers and job seekers in areas where new economic growth opportunities brought the demand for skilled workers. For example, the natural resources from the Eagle Ford Shale expanse in South Texas and the Permian Basin region created demand for workers with a variety of skills. Local workforce boards and community colleges partnered with employers to increase the availability of skilled workers to meet the workforce needs generated by oil and natural gas drilling in the region.ⁱ

The strength of the workforce, measured by the skills and education of workers, is critical to the continued success of Texas' economy. Texas has recorded strong job growth numbers, adding more than 280,000 jobs in the last year, despite the challenges of the national recession. In an environment of increased demand for workforce development services, TWC is focused on helping Texans find employment. TWC uses an integrated approach to serve multiple populations at the same time and to provide multiple services to meet job seeker and employer needs.ⁱⁱ The following are a list of some of these services and programs:

Apprenticeship Training Program

The Texas Workforce Commission's Apprenticeship Training Program is an effective job training system for skilled trade and journeyworkers. Apprenticeship training is designed to prepare individuals for occupations in skilled trades and crafts and combines structured on-the-job training supervised by experienced journeyworkers with related classroom instruction.

Apprentices who successfully complete the prescribed number of training hours in a registered apprenticeship training program can become certified and skilled journeyworkers. The Texas Workforce Commission provides funds to local public educational institutions to support the costs of related classroom instruction in registered apprenticeship training programs. Local education agencies act as fiscal agents for registered apprenticeship training programs.ⁱⁱⁱ In 2012, the Texas Legislature funded \$1,581,140 for apprenticeship training programs. In Fiscal Year 2012 (FY'12), TWC exceeded the Legislative Budget Board Apprenticeship Training performance measure of 3,600 individuals served by training 3,855 individuals. The final contact-hour rate was \$3.921. The FY'10–FY'12 contact-hour rates are significantly higher than the FY'09 rate of \$2.893. This increase results from TWC's use of \$1 million of WIA funds in each of these years in support of apprenticeship.^{iv}

Choices

The Choices program assists applicants, recipients, nonrecipient parents, and former recipients of Temporary Assistance for Needy Families (TANF) cash assistance to transition from welfare to work through participation in work-related activities, including job search and job readiness classes, basic skills training, education, vocational training, and support services.

Employment Services Program

The Employment Service (ES) program provides comprehensive recruiting, job search, and related services to businesses and job seekers to connect employers seeking workers and individuals seeking employment. ES coordinates job openings between states and administers the unemployment insurance (UI) work test to verify that individuals receiving UI benefits are registered for work and are actively seeking employment.

Rapid Reemployment Services Program

Public Law 103-152 requires states to establish a system of profiling all new claimants for regular UI in order to identify the claimants most likely to exhaust regular UI benefits and target those claimants for participation in reemployment services. The U.S. Department of Labor Employment and Training Administration (DOLETA) refers to the system as Worker Profiling and Reemployment Services; in Texas, it is known as the Rapid Reemployment Model (RREM), which offers Rapid Reemployment Services (RRES).

TWC reviews RREM biennially to address changes in labor market and economic conditions and will introduce the RREM IV profiling model in October 2012 to identify UI claimants who are candidates for RRES. Data used to develop RREM is retrieved from the state's UI benefits system and contains 13 statistically significant factors which are categorized into 38 variables. The model is based on the collective influence of factors as no single characteristic indicates the likelihood of exhaustion.

TWC documents and provides references on procedures and logistics to monitor RREM performance and ensure it reflects changing local labor market conditions. Additionally, efforts

are continuously extended to research other potential influencing factors, trends in using alternate dependent variables, and advanced methodologies to enhance the quality of RREM. ^v

Self-Sufficiency Fund Program

The Self-Sufficiency Fund Program, administered by the Texas Workforce Commission (TWC), assists businesses by designing, financing and implementing customized job training programs in partnership with public community and technical colleges, a higher education extension service, & community-based organizations for the creation of new jobs and/or the retraining of existing workforce. The goal of the Self-Sufficiency Fund is to assist recipients of Temporary Assistance for Needy Families (TANF), Supplemental Nutritional Assistance Program (SNAP), or a parent, including a noncustodial parent whose annual wages are at or below \$37,000 to obtain training, get jobs, and become independent of government financial assistance. ^{vi}

Skills Development Fund

The Skills Development Fund is Texas' premier job-training program providing training dollars for Texas businesses and workers. Administered by the Texas Workforce Commission, success is achieved through collaboration among businesses, public Community and Technical colleges, Local Workforce Development Boards and employers with specific skill needs. Once a business, consortium of businesses, or trade union identifies a training need, it then partners with a public Community or Technical college to fill its specific needs. Businesses work with college partners to submit proposals, develop curricula and conduct training. The Skills Development Fund pays for the training, the college administers the grant, and businesses create new jobs and improve the skills of their current workers. As the Texas workforce grows and global competition increases the need for specialized competencies, many businesses find that their workforce lacks the skills necessary to excel in an international marketplace. This program was specifically designed to meet that need—to provide the workforce skills that Texas employers demand to remain competitive in the marketplace. Skills grants are a proven component of the state's economic development strategy. Texas businesses and the communities they serve have benefited from a workforce equipped with the skills needed to compete in the 21st century marketplace. ^{vii} State-funded Skills Development Fund grants provide customized job-training for businesses in partnership with local community colleges. These grants helped 111 businesses provide new and upgraded job skills to nearly 20,000 workers in FY 2012. ^{viii} The legislature appropriated \$50 million for fiscal year 2008-2009, \$80 million^{ix} for fiscal year 2010-2011 and \$50 million for fiscal year 2012-2013 to the Skills Development Fund. The Legislature chose to take the appropriations level back to the 08-09 amount. ^x

Skills Development Fund (SDF) Pre-Employment Training for New Jobs

The Skills Development Fund (SDF) Pre-Employment Training for New Jobs pilot project provides grants to community and technical colleges to provide customized job training programs for businesses that want to train potential new workers prior to hiring them. This pilot project is designed to determine the necessary conditions for developing a successful customized

training grant project where trainees are not yet employed by a business partner. Grantees will help the Texas Workforce Commission identify approaches and models that could be used to successfully train, place, and retain workers in new jobs.

Skills for Veterans

The TWC Skills for Veterans initiative dedicates \$1 million from the Skills Development Fund to address the training needs of post-9/11 veterans returning home and entering the Texas workforce. Skills for Veterans will enhance the skills of veterans, which will benefit Texas employers. Employers who hire post-9/11 era veterans, especially those who served in Operation Iraqi Freedom/Operation New Dawn or Operation Enduring Freedom, may be eligible to participate in this training opportunity. All private businesses, including private, nonprofit hospitals, can apply to TWC for training offered by their local community or technical college, or the Texas Engineering Extension Service (TEEX), to upgrade the skills of newly hired veterans.^{xi}

Trade Adjustment Assistance

Trade Adjustment Assistance (TAA) for Workers is a federally funded program, with no costs to employers, that helps workers who are adversely affected by foreign imports or job shifts to a foreign country. Assistance is provided to eligible workers in the form of reemployment services, training, job search, relocation, and support benefits in the form of Trade Readjustment Allowances (TRA), a Health Coverage Tax Credit (HCTC), and/or Alternative/Reemployment Trade Adjustment Assistance (ATAA/RTAA) for older workers.

WorkinTexas.com

WorkInTexas.com is the most widely used comprehensive online job search resource and matching system developed and maintained by the Texas Workforce Commission. It provides recruiting assistance to Texas employers of all types and sizes, and job search assistance to any individual seeking work in Texas. WorkinTexas provides real-time matching between job seekers and job postings by connecting work experience and education among other criteria.

Workforce Investment Act

The Workforce Investment Act (WIA) program provides workforce development activities designed to enhance the employability, occupational attainment, retention and earnings of adults, dislocated workers and youth. WIA improves the quality of the workforce, reduces welfare dependency, and enhances the productivity and competitiveness of the Texas economy. Training is directly linked to high demand occupations and targeted industries having the highest growth potential with the goal of ensuring that training dollars will ultimately lead to employment.

Recommendations

1. Continue funding for the Skills Development Fund to support high quality, customized job training projects across the state.
2. Allow propriety schools that provide vocational education and training to make bids for grants under the Skills Development Fund.
3. Establish a new competency-based, rapid deployment education delivery model that will focus on the current and future needs of Texas Employers. The Higher Education Board, Texas Workforce Commission and the Texas Education Agency will partner to help establish this model. This will enable an individual to attain certain certification in a high demand industry utilizing competency-based learning which will allow students to gain credit for skills they have already mastered.

Committee Charge # 2:

Evaluate the economic benefits of economic development incentives targeting the 25 largest industries in this state, including energy, manufacturing, healthcare, tourism, etc. Determine the effectiveness of state programs designed to encourage and assist the growth of these industries. Consider further incentives targeting niche markets such as the creation of data centers, film incentives, etc., and make recommendations on whether incentives should be offered for specific industry clusters.

Executive Summary

Texas has long strived to make the state an attractive location in which to live, work, and invest. An important component of Texas' economic development strategy is the offering of a variety of competitive state and local incentives for companies who create jobs and drive innovation in Texas. The Texas Senate Economic Development Committee is charged with evaluating the effectiveness of these programs and considering new recommendations based on its findings. The following are summaries of the most commonly utilized state offerings.

Chapter 313: Value Limitation and Tax Credits (Texas Economic Development Act)

Local property taxes in Texas are among the highest in the nation, especially for industrial projects, therefore creating a substantial barrier in attracting new investments and jobs to the State. Chapter 313 allows school districts to attract new taxable property development by offering a tax credit and an eight-year limitation on the appraised value of the property for the maintenance and operations portion of the school district property tax. The minimum limitation value varies by school district. The local tax revenue that the school loses from a Chapter 313 agreement is mostly replaced by the state through the school funding formula, and many schools have negotiated supplemental payments back to the school district from the participating businesses, based on a percentage of that businesses' tax break. Owners of Chapter 313 projects have invested approximately \$42.2 billion in Texas through 2011, and have projected a \$62.4 billion investment over the lifetime of the project agreements.^{xiii}

Chapter 380

Chapter 380 of the Local Government Code authorizes municipalities to offer incentives designed to promote economic development such as commercial and retail projects. Specifically, it provides for offering loans and grants of city funds or services at little or no cost to promote state and local economic development and to stimulate business and commercial activity. In order to provide a grant or loan, a city must establish a program to implement the incentives. Before proceeding, cities must review their city charters or local policies that may restrict a city's ability provide a load or grant.

Texas Enterprise Fund

The Texas Enterprise Fund (TEF) is the largest "deal-closing" fund of its kind in the nation. The TEF is used primarily to attract new business to the state or assist with the substantial expansion

of an existing business as part of competitive recruitment. For a project to be funded by the TEF, the Governor, the Lieutenant Governor, and the Speaker must unanimously agree to support the use of funds for the project. The TEF is a cash grant used as a financial incentive tool for projects that offer significant projected job creation and capital investment and where a single Texas site is competing with another viable out-of-state option. Considered projects must maximize benefit to the state and realize a significant rate of return of the public dollars being used for economic development in Texas. Award dollar amounts are determined using an analytical model applied uniformly to each TEF applicant. Variations in award amounts are influenced by the number of jobs to be created, the expected timeframe for hiring, and the average wages to be paid. In the past, awards have ranged from \$194,000 to \$50 million. TEF grant recipients are contractually obligated to fulfill the terms of their job creation agreements with the State of Texas. Once a company has accepted an offer from the Texas Enterprise Fund, a signed contract is required prior to the distribution of an award. The contract obligates the grantee, among other terms and conditions, to the job creation targets and commits the grantee to maintain these employment positions at or above the county average wage for the term of the agreement. Additionally, all TEF contracts contain provisions for grant repayment through clawbacks in the event that a grantee does not meet the obligations of the agreement. As of December 31, 2012 the State invested 487 million and as a result secured 66, 094 direct jobs and a combined capital investment of more than \$17 billion.

Texas Enterprise Zone

The Texas Enterprise Zone Program was created in 1988 to promote job creation and capital investments in economically distressed areas of the State. The Texas Enterprise Zone Program is an economic development tool for local communities to partner with the State of Texas to promote job creation and significant private investment that will assist economically distressed areas of the state. Approved projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund is related to the capital investment and jobs created at the qualified business site.

In order to be eligible, a local community must nominate a company as an Enterprise Project. Texas law limits the number of allocations that may be awarded to local communities per biennium. In order to qualify a project for the Enterprise Zone Program, local communities must offer incentives to the project such as tax abatement, tax increment financing, and one-stop permitting. Communities may nominate projects, for a designation period up to five years, non-inclusive of a 90-day window prior to the application deadline. Employment and capital investment commitments must be incurred and met within this timeframe. Projects may be physically located in or outside of an Enterprise Zone. If located within a zone, the company commits that at least 25 percent of their new employees will meet economically disadvantaged or enterprise zone residence requirements. If located outside of a zone, the company commits that at least 35 percent of their new employees will meet economically disadvantaged or enterprise zone residency requirements. Under limited statutory provisions, an enterprise project designation may be granted for job retention.

Texas Emerging Technology Fund

The Emerging Technology Fund (ETF) was created by the Texas Legislature in 2005 at the urging of Gov. Perry to provide Texas with an unparalleled advantage in the research, development, and commercialization of emerging technologies. The ETF is a cash grant program designed to 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. The program works through partnerships between the state, higher education institutions, and the private industry to focus greater attention on the research, development, and commercialization of emerging technology. Commercialization awards provide selected, early-stage investments in new, technology-based, private entrepreneurial entities that collaborate with public or private institutions of higher education in Texas, and which, if successful, may provide significant economic benefit to the state. Matching Awards utilize ETF funds to create public-private partnerships which leverage the unique strengths of universities, federal government grant programs, and industry. Matching awards enable Texas to secure additional research funds from outside the state in key technical and scientific areas that contribute to the growth of our emerging-technology economy. Research Superiority Acquisition awards fund Texas higher education institutions to recruit the best research talent in the world.

The Jobs and Education for Texans Program

The Jobs and Education for Texans (JET) Program is focused on helping low-income individuals get training, scholarships, and jobs in high demand fields, by developing new career and technical education programs at public junior colleges and public technical institutes. The JET Program was administered to develop, support, or expand programs of nonprofit organizations that prepare low-income students for careers in high-demand occupations, and to provide scholarships for students in career and technical education programs.

Texas Product/Business Fund

The Texas Product/Business Fund provides asset backed financing to companies doing business in Texas. Financing is done in the form of direct asset based loans with competitive lending rates. Loans can be amortized up to the life of the asset. Texas companies or out-of-state/international companies doing business in the state are eligible to apply. Those companies must have unencumbered assets that are available for collateral. Preference for funding is given to the state's defined industry clusters including, but not limited to: nanotechnology, biotechnology, biomedicine, renewable-energy, agriculture, and aerospace. Job creation and retention within Texas will be considered within funding priorities.

Texas Leverage Fund

The Texas Leverage Fund (TLF) provides a source of financing to communities that have adopted an economic development sales tax. Communities may leverage future sales tax revenues to expand economic development through business expansions, business

recruitment, and exporting. Generally, economic development corporations are eligible to borrow up to \$6 million. Future sales tax revenues serve as collateral for loan repayment with required debt service coverage ratios specified in the Texas Leverage Fund Program Guidelines. Pledged tax collections not needed for actual debt service are available for other projects. Loan proceeds must be used to pay eligible "costs" of "projects" as defined by the Development Corporation Act of 1979, as amended. Under the Act, examples of eligible projects include land, buildings, machinery and equipment for manufacturing and industrial operations as well as sports, athletic, entertainment and public park purposes and events.

Texas Industry Development Loan Program

The Texas Industry Development (TID) Loan Program provides capital to Texas communities at favorable market rates. The main objective of TID is to support projects that will stimulate the creation of jobs. TID loans can be used for a variety of purposes including community infrastructure development.

Industrial Revenue Bond Program

The Texas Industrial Revenue Bond Program (IRB) is designed to provide tax-exempt or taxable financing for eligible industrial or manufacturing projects as defined in the Development Corporation Act of 1979. The Act allows cities, counties, and conservation and reclamation districts to form non-profit industrial development corporations (IDCs) or authorities on their behalf. The purpose is to provide bond financing for projects within their jurisdictions. The IDC issues bonds to finance the capital costs for an industrial or manufacturing business. Generally, the bond debt service is paid by the business under the terms of a lease, sale, or loan agreement. As such, it does not constitute a debt or obligation of the sponsoring governmental unit, the IDC, or the State of Texas.

Texas Military Value Revolving Loan Fund

The Texas Military Value Revolving Loan Fund is designed to assist defense communities in enhancing the military value of a military facility in their area, provide financial assistance to defense communities for job-creating economic development projects that minimize the negative effects of a defense base realignment or closure decision that occurred in 2005 or later, and provide financial assistance to defense communities for an infrastructure project to accommodate new or expanded military missions resulting from a base realignment and closure decision that occurred in 2005 or later.

Texas Capital Fund Infrastructure Development Program

The Texas Capital Fund Infrastructure Development Program is an economic development tool designed to provide financial resources to non-entitlement communities. Funds from this program can be utilized for public infrastructure (water, sewer, roads, etc.) needed to assist a business which commits to create and/or retain permanent jobs, primarily for low and moderate-income persons. Projects are evaluated by using a scoring system based on community need,

jobs, and economic impact. The minimum award is \$50,000, and the maximum award is \$1,500,000.

The Texas Capital Fund Real Estate Development Program

The Texas Capital Fund Real Estate Development Program is designed to provide financial resources to non-entitlement communities. Funds must be used for real estate development (acquisitions, construction, and/or renovation) to assist a business which commits to create and/or retain permanent jobs, primarily for low and moderate-income persons. Projects are evaluated by using a scoring system based on community need, jobs, and economic impact. The minimum award is \$50,000 and the maximum is \$1,500,000. No interest is charged on the loan amount.

Moving Image Industry Incentive Program

The Texas Moving Image Industry Incentive Program offers qualifying film, television, commercial, and video game productions the opportunity to receive a payment of a percentage of eligible Texas spending or eligible wages paid to Texas residents. Payment amounts depend on budget levels and types of productions and are received upon completion of a review of the project's Texas expenditures. Eligibility is determined based on minimum Texas spending, percentage of shooting days completed in Texas, and percentage of cast, crew, paid employees or contract labor that are Texas residents. Both live-action and animated projects are eligible. Specific eligibility qualifications for projects are available thru the Texas Film Commission.

Industry Cluster Initiative

In 2004, the Legislature created the Industry Cluster Initiative to focus on strengthening the state's competitive advantage in six target industry clusters. These targeted clusters are based on the 2001 Cluster Mapping Project, which statistically defined industry clusters and analyzed regional economies in the United States. The objective of the original Industry Cluster Initiative was to stimulate sustained growth by focusing allocation of resources on key industry clusters that economists predicted would be the engines of job creation and economic development in the 21st century. Through the revenue gained from this job creation, the state can fund its most important priorities, such as education, healthcare, and welfare. The six clusters, as defined by the Legislature, are Advanced Manufacturing and Technologies, Aerospace and Defense, Biotechnology and Life Sciences, Energy, Information Technology and Computing, and Petroleum Refining and Manufacturing. The wide range of sectors within these clusters stretch from oil and gas exploration to nanotechnology and robotics.

The Industry Cluster Initiative is administered through the Texas Workforce Commission (TWC), that works closely with a statewide network of chambers, workforce boards, trade associations, public policy organizations and employers to develop regional assessments, priorities, and recommendations. For each cluster, the TWC develops a list of statewide priorities, followed by the development of strategies and recommendations for an increasingly skilled workforce, a more globally competitive education system, and an effective commercialization process for products and technologies that present opportunity for Texas industries.

Recommendations

1. Pursue legislation to insure that the process for awarding job creation incentives in Texas is transparent and accountable possibly through an independent audit. Review economic development programs and projects to allow for improvements and corrections to ensure they are working and transparent.
2. Recognize that long-term economic health relies on development of our infrastructure and natural resources, all of which require long term public investment. We have to make sure that short term incentive programs will bring quality jobs that make a significant contribution to our economic well-being. Focus on long-term investment in water, roads, and education.
3. Reauthorize the Industry Cluster Initiative so that it may prepare a complete up-to-date analysis and determine trends in the Texas economy.
4. Chapter 313 (Value Limitation and Tax Credits), Tax Code, should be extended beyond the current expiration date of December 31, 2014. In doing so, the Legislature should examine current Chapter 313 agreements to evaluate the job-creation statistics and economic impact to both the state and local communities. This data will be used to identify possible changes and reforms to Chapter 313.
5. The Legislature should continue to examine the feasibility of incentives to encourage research and development in Texas, including sales tax exemptions and franchise tax credits for research and development expenditures. Further research should be done to determine the economic impact of incentivizing specific industries such as data centers and cloud services.
6. The military in Texas has an economic impact in excess of \$136 billion. Texas should proactively help the host communities of the bases to analyze and provide for the needs of the military in order to protect the state as projected future BRAC rounds occur.

Committee Charge # 3:

Evaluate the current financing mechanism for the Unemployment Compensation Trust Fund, and make recommendations to improve the long-term financial health and stability of the Fund.

Executive Summary

The Texas Unemployment Insurance system is funded through Texas employer taxes paid on the wages earned by their respective employees. The Texas Workforce Commission (TWC) is the state agency charged with assessing and collecting the payroll tax from Texas employers. The taxes collected are deposited into the Texas Unemployment Insurance (UI) Trust Fund (Trust Fund). The Trust Fund pays temporary unemployment benefits to qualified workers unemployed through no fault of their own.

Employer taxes consist of the general tax, replenishment tax, employment training investment assessment and the deficit tax. The general tax is the "experienced" rated determined primarily by the amount of UI claims paid to former employees. The replenishment tax is charged to all employers to cover unemployment claims not charged to a specific employer. The employment training investment assessment is charged to all employers and is 1/10th of 1 % of total taxable wages. The deficit tax applies only to those experience-rated employers in the previous year. It is assessed to address the solvency of the Trust Fund. The Obligation Assessment collects amounts needed to pay bond obligations and interest due on loans from the federal government. The Trust Fund's minimum balance is defined in statute as the floor and is 1% of all taxable wages or about \$950 million. The Trust Fund's maximum balance is defined in statute as the ceiling and is 2% of all taxable wages or about \$1.9 billion. The floor and the ceiling act as a barometer for the Trust Fund. If it runs a deficit or becomes insolvent, the system is designed to self-correct itself. If the Trust Fund falls below the floor, a deficit assessment will be imposed on employers to bring the Fund back above the floor. If the Trust Fund runs a surplus above the ceiling TWC may take action for the benefit of Texas employers.

Although Texas has weathered the great recession and unemployment levels have been below the national average as other states in the country continue to struggle, Texas still sustained an incredible number of job loss throughout the state. Between 2008 and 2009 state-funded unemployment insurance benefit payouts increased nearly three-fold from \$1.3 billion to \$3.3 billion, paying nearly \$91million in unemployment benefits weekly. This put a financial strain on the trust fund caused the fund to become insolvent. In 2009 Texas began borrowing from the federal government in order to continue to pay these benefits. As a part of the American Recovery and Reinvestment Act, these loans, also known as Title XII Advances, were made interest-free through December 2010. Texas borrowed approximately \$1.7 billion from the federal government. In order to repay the outstanding loans from the federal government at no interest, continue paying unemployment benefits without additional federal borrowing and to preserve the maximum federal Unemployment Tax Act (tax credit for Texas employers), TWC issued \$2.1 billion in low-interest revenue bonds. The strategy, which was supported by employer groups across the state, held employer tax rates to the lowest possible level while still supporting the demands of the trust fund. As a result, the average unemployment tax rate for all

employers will decrease for CY 2012.^{xiii} Currently the Trust Fund is solvent. The October 1, 2013 Unemployment Compensation Trust Fund balance is projected to be \$1,769.5 million. The amount of outstanding Unemployment Compensation Obligation Assessment Revenue Bond obligations will total \$1,204.5 million on October 1, 2013.^{xiv}

Recommendation

1. Though the Unemployment Compensation Trust Fund is currently solvent, the Legislature should continue to examine funding and benefit mechanisms, including the taxable wage base, wage ceiling and eligibility determination.

Committee Charge # 4:

Monitor the implementation of legislation addressed by the Senate Committee on Economic Development, 82nd Legislature, Regular and Called Sessions, and make recommendations for any legislation needed to improve, enhance, and/or complete implementation. Review the implementation of SB 1048, relating to public-private partnerships and analyze any recommendations made by the committee created by the Legislation.

Executive Summary

S.B. 1048 was passed during the 82nd Legislative Session in order to provide structure and clear permissive authority regarding delivery of public projects in conjunction with private investment that will decrease the financial burden of repairing existing infrastructure as it ages and satisfying the demand of new infrastructure as the state's population continues to grow. These relationships are not new in Texas and have been utilized to deliver such projects, as the Texas Capitol Building in 1882, and the new Dallas Cowboys Stadium in 2009, and have been utilized for decades in the academic setting to further scientific research and development at our state universities. S.B. 1048 amended law relating to the creation of public and private facilities and infrastructure.^{xv}

- The Committee makes no recommendations on Charge 4 at this time. The Committee will continue to monitor the implementation of S.B. 1048 and will make recommendations at a later date. For more information please reference the January 2013 Sunset Advisory Commission Staff Report with Commission Decisions-Texas Facility Commission and the December 2012 House Committee on Economic and Small Business Development Interim Report.

Committee Hearings

January 30, 2012

The Senate Committee on Economic Development (committee) met on January 30, 2012, to hear invited testimony on certain charges two and four.

Senator Jackson called the first panel of invited witnesses to testify regarding the Texas Emerging Technology Fund (TETF) and the Texas Enterprise Fund (TEF). The first panel included Jonathan Taylor, director, TETF; Roberto DeHoyos, deputy executive director, economic development and tourism division in the Office of the Governor; and Terry Hazell, TETF advisory committee (advisory committee).

Taylor stated that he would discuss TETF and the effect of legislation from the 82nd Regular Session, 2011, that took effect on September 1, 2011. Taylor said that TETF is doing well, particularly since it is a young fund, and he stated that some of the legislative changes were helpful.

Taylor stated that the fiscal year (FY) 2011 Annual Report to the Texas State Legislature on the Texas Emerging Technology Fund recently became available. Taylor discussed Subchapter D (Incentives for Commercialization Activities), stating that TETF has invested in 133 companies in every industry cluster and in every region of Texas. He stated that TETF has disbursed \$169 million for Subchapter D, using the most conservative valuation, and that the valuation is \$173.9 million, also using a conservative industry standard. Taylor stated that the fund has leveraged almost \$600 million of additional follow-on financing from other individuals. He emphasized the importance of this additional financing, stating that it brings money into Texas and that it is specifically targeted to high-tech emerging companies that are addressing major issues.

Taylor discussed Subchapter E (Research Award Matching) of the annual report, stating that 13 awards were awarded for a total of \$84 million and that those awards leveraged \$122 million. Taylor reported on Subchapter F (Acquisition of Research Superiority), which are grants provided to universities to hire researchers from outside Texas. He said that 21 awards were awarded for a total of \$92 million. Taylor noted that the aggregate total of private sector investment, federal government funding, and contributions from other sources is \$639 million.

Taylor said that if the amount provided to Texas nonprofit research consortia and to Texas universities are combined, there is a 4:1 leverage from non-state dollars into Texas universities.

Taylor stated that transparency in the TETF was an important topic of the previous legislative session, and he discussed resulting changes. Taylor said that the transparency of other states' funds were reviewed and it was found that the TETF provided more information concerning its investments than do any of those reviewed programs.

Senator Jackson asked whether TETF is providing too much information. Taylor responded that there is concern regarding how information is provided. He stated that a director of the New York Small Business Technology Program noted that the fund has a fiduciary responsibility to not make public any insider information that could harm the portfolio companies' competitive advantage. Taylor said that that fund is very careful about what data it shares with the public or

the press. Taylor noted that the New York fund is valued at investment value, which is the amount invested in each portfolio company, since early stage companies have no value in the public market, which is preferable to trying to create a current value using comparative values with listed companies.

Senator Jackson welcomed Senator Van de Putte.

Senator Watson asked whether, given the private leverage of 3:1 in the Subchapter D awards, those programs need TETF funding. Taylor responded in the affirmative, discussing the unlikelihood, prior to the creation of the TETF, of early stage investments coming into Texas that would fund small businesses and high-tech companies, keep intellectual property created by Texas universities in the state, and keep the companies that TETF is currently invested in in the state.

Senator Watson reemphasized his question as to whether TETF funding is needed to compel companies to stay in Texas. Hazell responded that TETF looks for companies that have demonstrated their product but need to reach a significant valuation inflection point to attract outside investors. She said that TETF enables the companies to reach that valuation inflection point, and she discussed factors the advisory committee reviews.

Senator Watson expressed his concern about dealing with budget constraints in the next legislative session and making priorities about the use of funds in relation to understanding what the reasons are and why TETF is being used.

Hazell said that for Subchapter E and Subchapter F, one of the things being incentivized is creating large interdisciplinary teams that will be more competitive in obtaining greater federal funding.

Senator Watson asked whether, in each private match under Subchapter D, TETF played a necessary role in opening the door for those companies to obtain additional capital investment. Hazell responded that such a necessity is a requirement. Senator Watson said that while that may be a requirement, it does not mean that that is the actuality, and he expressed concern regarding this situation.

Senator Watson asked who must sign off in the TETF approval process. Taylor responded that the advisory committee, the governor, the lieutenant governor, and the speaker of the house must give approval.

Senator Watson asked whether, since the end of the 82nd Session, there have been any difficulties in getting approval on these programs. Taylor responded that there have been no difficulties, but that it was important to ensure that changes in law and other recommendations are taken into account, which takes time.

Senator Watson asked how the issue of applications being held up for a period of time, a subject brought up in the last legislative session, is being handled. Taylor responded that as of

September 1, 2011, trustees have 90 days after a TETF application has been given due diligence to sign off on it.

Senator Watson and Taylor discussed two deals that were not signed off on within the 90 days. Senator Watson asked who did not sign off on those projects. Taylor responded that the lieutenant governor requested an additional 14 days, as authorized by law, on both projects. Hazell stated that the lieutenant governor informed the advisory committee of questions that needed to be addressed in a timely manner and that answers to those questions are being provided.

Senator Watson asked whether other projects needed the additional 14-day period. Taylor responded in the negative and said that four projects have been signed off on.

Taylor stated that while many changes in the law were helpful, he had concerns with the requirement that TETF list the number of jobs actually created by each TETF-funded project. He stated that this is considered by many to be competitive and confidential information the release of which might put a company at a disadvantage, since it would enable competitors to track a TETF company's progress. Taylor recommended that those numbers be aggregated to state how many jobs TETF created overall rather than at each individual company.

Senator Jackson noted that some counties authorize economic development projects with the stipulation that a certain number of jobs be created and maintained over a period of time. Senator Jackson discussed the possibility of finding a method for reporting information that would not jeopardize such information. Taylor discussed issues that arise from collecting data by company and making the information public. He noted that many of the current contracts do not request specific jobs-related data. Taylor discussed information that an investor normally requests.

Senator Watson stated that job creation is part of the basis on which TETF funding is awarded and that while companies may not be required to provide the job-related information in their contract, they may be providing that information because the state provided the funding.

Taylor stated reasons why the companies would not want to release job-specific information, such as making that information public at key moments of growth.

Senator Watson expressed concern about not providing the public with job-specific information, particularly in the current climate when school boards are required to be increasingly transparent about job cuts. He said that it is important, when funding is being taken from schools to support business, that the benefits derived from that shift be transparent. Taylor stated that there needs to be a balance, particularly since providing certain information could harm taxpayers who are the shareholders of TETF-funded projects.

Senator Jackson asked whether there is a way to look at the grants that have been made and the jobs created to demonstrate the economic benefits, such as through sales tax figures, without putting the companies at a competitive disadvantage. Taylor responded that that will be looked into, and he noted the significance to the state of sales tax receipts attributed to TETF companies.

Taylor said that he did not have any concern regarding listing the valuation of TETF investments, since the information is presented in the aggregate. Taylor expressed concern regarding the background check requirement and its need to be conducted multiple times for certain persons.

DeHoyos stated that he serves as Governor Perry's designee to TEF. DeHoyos provided an overview of TEF, stating that the program continues to provide favorable results for Texas. He explained that in 2003, at the governor's request, the 78th Legislature established TEF to allow the state to respond quickly to opportunities to bring jobs and employers to Texas, providing flexibility and financial resources to help attract job creation. DeHoyos noted that the governor, lieutenant governor, and speaker of the house must unanimously agree to support the use of TEF for each specific project. DeHoyos described the purposes of the fund and stated that the governor's office works with local leaders to tailor incentive packages to the local community's and businesses' needs. DeHoyos described eligibility for TEF, the application process, and the review process. He stated that from 2003 to December 31, 2011, TEF awarded over \$441 million, resulting in 50,000 direct jobs and a combined capital investment of more than \$15 billion. He noted that \$178 million is currently available in the fund.

Senator Jackson asked for an estimate as to how long the available funding will last. DeHoyos stated that he did not have such an estimate. Senator Jackson asked for clarification regarding the handout provided. DeHoyos provided that clarification and cited other required reports that contain additional information.

DeHoyos stated that H.B. 2457 (relating to the Texas Enterprise Fund and the Texas emerging technology fund), 82nd Legislature, Regular Session, 2011, had minimal impact on TEF. He discussed the time period from which an application is received and an offer letter is provided to a project, noting that the period is significantly less than 90 days.

Senator Jackson asked Taylor for an update regarding S.B. 1047 (relating to the eligibility of an innovation and commercialization organization associated with Lyndon B. Johnson Space Center to receive funding from the Texas emerging technology fund), 82nd Legislature, Regular Session, 2011. Taylor discussed relevant efforts relating to S.B. 1047 and potential benefits.

Senator Jackson called the next panel of invited witnesses to speak on heavy-haul corridors. The panel included John Black, Frontier Logistics; Jim Henderson, New Orleans Cold Storage (NOCS); Joe Manchaca, Satellite Logistics; and Christopher Smith, the Richardson Companies.

Henderson discussed NOCS, stating that it operates refrigerated warehouses at port locations and discussed the company's work in Texas, which is related primarily to agriculture. Henderson said that the 80,000-pound weight limit in Texas is below the weight allowed in all other U.S. ports and is a hindrance to making Texas ports competitive. He noted that a yearlong South Carolina study of heavy-haul corridors found that refrigerated cargo, specifically agricultural products, with an allowance of 100,000 pounds resulted in tremendous growth in that area and no adverse effects. He provided examples of other ports. Henderson emphasized that weight

limits and cargo weight limits that are not in line with certain global standards cause a reduction in the business received by the port community. Henderson discussed the potential of using permit fees to cover maintenance costs and the desire of the industry to cover such costs.

Black provided an example of the challenges confronting his company, Frontier Logistics. He described the negative impact of weight limits on his company's ability to meet the needs of a customer in loading containers. He noted that it is important to resolve this issue to the benefit of the customer because the customer does have opportunities to choose other ports and other states without such restrictions.

Senator Watson asked the reason for the current restrictions and the negative consequences of lessening that restriction. Henderson responded that the weight limit is outdated and that Houston is the only place that does not use the current global standard. Henderson stated that he has heard concerns regarding safety if the weight limit is raised, but that he is unaware of any studies confirming that concern.

Senator Watson asked about the consequences of the increased weight on roadways. Henderson replied that one way to handle the impact on roadways is to have permits that would provide a revenue stream to pay for maintenance of the roads. He stated that there is currently no fund to pay for such maintenance other than standard taxes. Senator Jackson stated that the major issue with the increased weight is more rapid deterioration of the roads, but he noted that highways can handle the load.

Senator Jackson asked whether the issue of a designated highway route for those vehicles will be brought up in any future legislation related to the issue of the increased weight. Henderson responded in the affirmative.

Senator Birdwell asked why Houston has to address this issue with the legislature, if Brownsville and Chambers County have already increased their weight limit. Senator Jackson responded that the other two areas have already requested legislative approval, while the issue has not been addressed for Houston.

Black stated that an entity can obtain a permit to pull a 120,000-pound crane on the road because that product is one unit, and he discussed the issue in relation to the multiunit items his company transports.

Manchaca described Satellite Logistics, stating that it is an international company dealing with logistics and public warehousing. He discussed changes in foreign shipping protocols and the need to increase weight limits to accommodate more fully packed containers. Manchaca discussed the issues faced in transporting such containers via Houston. He stated that he would like this weight limit issue to be addressed, with the provision that that cargo be moved on properly permitted and maintained trucks with qualified drivers.

Senator Jackson and Manchaca discussed Manchaca's proposed route of transport.

Smith stated that the products his company transports used to be transported piece by piece but are now more likely to be transported in containers, and he voiced concern with the weight limit. He noted that a heavier weight limit would decrease the number of trucks on the roads and decrease emissions. Smith stated that while that means fewer trucks from his business on the road, there is the opportunity for increased business due to changes in the Panama Canal.

Manchaca noted that cities and states that have overweight corridors are expanding corridors and making improvements and increasing lanes due to the economic growth.

Senator Jackson and Henderson discussed other states' permits and the potential for permits to address road impact issues.

Senator Birdwell stated that, if permits are instituted and the acquired funds are to be used for road maintenance, it is important that those funds reach the entity, be it the state or a municipality, responsible for paying for that maintenance. Senator Birdwell stated that when local roads are used, there should not be situations where the state is receiving the fees but is not paying for the maintenance.

Senator Jackson called the next panel of invited witnesses to testify regarding the Cybersecurity, Education, and Economic Development Council (council) implemented under S.B. 988 (relating to the creation of a cybersecurity, education, and economic development council), 82nd Legislature, Regular Session, 2011. The panel included Karen Robinson, executive director, Texas Department of Information Resources (DIR); Angel Cruz, chief information security officer, DIR; and Robert Butler, chairman, council.

Robinson expressed appreciation to Senator Van de Putte for authoring S.B. 988, and she discussed the previous accomplishments of panel members Cruz and Butler. Robinson discussed the council, its purposes, and its membership, noting that it will strengthen the security of the state and its citizens' information and improve and accelerate the growth of the cybersecurity industry in Texas.

Cruz discussed information security in relation to state agencies and institutions of higher education and the responsibilities that each of these organizations have in this area. He noted that DIR has created and maintained certain cybersecurity capabilities in support of those state agencies, protecting cybersecurity information, and enhancing the state's positioning for cybersecurity economic development. Cruz discussed the dynamic technology landscape and changing threats. He noted that collaborative efforts by DIR that measure and enhance the maturity of state agencies and security programs will assist in ensuring that Texas is ready for cybersecurity economic development. Cruz noted ways in which current security assessments are being conducted and how the information will be shared in order to improve information security. Cruz highlighted areas that the council has discussed, including leveraging public-private partnerships to investigate the threat landscape, seeking ways to enhance cyber education and industry capabilities, and identifying new initiatives for addressing real or perceived cybersecurity gaps.

Senator Van de Putte expressed appreciation for DIR and the council.

Senator Van de Putte noted that the state is one of the largest repositories of sensitive information and personal data and provided numerous examples of that collected information. Senator Van de Putte asked for information regarding an assessment of cybersecurity and state agencies, participation by those state agencies, and best practices relating to cybersecurity. She expressed concern regarding sensitive data being breached or exposed.

Cruz discussed the ability of DIR to monitor across its entire network; partnerships with the federal government to identify and share information regarding threats, specifically threats to state agencies; and technological capabilities for gathering and disseminating information at different levels. He emphasized that each state agency and institution of higher education is different and may be dealt with differently depending on needs and abilities. He emphasized that third-party security assessments of these agencies and institutions' information security systems are being conducted in order to identify common issues, common threats, and areas for improvement.

Senator Van de Putte expressed concern that due to recent high-profile breaches of data, state agencies or institutions may be unwilling to cooperate and asked whether this is the case. Cruz responded that he is confident that the participation necessary to enhance protection of the state's information assets is occurring. Cruz noted that it is useful for agencies and their representatives dealing with information security to collaborate and share pertinent information on handling security issues.

Senator Van de Putte stated that Child Protective Services found that one-third of foster care children have credit records and expressed concern for the repercussions for these children later and concern for the issue of privacy protection for the vulnerable in general. She noted that a cybersecurity company has been hired to investigate the issue.

Butler discussed the composition of the council and the links between cybersecurity, education, and economic and industry advancement. He said it is important to look broadly at the cybersecurity issue and building private-public sector collaboration. Butler discussed the topics the council has reviewed, including previous practices, what needs to be done, and the evolving threat, and he noted that gaps were found. He discussed how the council is looking into those gaps, challenges, and best practices. He listed other areas being investigated, including implementation strategies, information sharing, private-public sector collaboration, and federal models. He discussed the timeline for the council's work.

Senator Birdwell asked what the largest external threat to cybersecurity is, and he noted cybersecurity threats related to the border. Butler responded that aggressive nation-state activity and criminal activity are big threats, and he said that issues related to remote network access are also threatening.

Senator Van de Putte said that the focus on cybersecurity education and workforce provides important job opportunities for students. Senator Van de Putte and Butler explained the CyberPatriot competitions, in which students compete in the area of cyber defense to close gaps in security. Butler discussed the benefits of the program, including that it is team-based and

leads to partnerships with colleges and corporations. He said that such competitions can help lead to cybersecurity jobs for participants.

Senator Jackson called the next panel to testify regarding the Texas Film Commission (commission). The panel included Evan Fitzmaurice, director, commission; Susan Fowler, president, Texas Motion Picture Alliance (TXMPA); and Tom Foulkes, vice president of government affairs, Entertainment Software Association (ESA).

Fitzmaurice discussed the history of the Texas Moving Image Industry Incentive Program (program) and of the commission. Fitzmaurice stated that the program is effective in economic and job development and listed entities that have used the program. He said that based on the applications to date, which reflect the anticipated spending and hiring by productions since the first funding of the program in 2007, over 67,000 production job opportunities have been created based on the anticipated spending of \$610 million, which equates to about 7,900 full-time equivalent jobs. He stated that there is increased interest in the program and discussed two current projects and their economic impact.

Fitzmaurice discussed the importance of videogame producers and animation companies and the role that they play in Texas and its economy. He noted that in August 2011, a rule change in the incentive program gave video game producers parity with film and television productions on a percentage basis. Fitzmaurice said that EA Sports' decision to move to Texas was influenced by the incentive program. Fitzmaurice discussed criteria used by the commission to justify a grant, such as tourism impact, magnitude of expenditures, and use of Texas residents at senior levels of the job. Fitzmaurice noted the competitive nature of producer selection with other states. He discussed the push for geographical dispersal of projects in Texas.

Senator Jackson asked whether any legislative issues need to be addressed. Fitzmaurice expressed appreciation for the state's support and noted the need for more resources.

Fowler discussed the TXMPA and the success of the incentive program, particularly its benefit in creating jobs in different industries. She discussed the impact of the television series *Dallas* on the area in which it is being produced. Fowler expressed appreciation for the state's support of the incentive program.

Foulkes discussed the ESA, stating that is a trade association that represents the publishers of computer and video games for multiple media. He noted that the average game player today is 37 years old and that 72 percent of American households report that they play computer and video games. Foulkes stated that establishing studios to create these computer and video games requires a significant investment. Foulkes said that Texas has the second-largest concentration of computer and video game publishing jobs in the nation. He expressed appreciation for the inclusion of video games in the incentive program and discussed video game developers and publishers in Texas.

Foulkes said that according to a 2010 report from the Office of the Comptroller of Public Accounts, since Governor Perry signed the improved incentive legislation into law on April 30, 2009, the total estimated spending through August 31, 2010, by all four moving image industries

on approved projects was approximately \$415 million, 41 percent of which came from video game production. He expressed appreciation to the commission for parity within the incentive program. Foulkes said that within the current biennium, the video game industry has projects investing \$8 million and creating almost 1,700 full-time jobs. He discussed the competitive nature of states seeking to attract video game producers. Foulkes commented on the strong education program in computer and video game design in Texas.

Senator Watson discussed a gaming project at The University of Texas at Dallas that focuses on helping train individuals for cultural situations in Iraq and Afghanistan.

Foulkes stated that fully funding the incentive program would provide great returns to the economy and in innovation.

Senator Jackson said that it is important to share the economic impact of the industry and the incentive program. Foulkes discussed ways in which video games help address real life issues.

Senator Jackson called the final panel of invited witnesses to discuss the Public and Private Facilities and Infrastructure Act. The panel included Aundre Dukes, portfolio manager, Texas Facilities Commission (TFC), and Steven Halpin, attorney, TFC.

Dukes provided an overview of the role of TFC. Dukes discussed the implementation of S.B. 1048 (relating to the creation of public and private facilities and infrastructure), 82nd Legislature, Regular Session, 2011. Dukes said that S.B. 1048 could be applied to TFC's portfolio of strategic assets to address inequities, participate in value appreciation, allocate risks, expedite projects, and encourage economic development, while the state retains ownership of its assets. He stated that in light of the fiscal challenges in 2009, TFC began implementing its comprehensive asset management and development strategy based on the context of public-private partnerships in conjunction with traditional procurement methods. Dukes said that the initiative will require public-private partnerships to leverage existing resources, capitalize on market opportunities, achieve the highest and best use of strategic assets, enhance operational efficiencies, provide long-term cost savings, and generate revenue from non-tax sources. He said that in order to achieve these objectives, TFC started drafting public-private partnership guidelines and discussed those guidelines. Dukes listed potential benefits of the bill, such as leveraging existing resources, encouraging businesses and industries to relocate to Texas, and providing a means to target public investment. He stated that Section 2267.053(g) of the Government Code encourages private sector engagement by providing protection of unsolicited proposals when responsible government entities seek competing proposals by eliminating the perception of bid shopping.

Halpin stated that the process that TFC has implemented is as if TFC is the private sector in planning and building, and he further explained his statement. He described two types of transactions that TFC will explore in the coming year. Halpin stated that one type of transaction includes certain properties that are underutilized or underdeveloped in the Capitol complex area and further explained that transaction. He said that other types of properties, which may not be in the Capitol complex, could be used by the private sector and bring revenue into the treasury.

Halpin stated that the process is not dependent on an appropriation and that the goal is to put money back into the system.

Halpin noted an issue in the statute, stating that the bill instructs TFC to analyze proposals as if TFC was the private sector presenting it to the lender and authorizes TFC to charge a fee to engage professionals and economists to help accomplish that. He said that the issue is that although TFC has authority for this action, it does not have the authority to spend the money to pay for it. Halpin said that TFC has worked around the payment issue, but will bring the issue up in the next legislative session.

Halpin said that although issues and questions have been anticipated and addressed, additional issues and questions might arise as proposals are received. Senator Watson recommended that TFC contact Senator Jackson's staff for their expertise on the issue before the end of Senator Jackson's term.

Senator Jackson asked how many proposals had been received. Dukes said that currently the focus has been on assisting entities interested in submitting a proposal. Halpin stated that there is a significant amount of interest, but many of the submitted proposals were incomplete. Halpin said that it is important that the proposals be evaluated fairly and reasonably.

Senator Jackson, Dukes, and Halpin discussed the information and submission requirements and guidelines.

December 11, 2012

The Senate Committee on Economic Development (committee) met on December 11, 2012, to hear invited and public testimony on all four charges.

Bill Hammond, Texas Association of Business (TAB), referenced a nationwide article that ran recently in *The New York Times* regarding incentives for the film industry and said that the Texas Moving Image Incentive program was noticeably absent. He said that although the movie and television industry received \$112 million in incentives during the last biennium through the Enterprise Fund, the state must compete because other states are offering more incentives. Hammond said that the industry wants to work with Texas because of its scenery and its work ethic but that incentives are needed for the state to be competitive with other states for the industry's business.

Hammond stated that research and development should be included in the franchise and sales tax and that TAB would like for Chapter 313 (Value Limitation and Tax Credits), Tax Code, to be extended attract large capital investments and provide school districts with money for maintenance and operations.

Hammond testified that the state needs to be more effective in providing an educated workforce. He said that propriety schools that provide vocational education and training should be allowed, with oversight, to make bids and contract with potential employers.

Hammond said that the contested case rule in Texas for environmental permitting sometimes results in permitting taking up to two years to be completed. He said that other states, including Louisiana, a neighboring competitor, have a more expedient process. Hammond said that many states have a "rule process" that provides ample opportunity for comment but shortens the permitting process. He added that the Environmental Protection Agency uses the rule process for environmental permitting.

Hammond said that water and roads are important issues for economic development and suggested a \$50 increase in vehicle registration fees to provide a new revenue for roads and water. Hammond said that the state needs an ongoing source of revenue and suggested that a "tap fee" could entice water conservation. He explained that other states are using Texas' lack of investment in water and roads to lure economic development to their states. Hammond said that TAB's proposals are not perfect but that TAB has provided specific proposals to fund issues.

Senator Zaffirini asked whether TAB has studied the impact of oil and gas development in the Eagle Ford Shale. Hammond responded that TAB is aware of the needs created by the development and that it is important that state money go directly to address the issues affecting the community.

Senator Watson thanked TAB for taking a leading role in proposing new funding ideas and for supporting economic development of the film industry. He said that he worries that many economic development projects do not ensure transparency, which is necessary to confirm that projects are working. Senator Watson said that there needs to be a mechanism for reviewing

economic development programs to allow for improvements and corrections. He asked whether TAB would support such a mechanism and Hammond responded that TAB does support project reviews.

Senator Deuell stated that he is working with Representative Ritter on legislation regarding the use of the Rainy Day Fund. He asked whether TAB would support a motor fuels tax increase rather than an increase in registration fees. Hammond responded that the fee is more logical but that TAB will consider all options.

Senator Deuell questioned Hammond about four-by-four curriculum reform, noting that some educators believe that it would be more useful for students to go into areas of study that are technology and career focused. Hammond reported that TAB would be presenting its views on the four-by-four curriculum at an upcoming meeting but that TAB does support flexibility within the four-by-four curriculum. Hammond said that he does not think that schools have taken advantage of applied courses but that the schools need to keep the pressure on academics for all students.

Larry Temple, executive director, Texas Workforce Commission (TWC), provided an overview of TWC's programs to assist individuals including the unemployed with getting back to work and to provide a snapshot of the Texas economy and the industry clusters. Temple explained that TWC's unemployment insurance system is the starting place for many seeking assistance through the agency and the 28 local workforce development boards. He said that TWC partners with local one-stop centers for workforce investment and education services for adults, dislocated workers, and youth. The centers operate programs such as employment services, rapid reemployment services, child care, the Supplemental Nutrition Assistance Program Employment and Training, the Temporary Assistance for Needy Families program, and the Workforce Investment Act. Temple stated that 200 one-stops provide comprehensive recruiting, job search, and related services to Texas businesses and job seekers but that approximately 70 of those have been closed in the last year and a half. Temple said that these programs are primarily federal programs supported by federal dollars.

Temple said that the most widely used tool that TWC provides to job seekers and employers is WorkinTexas.com (WIT). He explained that WIT is a labor exchange system that provides recruitment assistance to Texas employers and job search help to anyone looking for work in the state, available 24 hours a day.

Temple testified that under the Workforce Investment Act (WIA, low-income adults, dislocated workers, and youths can access training dollars, if eligible, as a means toward upgrading existing skills or learning a new set of skills.

Temple said that TWC recognizes that veterans and their families are some of the most vulnerable citizens. He said that TWC administers the Texas Veterans Leadership Program to help veterans of Iraq and Afghanistan return to civilian life by providing a wide range of services. Temple said that the program works to provide veterans with credit towards a college degree or industry certification based on the experience and training the individual received during his or her military service.

Temple explained that the Skills Development Fund is one of the most flexible TWC programs and is solely employer-driven. He said that employers partner with a local community or technical college to provide training for new and incumbent workers and that TWC recently expanded the program to include Skills for Small Business and Skills for Veterans. Temple said that grants help employers stay competitive and grow in an evolving marketplace by increasing the competency of existing employees and opening up new job opportunities that can be filled by the unemployed.

Temple explained that the state has seen job growth, increases in consumer confidence, declining unemployment rates, and a decrease in unemployment insurance claims. He said that over the past 12 months, the state has added over 277,000 jobs and that the unemployment rate in Texas dropped to 6.6 percent in October 2012, more than one full point lower than the national unemployment rate of 7.9 percent.

Temple testified that Texas has seen growth in 10 of 11 large-scale sectors of the economy, with the largest gains being made in construction and the leisure and hospitality sectors with a total number of jobs added between October 2011 and October 2012 of 98,700. He said that construction added 13,600 jobs in October, the largest monthly gain recorded in Texas history.

Temple said that manufacturing is of particular interest because while manufacturing across the country has slowed down, Texas manufacturing has still managed to post some gains and has shown growth over the past twelve months. He said that the lone sector that showed decline over the 12-month period was the information sector.

Temple stated that the oil and gas industry has been driving Texas' job growth over the last year. He said that according to a study conducted by The University of Texas at San Antonio, in 2011, the Eagle Ford Shale (EFS) accounts for \$25 billion in total economic output and paid \$3.1 billion in salaries and benefits. Temple said that in terms of jobs, the EFS supports approximately 47,000 full-time workers.

Temple said that TWC's main focus is to ensure that Texas has a workforce with the skills and competencies that employers need. He said that in 2004, TWC participated in the development of the Governor's Industry Cluster Initiative targeting six industry clusters on which the state focuses economic resources: advanced technologies and manufacturing; aerospace and defense; biotechnology and life sciences; information and computer technology; petroleum refining and chemical products; and energy.

Senator Zaffirini questioned whether some workers are interrupting their education to enjoy short-term high-paying jobs with EFS. She asked whether TWC does anything to provide flexibility and encourage those workers to continue their education. Senator Deuell commented that many businesses incentivize education by providing training and classes on site and that both the employees and employers benefit from this practice. Temple agreed and cited Halliburton as a company that offers employees career advancement opportunities.

Temple testified that the Texas unemployment insurance (UI) system is funded through employer taxes paid on the wages earned by their respective employees. He said that taxes paid

by employers are deposited in the UI Trust Fund and ultimately allow the state to provide a "safety net" for workers who lose their jobs through no fault of their own. Temple said that the current taxing structure has been in place since the mid-1980s with input from the business community. He said that employer taxes consist of four primary components: general tax, replenishment tax, employment training investment assessment, and deficit tax. Temple said that the purpose of the obligation assessment is to collect amounts needed to pay bond obligations and interest due on loans from the federal government.

Temple explained that the UI trust fund's "floor" is one percent of all taxable wages or approximately \$950 million and that the "ceiling" is two percent of all taxable wages or approximately \$1.9 billion. He said that the floor and ceiling act as a barometer for the state of the trust fund and that if the trust fund runs a deficit or becomes insolvent, the system is designed to automatically "self correct" in order to bring the fund back into balance. Temple said that if the trust fund's balance runs a surplus above the ceiling, state statute provides TWC the flexibility to take action on the surplus for the benefit of Texas employers; however, that has not occurred in recent years.

Temple stated that from 2008 to 2009, state-funded unemployment insurance benefit payouts increased almost three-fold from \$1.3 billion to \$3.3 billion with Texas paying approximately \$91 million in UI benefits weekly. He said that the increased demand resulted in the trust fund becoming insolvent and that the state began borrowing from the federal government in 2009 to continue paying UI benefits. Temple said that the Title XII advances were interest-free to states under the American Recovery and Reinvestment Act through December 2010 and that Texas borrowed approximately \$1.7 billion. Temple said that TWC issued \$2.1 billion in bonds in 2010 and that the sale of these bonds allowed the state to repay the outstanding Title XII advances at no interest; to continue paying benefits without the need for additional federal borrowing; and to preserve the maximum Federal Unemployment Tax Act tax credit for Texas employers.

Temple stated that TWC is currently paying down the bonds, which have a maturity of 10 years. He said that TWC has the option to pay the bonds off in seven years or less without any financial penalty. Temple said that on January 1, 2013, TWC will retire the Series C bonds, which totaled \$300 million and were designed to be paid off as quickly as possible. He said that the UI trust fund is now solvent and healthy. Temple said that on October 1, 2013, TWC released its most recent projections, which show that the UI trust fund balance will be approximately \$1.7 billion; outstanding bond obligations will be approximately \$1.2 billion; and the estimated floor will be \$952 million.

Richard Levy, legal director, Texas American Federation of Labor-Congress of Industrial Organizations (AFL-CIO), testified that the AFL-CIO agrees with supporting the film industry incentives but that overall, the real key for economic development lies in investment rather than incentives. Levy said that it is important to focus on long-term investment in water, roads, and education and to take the high road of economic development with transparency. He said that the AFL-CIO also supports the "helmets-to-hardhats" program for veterans.

Levy said that the UI system provides a bridge for families, employers, and communities when people lose their jobs through no fault of their own. He said that the focus regarding UI should be on who receives it and how to pay for it. Levy said that 18 percent of the unemployed get benefits from the state and 36 percent are paid with federal funds. He said that the state needs to eliminate outdated and unnecessary barriers so that people can get benefits.

Levy stated that the UI trust fund must be protected by saving when times are good and that the legislature should evaluate raising the taxable wage base from \$9,000 to \$12,000. Senator Deuell asked whether the data is based on minimum wage and Levy responded that it may be.

Levy said that the state does not need to push for drug testing in order to qualify for unemployment benefits. He said that if someone lost his or her job for drug use, he or she would not be eligible for the benefits. He said that drug testing is sending the wrong message and that practically, the state would spend more money on testing than it would save on benefits. Levy said that Florida discontinued drug testing because it was cost-prohibitive and noted that the state must also stay in compliance with federal regulations.

Senator Deuell questioned how long unemployment benefits should be extended and commented that no one seems to know the correct answer.

Colonel Thomas P. Palladino, United States Army (Retired); executive director, Texas Veterans Commission (TVC), testified that TVC helps veterans file disability claims and advocates for veterans in processing the claims. He said that TVC also helps veterans access educational benefits and obtain approval for GI Bill use. Palladino stated that TVC provides funds for veteran assistance, providing \$23 million in grants in the past year for businesses and organizations that assist veterans. He said that TVC also works to improve communication and coordination of efforts regarding awareness of benefits available to veterans.

Palladino stated that TVC faces challenges with the unemployment rates for particular veterans, including the most recently "separated" veterans. He said that often their skills are thought not to translate to civilian jobs and that stereotypes exist for women veterans who are assumed to be single mothers. Palladino said that approximately 170 counselors across the state work with veterans in helping them overcome barriers and convincing businesses that it is good for business to hire veterans. He said that TVC explains that veterans are used to being a part of a team, and are hardworking, persistent, responsive to authority, and generally good employees. Palladino said that TVC works with human resources managers and business leaders to match up skills and facilitate job development.

Palladino concluded that Texas is the number one state in the nation in helping veterans receive services because the state partners with all organizations that help veterans, TVC, and the Veterans Administration. Palladino said that veterans need to know that they can use the GI Bill funding for licensing and certification and vocational training programs under state law. He said that a veterans' entrepreneur program also helps veterans start their own businesses by providing seminars and helping them find funding sources.

Michael Willard, senior vice president of mission services, Goodwill Industries of Central Texas (Goodwill), testified that Goodwill works with the most difficult to employ by providing "wrap-around" services. He said that Goodwill works with the Texas Department of Assistive and Rehabilitative Services, focusing on interviews and case management to address the "big picture" for adults, youth, and disabled individuals. Willard said that the most important policy issue is the utilization of education funding, making money available for skills training and secondary education needs, such as language.

John Heleman, chief revenue estimator, Texas Comptroller of Public Accounts (Comptroller), testified that Texas lost approximately 6.4 percent of payroll jobs in the last recession and has regained slightly over one-half of those jobs to date. He said that the U.S. unemployment rate was 7.9 percent in October 2012, down from 8.9 percent on year earlier. Heleman explained that the Texas economy has recovered in a more robust fashion than the nation, but that not all parts of the economy are performing at the same level.

Heleman testified that the housing industry in Texas has turned a corner and is on pace to produce improving statistics. He said that the inventory of existing homes peaked at approximately 8.2 months of inventory in summer 2011, but that from December 2011 through May 2012, existing home inventory decreased to 6.0 months of inventory and has since dropped to 5.0 months.

Heleman reported that unlike oil prices, which recovered sharply, natural gas prices have increased sluggishly. Senator Zaffirini asked whether there has been unexpected revenue from EFS. Heleman responded that the new housing industry has not been impacted. Senator Zaffirini noted that although EFS has created 47,000 jobs, problems have been created as well, including housing shortages and transportation issues. She said that the committee needs more information on the cost associated with addressing these issues.

Senator Zaffirini asked whether the comptroller has any information regarding the impact on economic development from the Circuit of the Americas. Heleman responded that the information is not currently available but that he would provide data in the future.

Carlton Schwab, president/chief executive officer, Texas Economic Development Council (TEDC), testified that the Industry Cluster Initiative (ICI) was created in 2004, focusing on building a competitive advantage through six target industry clusters, including the semiconductor industry; information and computer technology; microelectromechanical systems; manufactured energy systems; nanotechnology; and biotechnology. Schwab said that Texas was the last to enter the recession and the first to recover, but that the state has changed in the last eight years and has a different economic base. He said that TEDC recommends the reauthorization of ICI so that it may prepare a complete up-to-date analysis and determine trends in the Texas economy.

Patrick Hogan, executive director, Texas Technology Consortium (TTC), testified that Texas has lost large investment opportunities due to the state's tax structure. He said that it is critical to incentivize data center (enterprise and single organization) investments that would otherwise go elsewhere. He provided a list of 23 states that have sales tax incentives in place and said that

approximately one dozen states have customized incentives programs to lure large data centers. Hogan said that Oklahoma provides a 100 percent sales tax exemption on certain computer, mechanical, and electric equipment used in data centers and has attracted data centers for Google, Dell, Hewlett Packard, Hertz, MetLife, American Airlines, ConocoPhillips, and IBM.

Senator Watson reiterated that accountability is important for economic development incentives. Hogan said that TTC is happy to work with committee staff.

Sara Speights, Bull Creek Road Coalition, testified regarding the implementation of S.B. 1048, 82nd Legislature, Regular Session, 2011, relating to the creation of public and private facilities and infrastructure. She said that all decision-making power for the multi-million dollar projects is concentrated in a small handful of staff at the Texas Facilities Commission, with no input from other state agencies or the public, and no authority or oversight of any elected officials. Speights said that there is too much money spent with too little oversight. She also provided written testimony.

Robert Bennett, chairman, Texas Commanders Council, testified that the United States Department of Defense provides impact statements on economic development regarding military installations. He said that the number one challenge is unincorporated areas. Bennett said that the military needs authority to create a process that controls what happens on land adjacent to military installations to ensure airspace compatibility and land use/ground compatibility.

Daryl L. Fowler, county judge, DeWitt County, testified that DeWitt County has experienced "blessings" in the form of jobs from EFS development but that there are also some significant challenges. He explained that county roads have been destroyed and traffic has increased three-fold in DeWitt County in one year. Fowler said that the county sent \$71 million to the state in severance taxes generated from March 2012 to August 2012, but now needs at least \$400 million to widen roads and improve utilities. He recommended property tax relief; appropriations returned to the county for damages; and statutory authority to negotiate an oil and gas lease on county right of way. Fowler also provided written testimony.

ⁱ Texas Workforce Commission 2012 Annual Report

ⁱⁱ <http://www.twc.state.tx.us/boards/wia/wiaannualrpt11.pdf>

ⁱⁱⁱ <http://www.twc.state.tx.us/svcs/apprentice/apprentice.html>

^{iv} <http://www.twc.state.tx.us/boards/wia/wiaannualrpt11.pdf>

^v <http://www.twc.state.tx.us/boards/wia/wiaannualrpt11.pdf>

^{vi} <http://www.twc.state.tx.us/svcs/funds/ssfintro.html>

^{vii} Skills Development Fund 2011 Annual Report

^{viii} Texas Workforce Commission 2012 Annual Report

^{ix} General Appropriations Act, Article VII, Rider 31

^x <http://www.twc.state.tx.us/svcs/funds/sdfintro.html>

^{xi} <http://www.twc.state.tx.us/svcs/funds/skills-veterans-initiative.html>

^{xii} A Report of the Texas Economic Development Act, Texas Comptroller of public Accounts, January 2012

^{xiii} Texas Workforce Commission 2011 Annual Report

^{xiv} Senate Committee on Economic Development Public Hearing, Testimony and Correspondence from Larry Temple, Executive Director, Texas Workforce Commission, December 11, 2012

^{xv} Senate Research Organization. SB 1048: Bill Analysis. Texas Legislature, Senate Research Organization. August 25, 2011