

- SUBJECT:** Funding the skills development program
- COMMITTEE:** Economic Development — committee substitute recommended
- VOTE:** 5 ayes — Ritter, B. Cook, Deshotel, McCall, Seaman
0 nays
2 absent — Anchia, Kolkhorst
- WITNESSES:** For — Mike Allen, McAllen Economic Development Corporation; Don Baylor, Center for Public Policy Priorities; Blas Castaneodo, Laredo Community College; Veronica de la Fuente, Office of Cameron County Judge; Wanda Garza, Texas Border Infrastructure Coalition; Ramiro Garza Jr., Edinburg Economic Development Corporation; Richard Rhodes, El Paso Community College; Pat Townsend Jr., The Greater McAllen Alliance; (*Registered, but did not testify*: Becky Moeller, Texas AFL-CIO; Steve MonDragon, Laredo Community College; Carlton Schwab and Fred Welch, Texas Economic Development Council; Mark Hunt, Hunt Building Company; Norman Stewart; Ricardo Perez; Rene Gonzalez)
- Against — (*Registered, but did not testify*: Bill Hammond, Texas Association of Business)
- On — Francisco Castellanos, Rio Grande Valley Partnership; Gilbert Leal, Texas State Technical College- Harlingen; Steve Riley, Texas Workforce Commission; (*Registered, but did not testify*: Diane Rath, Texas Workforce Commission)
- BACKGROUND:** The Texas Workforce Commission (TWC) awards grants from the skills development fund, to design, finance, and implement customized job training programs with public community and technical colleges for new or existing jobs in local businesses. The 78th Legislature in 2003 appropriated \$25 million to the skills development fund for fiscal 2004-05. During fiscal 2004, TWC awarded 26 grants totaling \$12.1 million, which served more than 160 businesses that made a commitment to create and train almost 3,000 jobs and retrain workers in more than 10,000 jobs, with an average hourly wage of over \$15.00 per hour.

DIGEST:

CSHB 2421 would establish a funding mechanism for a skills development holding fund. A portion — 0.1 percent — of the unemployment taxes paid in Texas would be allocated to a skills development assessment fee, deposited to the skills development holding fund. The fund would be a special trust fund held outside the treasury and administered by the comptroller. Interest on the fund would be credited to the unemployment compensation fund.

Each year, on September 1, the comptroller would determine whether the amount in the unemployment compensation fund was sufficient to meet its statutorily imposed floor of \$400 million or 1 percent of the total taxable wages for the four calendar quarters ending the preceding June 30. If it had met the floor, the comptroller would transfer the lesser of the amount appropriated to the skills development fund by the Legislature or 80 percent of the holding fund. Any remaining amounts would be transferred to the skills development economic stabilization fund, or that money in the holding fund could be used to transfer funds to the skills development fund to meet the amount appropriated by the Legislature. If the unemployment compensation fund had not met the floor, the holding fund money would be transferred back to the unemployment compensation fund.

The bill would expand the skills development fund use to include job incentive programs that create incentives for community and technical colleges to create workforce training programs with employers.

The changes to the tax rate would apply January 1, 2006, and the bill would take effect September 1, 2005.

SUPPORTERS
SAY:

CSHB 2421 would create a permanent funding mechanism for skills development grants. Under current law, the funds are appropriated from general revenue each biennium, pitting them against other important state funding priorities. The bill would use the funding mechanism once employed for the Smart Jobs fund, which would not add any new tax to employers but would use a portion of the existing unemployment tax to fund skills development.

The Skills Development Fund has provided a strong incentive for employers to expand their companies or relocate to Texas, which has helped improve economic conditions for the state and its people. Since the

inception of the Skills Development Fund in 1996, more than 139,000 workers have received customized job training services for nearly 2,500 businesses in Texas.

Texas cannot afford to spend general revenue on this important function and should find other ways to finance the grants. Both the House and Senate budget proposals would reduce the funding for skills development, even though the governor's budget proposal recommended an increase.

Expanding the use of the skills development fund to include programs at community and technical colleges in partnership with employers would benefit Texas' workforce because it would permit individuals to gain education and job training at once. For example, a community college could partner with a local hospital to train health care professionals.

OPPONENTS
SAY:

This bill would create a new tax on employers even though the mechanism would be the same. When employers pay in to the unemployment compensation fund, they may be assessed an additional charge if the fund does not meet the floor, or receive a credit if the balance is above the ceiling. Siphoning off some of the unemployment tax would reduce the likelihood of reaching the ceiling and receiving a credit.

OTHER
OPPONENTS
SAY:

There are other ways to add funding to skills development without taking a portion of the unemployment tax. During the recent budget committee proceedings, TWC requested that \$10.2 million from the entire remaining balance in the Smart Jobs Holding Fund (fund 5069) be allocated to skills development.

NOTES:

The bill as introduced proposed the same financing mechanism, but would have created a new Texas Jobs Program instead of applying the funding to the skills development fund.