SUBJECT: Using money in the Smart Jobs Fund for business location incentives

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 5 ayes — Keffer, Homer, Hughes, Rodriguez, Thompson

0 nays

2 absent — Isett, Wong

WITNESSES: For — Mayor Ed Garza, City of San Antonio; Seth Mitchell, Bexar County Commissioner's Court and Bexar County Rail District

Against — None

On — Jeff Moseley, Texas Department of Economic Development

BACKGROUND: The 77th Legislature abolished the Smart Jobs program, a job-training grant program operated by the Texas Department of Economic Development (TDED), after finding significant problems in the program's administration. Money accrued to the Smart Jobs Fund through a surcharge on the unemployment compensation tax. The current balance of $15 million will remain in the fund unless otherwise appropriated.

In February 2003, Toyota Motor Corp. announced that it had committed to locating an automobile manufacturing plant in Bexar County. State and local officials had offered Toyota an incentive package to locate the manufacturing plant in Bexar County.

DIGEST: CSHB 667 would authorize TDED to make grants to businesses locating in Texas for the purpose of diversifying the economy, reducing unemployment or underemployment, or developing or expanding transportation or commerce. The agency could develop procedures or adopt rules to do so.

TDED could spend the $15 million remaining in the Smart Jobs Fund during the remainder of fiscal 2003 for business location incentives. If the funds were not spent this fiscal year, the unexpended balance would be appropriated to TDED for fiscal 2004.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2003.

SUPPORTERS SAY:

CSHB 667 would enable TDED to use the $15 million remaining in the Smart Jobs Fund to build a rail spur connecting the planned Toyota plant in south Bexar County to a major rail line. This money is an essential component of a $133 million incentive package developed by state and local officials that helped attract Toyota to San Antonio. Toyota has made clear the essential nature of an additional rail line for the new factory. Failure to approve this legislation would force local officials to scramble to find replacement funding at the last minute and could endanger a very important development for Texas' economy.

The Toyota plant is expected to add at least 2,000 new, high-paying manufacturing jobs in the next three years. Jobs in the factory are estimated to pay more than 40 percent above the region's median manufacturing wage. The "ripple effect" from increased economic activity will generate additional construction and service jobs in and around the factory and may encourage the growth of a cluster of ancillary businesses in South Texas.

This state-funded incentive would pay for itself through increased state tax revenue in the future. The comptroller estimates that construction and operation of the plant would generate $14.9 million in state tax revenue through fiscal 2005 and $158 million by 2011.

In addition to its immediate economic impact, Toyota's decision to locate in San Antonio will highlight economic opportunities in a region of Texas that historically has had a service-oriented economy. State involvement in this project would demonstrate Texas' commitment to economic expansion and would enhance the favorable reputation of the state's business climate. Conversely, failure to enact CSHB 667 would signal an antagonism toward business expansion that could impede the state's ability to recruit businesses in the future.

Lawmakers created the Smart Jobs Fund to facilitate employer-oriented economic growth in Texas. Since the abolition of the Smart Jobs program in 2001, the money in the fund has been put to no useful purpose. Use of these funds for business location incentives would bolster economic development in the state and would be consistent with the mission of TDED and the Smart Jobs program.

OPPONENTS SAY:

While government incentives for economic development often make sense at the regional level, the state should not subsidize a local project that will be of minimal benefit to much of the rest of the state. Whereas the Smart Jobs program offered job training and economic development grants throughout the state, the impact of the Toyota plant and related economic activity will be localized in the San Antonio area. Because money in the Smart Jobs Fund was collected statewide from employers paying their unemployment compensation taxes, it should be spent across the state.

The goal of the Smart Jobs program was to provide specialized job training to Texas workers. Since the abolition of Smart Jobs, Texas has neglected this important mission. Use of the fund money for localized business incentives would run counter to the original intent of the Smart Jobs program.

The state should not use public resources for the express benefit of a private corporation. Taxpayers should not have to subsidize a private company's business decision.

OTHER OPPONENTS SAY:

While economic development is an important goal, CSHB 667 would place too few restrictions on the use of the Smart Jobs Fund. The bill should require that grants be made to local government entities and that written agreements with those entities be negotiated regarding the terms of the grant. If the fund is used to build a rail line in Bexar County and that rail line later is sold to a private company, the state should be able to recoup its investment in the capital improvement.

Although this money is intended to be spent on a rail line for the new Toyota plant, no language in CSHB 667 would specify that use. The bill's language should be made more specific to make sure the money goes for this purpose.

The 78th Legislature could decide to abolish TDED as of September 1, 2003. CSHB 667 should empower another government entity to distribute these funds in the event that TDED is abolished.

NOTES:

The committee substitute added language that would authorize TDED to make grants for broad goals of economic development and to develop procedures and adopt rules for that purpose.

The Senate passed the companion bill, SB 15 by Madla, et al., by 30-0 on March 4. The House Economic Development Committee reported SB 15 favorably, without amendment, on March 12, making it eligible to be considered in lieu of HB 667.

Under SB 15, if TDED were abolished on September 1, 2003, the unexpended balance of the Smart Jobs Fund would be transferred to an agency designated by the governor to be used for the specified purposes. It would require TDED to enter into a written agreement with the local governmental entity being awarded the grant, specifying that the state must retain a proportional interest in any capital improvement paid for with these funds. This written agreement also would have to require the state to be reimbursed by the grant recipient if the capital improvement later was sold or if the local entity did not spend the funds by a date specified in the written agreement.