SUBJECT: Refining a qualifying job for granting limitations on appraised value

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 6 ayes — D. Bonnen, Bohac, Button, Darby, Murphy, Wray

4 nays — Y. Davis, Martinez Fischer, Springer, C. Turner

1 absent — Parker

WITNESSES: For — Drew Scheberle, Greater Austin Chamber of Commerce; Mike Meroney, Huntsman Corporation; James LeBas, TAM, TXOGA, AECT, Chemical Council; Richard Bennett, Texas Association of Manufacturers; Dale Craymer, Texas Taxpayers and Research Association; (*Registered, but did not testify*: Martin Allday, Enbridge; Matthew Geske, Fort Worth Chamber of Commerce; Fred Shannon, Hewlett Packard; Annie Spilman, National Federation of Independent Business-Texas; Cathy Dewitt, Texas Association of Business; Daniel Womack, The Dow Chemical Company; Max Jones, The Greater Houston Partnership, The Metro Eight Chambers of Commerce: Arlington, Austin, Dallas, Fort Worth, El Paso, San Antonio, Houston, Corpus Christi; Jeffrey Clark, The Wind Coalition)

Against — Dick Lavine, Center for Public Policy Priorities

On — Robert Wood, Comptroller of Public Accounts; Daniel Casey, Moak, Casey and Associates; (*Registered, but did not testify*: Korry Castillo and Gary Price, Comptroller of Public Accounts)

BACKGROUND: In 2001, the 77th Legislature enacted HB 1200 by Brimer, known as the Texas Economic Development Act. The act authorized school districts to negotiate reductions on the appraised value of property in exchange for businesses locating certain investment projects in the district. Districts negotiating their appraised values through such agreements are held harmless by the state for purposes of state education aid, provided that the projects create a certain number of qualifying jobs and a certain amount of investment, among other requirements.

Tax Code, sec. 313.021 defines "qualifying job" as a permanent full-time job that:

- requires at least 1,600 hours of work per year;
- is not transferred from another area of the state;
- is not created to replace a previous employee;
- is covered by a health insurance plan with certain parameters; and
- pays at least 110 percent of the average wage for manufacturing jobs in the county in which the job is located.

For a property to be eligible for a limitation on appraised value, Section 313.024(d) requires that the average wage of non-qualifying jobs created by the project exceed the average wage for all jobs in that county.

DIGEST: CSHB 1250 would classify a job as a qualifying job if it paid at least 110 percent of the median annual wage for manufacturing jobs in the state, even if it paid less than the current requirement of 110 percent of the wage for manufacturing jobs in the county. A job still would have to meet all other current requirements to be classified as a qualifying job.

The average wage for non-qualifying jobs would have to exceed the lesser of the state median annual wage for all jobs or the county average wage for all jobs. Current law requires the average wage for non-qualifying jobs to be greater than the average wage in the county for all jobs.

The statewide median wages would be calculated by the Texas Workforce Commission.

The comptroller would be required to verify the number of qualifying jobs that a recipient of a limitation on appraised value committed to create and the number of qualifying jobs actually created, along with the total amount of wages and the median wages of those jobs.

This bill would take effect September 1, 2015, and would apply only to an agreement entered into on or after that date.

SUPPORTERS SAY:

CSHB 1250 would ensure that all counties could access the economic development incentives in chapter 313. Currently, the program disproportionately impacts certain counties. For instance, the average manufacturing wage in counties varies from $18,000 to $170,000. Counties that appear to pay high wages often have those averages skewed upward by a number of manufacturing executives paid in the county at salaries that do not reflect the real wages earned by ordinary workers. Because businesses must create a minimum number of jobs at this wage, they can be entirely excluded from receiving limitations on appraised value in counties where the qualifying wage figure is artificially high. This bill therefore would significantly increase investment in many counties where local anomalies have spiked the average county wage.

Verification. The purpose of the limitations on appraised value is to bring high-paying, qualifying manufacturing jobs to areas which previously would not have received new economic activity. Non-qualifying jobs are only a byproduct of the program and not a central goal, and thus do not need to be verified. Additionally, by requiring the comptroller to verify numbers related to qualifying jobs submitted by a business, this bill would significantly increase the level of oversight from what is required under current law.

Wages. This bill would not necessarily result in lower wages. In fact, wages could increase thanks to increased economic activity, and thus more demand for labor. Some states with similar economic development programs have no wage standards at all. In those states, average manufacturing wages can be higher. Additionally, this bill would lower only the minimum possible wage. Companies already would likely pay more than that wage if the position demanded experience or leadership qualities, for instance. It is unlikely that a company would pay a wage based only on the requirements in this bill and not based on the value the position brought to the business.

Although this bill would not adjust for wage fluctuations over time, neither does current law. This argument is not unique to the provisions in

CSHB 1250.

Revenue estimates. These economic development incentives are expensive because they are working to bring even more economic development into the states. When a company decides to locate major projects in the state, it brings permanent jobs and a permanent increase in economic activity. The fiscal note provided by the Legislative Budget Board is a static analysis, not a dynamic analysis that incorporates economic activity into the revenue loss calculations, so any revenue lost likely would not be as extensive as estimated in the fiscal note.

Additionally, the fiscal note assumes that the project would have come to Texas without the limitation on appraised value. However, current law requires that the project only receive the limitation in appraised value if the limitation is a determining factor. In other words, the fiscal note assumes that this economic activity (and associated tax revenue) would be present even if the bill did not pass, which skews the loss estimate upward.

OPPONENTS SAY:

CSHB 1250 would sacrifice a large portion of the return on the state's investment by reducing the qualifying job standard statewide. If the Legislature is to address this issue, it should empower the comptroller to address individual districts which have extremely high average county manufacturing wages on a case-by-case basis, instead of lowering the bar in every county across the state.

Verification. Although the bill appears to add much-needed accountability to the program by requiring the comptroller to verify job and wage information reported by companies, the provisions would apply only to qualifying jobs. The vast majority of jobs on many projects — the non-qualifying jobs — would be excluded from the verification requirement.

The bill would expand a program that already lacks oversight. Current law provides that the limitation in appraised value is granted only if the project would not otherwise locate in the state and if the project would bring a

sufficient amount of economic activity to the state. This is important because the purpose of these incentives is to draw enough businesses to the state that otherwise would not have located here to offset the short-term cost of lost revenue. Without these requirements, the program merely would be forfeiting state tax dollars.

However, current law does not require school districts or the comptroller to verify businesses' assertions that the projects meet these requirements. In fact, the State Auditor's Office noted that school districts relied primarily on certifications that businesses submit. The program should not be expanded until this oversight is fixed, lest the state forfeit even more revenue.

Wages. The bill would be inconsistent with the legislative intent under which chapter 313 incentives were originally created. Tax Code, sec. 313.004 specifies that part of the intent of the provisions in chapter 313 is to create high-paying jobs. According to the Legislative Budget Board's fiscal note on the bill as filed, the wage minimums provided in the bill for qualifying jobs could have been 29 percent lower than estimated wage minimums in 2014, with the non-qualifying wage minimums 40 percent lower. These are potentially significant reductions that should not be accepted by the Legislature.

The minimum wage requirements contained in this bill would not be adjusted over time, even though these limitation agreements can last as long as 20 years. Wages can fluctuate extensively over that period of time, and this bill would not control for that fluctuation, allowing wage gains to turn into losses over the long run.

Revenue estimates. This bill could impose a large cost on state revenue in future biennia. The Legislative Budget Board projects that the bill could cost the state almost $100 million every year toward the middle of the next decade. The Legislature should pay special attention to costs that would grow dramatically in future biennia, as this and other reductions in tax revenue could become unsustainable.

NOTES:

The Legislative Budget Board's fiscal note indicates that this bill would have a negative impact of $2.7 million during fiscal 2016-17 and a negative impact of $31.5 million in fiscal 2018-19. The fiscal note indicates that the cost of the bill would "grow significantly in subsequent years."