SUBJECT: Creation of a Texas Enterprise Fund for economic development

COMMITTEE: Economic Development — committee substitute recommended

VOTE: 6 ayes — Keffer, Homer, Hughes, Rodriguez, Thompson, Wong

0 nays

1 absent — Isett

SENATE VOTE: On final passage, May 5 — 29-2 (Ogden, Wentworth)

WITNESSES: For — Jessica Balladares, Greater San Antonio Chamber of Commerce; Carlton Schwabb, Texas Economic Development Council

Against — None

DIGEST: CSSB 1771 would create a Texas Enterprise Fund to be used for economic development, infrastructure development, community development, job training programs, and business incentives. The fund would be a dedicated account in general revenue composed of legislative appropriations, interest earned on investment of money in the fund gifts, grants, and other donations. The fund also could be used temporarily by the comptroller for cash management purposes.

The governor could negotiate on behalf of the state to award grants from the fund, but only with the prior, express written approval of the lieutenant governor and the House speaker.

The governor could enter into an agreement with a grantee stating that if the entity had not used grant money for specified purposes, the recipient would have to repay the amount plus interest to the state. Before awarding a grant for a capital improvement, the governor could enter into a written agreement allowing the state to retain a lien or other interest on the capital improvement in proportion to the percentage of the grant amount used to pay for the improvement. The agreement also could specify that if the recipient sold the capital improvement, it would have to repay the state the grant money used to pay for the capital improvement and share with the state proportionate profits from the sale.

The bill also would allow the Texas Department of Economic Development (TDED) or its successor to recommend that a taxing unit enter into a tax abatement with a person in relation to the Texas Enterprise Fund. TDED could make such a recommendation to taxing units such as reinvestment zones, municipalities, counties, or school districts. The taxing unit would have to consider any recommendation made by TDED under this bill.

CSSB 1771 also would require TDED's executive director to collaborate with the Legislature and state agencies to identify public grants and programs and maximize access to federal economic development funds. The governor could direct TDED's executive director to work with each state agency involved in job training or creation — including the Texas Workforce Commission, the Council on Workforce and Economic Competitiveness, the Department of Agriculture, and the Office of Rural and Community Affairs — to address the challenges facing the agencies regarding these issues. The executive director would be authorized to enter into agreements and develop connections with private entities to improve the marketing of Texas through networking and clarifying the potential of business for expansion.

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:

CSSB 1771 would provide the governor with the flexibility and resources needed to respond quickly to economic development opportunities. It would give the governor the authority and means to negotiate with business leaders and offer incentives to recruit firms to the state. The governor would have to obtain approval for any grant from the lieutenant governor and House speaker, providing a necessary check on the governor's authority.

Interstate competition for economic expansion and retention is fierce, and without the ability to respond to business prospects quickly and meaningfully, Texas could lose projects to other states. Several other states already have tools similar to the Texas Enterprise Fund, and Texas often is at a severe disadvantage when recruiting businesses. Regardless of how one feels about the principle of granting public funds to private entities, business incentives are a fact of life in economic development today. Without CSSB 1771, Texas would remain at a disadvantage and could lose out on projects in the future.

CSSB 1771 would codify lessons from the state's successful bid to attract the Toyota plant to San Antonio. In that case, the governor took a lead role in negotiating with Toyota executives and coordinating the economic development incentives and programs to entice Toyota to the state. The Legislature successfully appropriated $15 million in Smart Jobs funds under SB 15 by Madla that were required by the plant, but this opportunity could have been missed if state funds were not available. This bill would allow Texas to replicate the success of the Toyota project in the future.

In addition to incentives for relocating businesses, CSSB 1771 would allow the state to support university research, high-tech office parks, health care institutions along the Texas-Mexico border, and a wide array of other projects to strengthen the state's status as a center of economic activity. In addition, the Texas Enterprise Fund could be used to provide incentives to retain important industries in the state that are being lured by economic enticements from other regions of the country. For example, without incentives to support its activities, Austin is in danger of losing the research consortium Sematech, which serves as a pillar of Central Texas' high technology industry cluster.

CSSB 1771 flows directly from recommendations in a TDED-commissioned study by economist Ray Perryman on economic development programs in Texas. Recognizing the benefits of job creation, increased tax revenue, and ancillary economic expansion that result from large economic development projects, the study suggested that Texas needs an enterprise fund to stimulate economic activity in the state. The best way for the Legislature to improve the economy, strengthen the tax base, and support communities over the long term is to facilitate the expansion of the state's economy through this bill.

OPPONENTS SAY:

The state currently has a multi-billion dollar budget shortfall, and now is not the time to allocate money for unnecessary expenditures like corporate recruitment. The most effective method for attracting and retaining business is to ensure that the state has strong schools, adequate transportation, a healthy environment, and necessary social services. Until those needs are met, an economic development fund is a luxury the state cannot afford.

This bill could open the door to ill-advised and costly corporate welfare projects and would incorporate few limitations on the governor's authority to award taxpayer funds for the benefit of private business. The governor would have the power to devote state money to any interest deemed worthy, with no stipulations requiring that the benefits of an investment be dispersed throughout the state. A simple letter of support by the lieutenant governor and House speaker would not be sufficient to prevent waste of public funds under this bill.

CSSB 1771 would incorporate few provisions to ensure that grants issued under the bill actually generated employment or economic growth. Million dollar grants could be made without any guarantee that the state would witness economic benefit equal to the cost of an investment. The bill should require that a minimum of new investment or high paying jobs be generated with grants from the fund, and incorporate claw-back provisions if recipients did not live up to their promises.

NOTES:

The Senate engrossed version of SB 1771 would have created an advisory board of economic development stakeholders to assist TDED by collecting and disseminating information on public and private community economic development programs, including loans, grants, and other funding sources. It would have consisted of seven members serving staggered four-year terms with three members appointed by the governor, two members appointed by the lieutenant governor, and two members appointed by the House speaker. The engrossed version would have required approval for a grant from the fund by the Legislative Budget Board, rather than the lieutenant governor and the House speaker.

A related bill, SB 275 by Nelson, which would abolish TDED and transfer its operations into the Governor's Office, passed the House on May 19.

The House-passed version of HB 7 by Heflin, the supplemental appropriations bill for fiscal 2003, would appropriate $295 from the Economic Stabilization (Rainy Day) Fund, contingent on enactment of legislation creating a Texas Enterprise Fund. The committee substitute for

HB 7 reported by the Senate Finance Committee on May 14 does not include this appropriation.