

**SUBJECT:** Revising the Smart Jobs Program

**COMMITTEE:** Economic Development — committee substitute recommended

**VOTE:** 8 ayes — Jim Solis, Van de Putte, Deshotel, Homer, Keffer, Luna, McClendon, Seaman

0 nays

1 absent — Yarbrough

**WITNESSES:** For — Cheryl Chance; Michael Roberts, Richard Fierson, Partners for Growth; Fran Irwin, Victoria Economic Development Corp. and Texas Economic Development Council; Kathy Mayfield, Texas Economic Development Council; David Pinkus, Small Business United of Texas; Reid Rector, Greater Dallas Chamber

Against — None

On — Juan Carlos Aguirre, South Texas Community College; Stella Gutierrez and Maria Keenmon, Texas Department of Economic Development; Dixie R. Kingston and Chris Mitchell, National Association of Women Business Owners; Rosalie Manzano, University of Texas at Brownsville and Texas Southmost College Center for Business and Economic Development

**BACKGROUND:** In 1993, the 73rd Legislature enacted SB 130 by Montford and Ellis, creating the Smart Jobs program. The Smart Jobs Fund, administered by the Texas Department of Economic Development (TDED), provides grants to businesses to train their full-time employees. The department awards reimbursable grants through competitive bidding. A business pays for pre-approved, direct training-related costs, and TDED reimburses the business.

Smart Jobs is funded through 10 percent of revenue from the unemployment tax paid by businesses, through gifts, grants, or other donations, and through legislative appropriations.

In fiscal 1998, Smart Jobs grants totaled nearly \$55 million to train workers for almost 43,000 existing jobs. TDED awards grants to businesses that are established in the community and that offer major employee benefits and technical skills training. Under the Smart Jobs program, a business provides a 10 percent match to grants in participant's wages, benefits, and facilities during the training period.

The Skills Development Fund was created in 1995 to develop incentives for public community colleges and technical colleges to provide customized assessment and training in a timely and efficient manner. The fund is under the direction of the Texas Workforce Commission (TWC).

The Skills Development Fund provides training for specific skills for workers whom the businesses will hire. In 1997, the 75th Legislature appropriated \$25 million for use during fiscal 1998-99. During 1998, TWC awarded 55 grants totaling more than \$13 million. Texas now has more than 15,000 workers in training who will obtain jobs in their communities.

DIGEST:

CSHB 3657 would extend the Smart Jobs program through December 31, 2001. It would amend provisions of the program to establish a rainy day fund, direct new funding to the Skills Development Fund, and establish a performance evaluation for the program. The bill also would simplify wage requirements, require that employers provide health insurance, and require confidentiality for grant applications.

**Purpose and administration.** The Smart Jobs program would award grants for the creation and retention of jobs that pay more than the county average weekly wage and that are covered by a group health-insurance plan for which the employer pays at least 80 percent of the premiums or other charges. The program would give priority to high-impact development projects and to job training designed to improve the skills of the existing workforce in Texas.

CSHB 3657 would require grants to be awarded through competitive bidding. The TDED governing board would have to develop and adopt by rule a scoring system to evaluate the economic impact of grant applications.

The bill would establish the Legislature's intent that, to the greatest extent possible, Smart Jobs money be spent in all areas of the state and in approximate proportion to each region's share of the state's population,

civilian labor force, unemployed, and minimally qualified jobs. Grants would be awarded to businesses of all sizes and to minority employers in proportion to the number of persons employed by those categories of businesses.

CSHB 3657 would require that least 70 percent of the money spent be used for projects that assist existing employers located in Texas by training or retraining employees. The remainder would be used for high-impact development projects, meaning projects that assist employers that relocate operations to Texas.

The TDED governing board would have to determine appropriate means to accomplish the goals of the Smart Jobs program and would be authorized to work with TWC and the comptroller as necessary. TDED would have to use uniform service regions established by the comptroller when implementing provisions that required regional classifications.

**Allocation of funds.** Money allocated to the Smart Jobs program would go into three separate funds. Fifty percent would go to the Smart Jobs Fund, 30 percent would go to the Skills Development Fund, and 20 percent would go to a new rainy day fund.

CSHB 3657 would create a rainy day fund to ensure that if the unemployment insurance trust fund were depleted, the Smart Jobs Fund would have money to operate for a short time. The fund would include money transferred into the Smart Jobs Fund from unemployment tax revenue, money returned by employers or recouped by the program from employers, and any other money the governing board received for the fund.

The bill would allow the TDED governing board to authorize the executive director to use money in the rainy day fund if:

- ! the governing board and the comptroller determined that the Smart Jobs Fund contained insufficient money to cover the amounts appropriated by the Legislature to operate the fund; and
- ! TWC determined that the Texas unemployment rate exceeded 125 percent of the average rate during the three previous years or that a severe economic dislocation was occurring in a specific region of the state.

If the governing board approved the use of money from the rainy day fund because of a severe economic dislocation in a specific region, the executive director would have to use those funds solely for projects located in the affected region.

CSHB 3657 would require TWC to define “severe economic dislocation” by rule and to consider employment-related factors when establishing the definition.

The total combined amount spent in any fiscal year from the Smart Jobs Fund and the rainy day fund could not exceed the amount appropriated by the Legislature for that fiscal year. If during any three consecutive months the balance in the rainy day fund exceeded 15 percent of the total taxable wages for the four calendar quarters ending the preceding June 30, the excess money could be transferred to the unemployment compensation fund.

**Grants.** CSHB 3657 would authorize the TDED governing board and executive director to award grants. The governing board would have to make the final award decision for a grant application regarding a high-impact development project or a request for at least \$250,000.

CSHB 3657 would change the specific qualifications an employer would have to meet before receiving a grant. It would require that an employer participating in a project certify that each job under the project was covered by group health insurance for which the business paid at least 80 percent of the premiums.

The bill also would simplify the wage requirements employers must meet to qualify for a grant. Requirements would be based on the county’s average weekly wage instead of on the prevailing wage for that occupation in the local labor market area.

Employers could request a modification of the wage requirements if the executive director determined that reasonable factors existed. Grants with modified requirements could not exceed 10 percent of the total dollar amount of grants awarded under the program that year.

CSHB 3657 would repeal the provisions in the current law:

- ! requiring the executive director to attempt to ensure that at least 20 percent of the total dollar amount of grants awarded go to minority employers;
- ! requiring the executive director to attempt to ensure that at least 50 percent of the total dollar amount of grants awarded went to small businesses;
- ! requiring the executive director to give priority to a project located in an enterprise zone in awarding a grant; and
- ! authorizing the executive director to award a grant or combination of grants to a single employer in excess of \$1.5 million or at a rate greater than 10 percent of the annual wages of the new jobs being created or existing jobs being retained only if certain conditions are met.

**Awarding grants.** The bill would remove the provision that grants be awarded to employers on condition that the training is for demand occupations, emerging occupations, or manufacturing occupations.

CSHB 3657 would require the executive director to establish a quarterly competitive application process for grant applications submitted by medium-sized to large businesses or those requesting an award of \$250,000 or more.

The bill would require the governing board to ensure that the complexity of the application appropriately corresponds to the size of the business and the amount of funds awarded under the grant. Likewise, the bill would require the executive director to establish a simplified application for small to medium-sized businesses and to simplify the review process for all grant applications.

TDED would have to notify each applicant as to whether the application was complete no later than the fifth business day after the department received the application. The executive director would have to act on a completed application requesting less than \$250,000 not later than the 30th day after the department notified the applicant that the application was complete.

**Performance evaluation.** CSHB 3657 would establish a performance evaluation for the Smart Jobs program. The evaluation would have to include information about wage levels of trainees, a survey of grant recipients on program satisfaction, state economic development impact, and efficiency of

the program. The bill would require the governing board to pay the costs of the evaluation from money authorized for the Smart Jobs program.

**Confidentiality requirements.** CSHB 3657 would make information provided by a grant applicant confidential for purposes of open records requirements in Government Code, chapter 552.

Information submitted by an unsuccessful applicant would be confidential for purposes of Open Records requirements. Likewise, information submitted by an applicant whose application was granted and who accepted an award would be confidential for Open Records requirements only if the information otherwise would be confidential under the terms of that chapter.

Under the bill, a grant recipient who did not use all money awarded for the prescribed purpose within the allotted term would have to reimburse the Smart Jobs Fund not later than the 30th day after the expiration date of the term of the grant. The reimbursed funds would be deposited into the rainy day fund.

CSHB 3657 would take effect September 1, 1999.

**SUPPORTERS  
SAY:**

The Smart Jobs program allows Texas to improve the competitive position of businesses and workers in the global marketplace by helping to upgrade the skills of skilled, well-paid workers. The Smart Jobs Program is an economic development tool as well as a job training program. It fills the gap left by federal programs that assist only unemployed workers. CSHB 3657 would make improvements to the program that would enhance its impact.

Smart Jobs has proven effective at helping companies retain and retrain workers and even to create new jobs. However, counties with the highest unemployment rates in the state, such as those in the Texas-Mexico border region, have had difficulty competing for grants with businesses in Dallas and Houston. Even though the unemployment rate is on average twice as high in border counties as in nonborder counties, the border region received only 12 percent of grants awarded from fiscal 1994 through 1997. CSHB 3657 would ensure that grants were distributed evenly across the state.

The bill also would help the border region by transferring a portion of Smart Jobs funds to the Skills Development Fund. Between June 1996 and August

1997, the Skills Development Fund provided six of the eight community and technical colleges in the border region with \$5.4 million.

The rainy day fund would help stabilize fluctuations in the unemployment insurance fund. Because funding for Smart Jobs depends on revenues from the unemployment insurance fund, the Smart Jobs Fund would suffer in times of high unemployment. The rainy day fund would allow the state to take advantage of Texas' healthy economic climate.

Transferring a portion of Smart Jobs money to the Skills Development Fund also would allow both the Smart Jobs program and the skills development program to promote value-added worker training and support for economic development activities.

The bill would help small businesses by specifying that funding must be allocated in proportion to employment in the different types of businesses. This would ensure that small businesses would receive a fair share of the grants. Small businesses, which create the bulk of new jobs in the economy, need more help in training workers than larger firms.

CSHB 3657 also would ensure that an employer who participated in the program and complied with all the requirements would not be penalized if a trained employee left for a better-paying job.

The bill also would address businesses' confidentiality concerns. Often, businesses that apply for Smart Jobs funding want to train employees in practices that the businesses consider confidential. The bill would preserve confidentiality whether or not a business was awarded a grant.

**OPPONENTS  
SAY:**

The Smart Jobs program does not target workers who need training the most. Many areas of Texas do not have workers with even basic skills who would qualify for the types of existing jobs necessary to attract Smart Jobs training funds. The state should direct more funding toward workers who need less specialized skills to get entry-level jobs.

The Smart Jobs program funds customized training for particular businesses, for which public funding is not justified. Many companies spend a great deal of their own money to train and retrain employees to keep pace with

competitors. The state should not spend public money when the direct benefit goes only to the individual companies who receive grants.

NOTES:

The committee substitute substantially changed the original bill. Major changes included provisions that added the confidentiality requirements, established a simplified application process, established a quarterly competitive application process, and specified that only health plans in which an employer paid at least 80 percent of the premiums or other costs would qualify as part of the health-plan requirement.

The substitute also specified who would receive priority for program grants and specified that least 70 percent of the money spent be used for projects that assist existing employers located in Texas by training or retraining employees.

The substitute would delete existing law, included in the original bill, requiring the executive director to award 20 percent of grants to minority employers and 50 percent of the grants to small businesses.

The committee substitute added the requirement that the governing board make a final decision on a grant application regarding a high-impact development project or a requesting of at least \$250,000.

The companion bill, SB 1604 by Sibley, has been referred to the Senate Economic Development Committee.