



# INTERIM REPORT *to the 86<sup>th</sup> Texas Legislature*



**HOUSE COMMITTEE ON ECONOMIC  
& SMALL BUSINESS DEVELOPMENT**

*November 2018*

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**HOUSE COMMITTEE ON ECONOMIC & SMALL BUSINESS DEVELOPMENT  
TEXAS HOUSE OF REPRESENTATIVES  
INTERIM REPORT 2018**

**A REPORT TO THE  
HOUSE OF REPRESENTATIVES  
86TH TEXAS LEGISLATURE**

**ANGIE CHEN BUTTON  
CHAIR**

**COMMITTEE CLERK  
VICTORIA A. SMITH**

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Committee On  
Economic & Small Business Development

November 28, 2018

Angie Chen Button  
Chair

P.O. Box 2910  
Austin, Texas 78768-2910

The Honorable Joe Straus  
Speaker, Texas House of Representatives  
Members of the Texas House of Representatives  
Texas State Capitol, Rm. 2W.13  
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Economic & Small Business Development of the Eighty-fifth Legislature hereby submits its interim report including recommendations and drafted legislation for consideration by the Eighty-sixth Legislature.

Respectfully submitted,

Handwritten signature of Angie Chen Button in black ink.

Angie Chen Button

Handwritten signature of Hubert Vo in black ink.

Hubert Vo

Handwritten signature of Ernest J. Bailes, IV in black ink.

Ernest Bailes

Handwritten signature of Joe Deshotel in black ink.

Joe Deshotel

Handwritten signature of Gina Hinojosa in black ink.

Gina Hinojosa

Handwritten signature of Jeff Leach in black ink.

Jeff Leach

Handwritten signature of Will Metcalf in black ink.

Will Metcalf

Handwritten signature of Evelina "Lina" Ortega in black ink.

Evelina "Lina" Ortega

Handwritten signature of Jason Villalba in black ink.

Jason Villalba

Hubert Vo  
Vice-Chair

Members: Ernest Bailes, Joe Deshotel, Gina Hinojosa, Jeff Leach, Will Metcalf, Evelina "Lina" Ortega, Jason Villalba

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## TABLE OF CONTENTS

INTRODUCTION .....	7
INTERIM CHARGES .....	9
COMMITTEE FINDINGS AND OVERALL RECOMMENDATIONS .....	11
Charge 1. Hurricane Harvey's economic impact .....	13
Charge 2. High-growth, high-tech start ups.....	15
Charge 3. Workforce needs.....	19
Charge 4. Economic development incentives.....	23
Charge 5. Aviation, aerospace, & defense manufacturing industry .....	47
Charge 6. Agency oversight.....	53
ENDNOTES .....	55

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## INTRODUCTION

At the beginning of the 85th Legislative session, the Honorable Joe Straus, Speaker of the Texas House of Representatives, appointed nine members to the House Committee on Economic & Small Business Development. The committee membership included: Angie Chen Button, Chair, Hubert Vo, Vice Chair, Ernest Bailes, Joe Deshotel, Gina Hinojosa, Jeff Leach, Will Metcalf, Evelina "Lina" Ortega, and Jason Villalba.

The Committee was given jurisdiction over all matters pertaining to:

- workforce training;
- commerce, trade, and manufacturing;
- economic and industrial development;
- development and support of small business;
- job creation and job-training programs;
- hours, wages, collective bargaining, and the relationship between employers and employees;
- unemployment compensation, including coverage, benefits, taxes, and eligibility;
- labor unions and their organization, control, management, and administration;
- weights and measures; and
- the following state agencies: The Economic Development and Tourism Office, the Texas Workforce Commission, and the Texas Workforce Investment Council.

At the first meeting of the Committee, the Chair appointed a permanent Subcommittee on Small Business. The Subcommittee membership included: Will Metcalf, Chair, Ernest Bailes, Jeff Leach, Evelina "Lina" Ortega, and Hubert Vo.

The Subcommittee was given jurisdiction over all matters pertaining to:

- the establishment, operation, and well-being of small businesses and their employees in the state;
- identifying and addressing federal, state, and local regulatory barriers or impediments to the establishment, operation, and well-being of small businesses and their employees in the state.

The Committee would like to thank everyone who testified, attended the hearings, and contributed to this report.

After two committee hearings, a joint hearing, a visit to Richardson, TX, and hours of testimony, the Committee on Economic & Small Business Development has adopted the following report.

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## INTERIM CHARGES

In October of 2017, Speaker Joe Straus issued the following interim charges for the Committee:

1. Examine Hurricane Harvey's economic and workforce impact on the state and private sector. Analyze the effects and efficiency of state resources available to assist in job training and the recovery of the state's workforce.
2. Study the state's effectiveness in developing and growing high-growth, high-tech start ups. Review current regulations and determine if barriers exist that potentially impede investment and growth. Evaluate the concept of a "sandbox" as a regulatory approach for enabling innovation and the feasibility of implementing such an approach in Texas.
3. Evaluate the ongoing and long-term workforce needs of the state's business and industries. Determine whether state resources are adequate to address shortages and assist with closing the existing or future gaps in workforce readiness and skills to ensure the continued economic security or utilization of incentives.
4. Analyze current data on the distribution of state economic development incentives across the state. Identify advantages or qualities, if any, possessed by the regions frequently awarded state incentives. Accordingly, identify resources available to underserved regions to increase awareness or utilization of incentives.
5. Study the economic impact of the aviation, aerospace, & defense manufacturing industry in Texas and the state's ability to facilitate industry job growth and investment. Review the relationship between the economic vitality of industry and military veterans transitioning into the workforce. Determine existing and potential barriers to the retention and expansion of the manufacturing industry in the state and the broader economic implications it may have on workforce readiness, as well as veteran employment and support services. (Joint charge with the House Committee on Defense & Veterans' Affairs)
6. Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 85th Legislature.

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## **COMMITTEE FINDINGS AND OVERALL RECOMMENDATIONS**

Diversity remains Texas' greatest asset and one of our biggest challenges. Texas is geographically the most diverse state in the United States. We have mountains, central plains, valleys, desert land, coastal plains, and piney woods. We have small towns filled with farms and large cities that are technology hubs with everything in between. When scrutinizing our economic development strategies, we must keep this diversity in mind. It is important to note that it is the diversity of our state and our economy that makes us strong, as evidenced when Hurricane Harvey devastated our coast. Not all incentives are going to be applicable to all communities. Some communities that have been recipients of the Texas Enterprise Fund may not see the important role that heritage tourism, like the Texas Historic Courthouse Preservation program, has on local economies. Communities that use Chapter 313 agreements may not see why the state should pay for a deal-closing fund like the Texas Enterprise Fund or use the Governor's University Research Initiative to bolster both the standing of Texas public colleges and universities and economic development efforts statewide. Embracing the different qualities that each community brings to the table in providing long term, diverse, and sustainable economic prosperity for our entire state and the economic development tools those communities use, should not be discounted. It is what makes Texas strong.

In order to keep Texas strong, we must try to stay ahead of the curve. Properly educating our future workforce must be a priority. Our ability to deliver a skilled workforce to our current and future employers currently needs improvement. We must ensure community colleges are able to provide sought after certificates, while removing barriers at the high school level for companies to collaborate with our public schools. We also need to closely examine why many candidates attempting to enter today's workforce lack the interpersonal skills necessary to obtain employment. As evidenced by testimony before the committee, employers often struggle with a candidate that may be qualified on paper but unable to conduct themselves appropriately during an interview.

Our state could improve on supporting the commercialization of innovation born in Texas. High-growth, high-tech start ups should be further encouraged through state support for Economically Targeted Initiatives. Additionally, the state should ensure our institutions of higher learning, including our medical institutions, are adequately supported as they are truly a breeding ground for innovation and future economic success.

In order to ensure Texas continues to remain competitive in the high-tech market, we must have the workforce necessary to keep pace with technology innovation and IT jobs. The state can take an important step toward achieving this by supporting the efforts of higher education institutions and public schools to work with private employers to craft, adopt, and promote IT certifications for students and workers.

Texas is a wonderful and economically prosperous state. In order to maintain and further enhance our economic vitality, we should continue to adopt policies that encourage economic diversity and the education and training of the workforce of tomorrow. It is time to focus our attention on education from Pre-K through higher education and into the workforce.

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## **Charge 1. Hurricane Harvey's economic impact**

*Examine Hurricane Harvey's economic and workforce impact on the state and private sector. Analyze the effects and efficiency of state resources available to assist in job training and the recovery of the state's workforce.*

### **Small Business Development Centers**

Hurricane Harvey struck Houston and the surrounding area with extreme flooding in August and September of 2017 and, according to the National Oceanic and Atmospheric Administration, caused approximately \$125 billion worth of damages<sup>1</sup>. This figure takes into account not only physical damages to infrastructure, homes, and businesses, but also the impact on the local economy.

Small Business Development Centers (SBDCs) are a program of the U.S. Small Business Administration (SBA) that leverage federal funding and cooperative agreements with institutions of higher education. There are four lead SBDC offices in Texas located at the University of Houston, the University of Texas at San Antonio, the Dallas County Community College District, and Texas Tech University in Lubbock with several smaller field offices across the state. State governments play a vital role as key partners to efficiently leverage resources which complement the state's economic development efforts. SBDCs provide small business owners and aspiring entrepreneurs with low or no-cost professional business advising and training on developing business plans, accessing capital, attracting new customers, compliance with regulations, exporting, cybersecurity, technology commercialization, and more. During the middle of Hurricane Harvey, the University of Houston SBDC Network partnered with other network leaders and the SBA Office of Disaster Assistance in Sacramento, CA to establish SBA Business Recovery Centers (BRCs) in the heavily impacted areas of Rockport, Port Aransas, Beaumont, Victoria, and Missouri City. Advisors at these BRCs were able to help affected businesses and employers with immediate needs such as clean up, relocation, and evaluating losses. The BRCs also offered assistance in restoring financial records in order to qualify for loans, developing strategies to restore customer bases, formulating new market plans, and accessing available financial assistance.

Albert Delgado, Executive Director of the University of Texas at San Antonio SBDC Network, who worked with several Harvey clients, testified that there were several difficulties during the recovery process and many remain. Communication was one of the greatest initial challenges with limited access to internet, cell service, and land lines. Another obstacle was miscommunication with the informal spread of misinformation about what services were available and who qualified. Over a year later problems still remain: housing, workforce, access to materials (at reasonable rates), and access to capital. Delgado worked with many clients who did not receive SBA disaster assistance funds. Some, however, did find relief with disaster recovery grants such as Rebuild Texas and alternative lenders with Harvey recovery focused funds such as People Fund and Lift Fund. Delgado suggests, for long-term economic recovery and resiliency in the face of natural disasters, counseling, education, and mentoring delivered in a systematic and collaborative approach.



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## **Office of the Governor**

During the initial response period of Hurricane Harvey, the Office of the Governor ran a help hotline and provided resources and support to numerous other help lines for those affected by the storm. In the recovery period after, the Governor's office worked to leverage federal, state, and local resources for housing, business, infrastructure, and many other needs. Additionally, they worked with initiatives like the Rebuild Texas Fund, which raised about \$94 million through private donations at the time of the hearing. Working with the U.S. Department of Housing and Urban Development, Texas received assistance in the form of Community Development Block Grants (CDBGs), with almost \$400 million dedicated for the sole purpose of economic development infrastructure projects.

## **Recommendations**

The extent and cost of Harvey's destruction were significant. Our state continues to learn from the past as we try to prepare for future emergency needs. Every natural disaster poses unique challenges to overcome. The dissemination of accurate information was identified as a challenge during recovery. We need to continue to improve on making sure those in need are aware of the resources that are available and how to obtain them.

Our state's economy was temporarily impacted by indirect damages caused by the interruption of business activity. However, Texas has built a diverse and resilient economy and because of this, while some industries struggled more in the wake of the storm, Hurricane Harvey's long-term effects on the Texas economy will be minimal.

Moving forward we must make sure we adopt policies that are appealing to all types of businesses. Making sure the Texas economy is diverse will help keep our economy strong even when faced with unexpected challenges that temporarily hit a specific region or industry.

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## **Charge 2. High-growth, high-tech start ups**

*Study the state's effectiveness in developing and growing high-growth, high-tech start ups. Review current regulations and determine if barriers exist that potentially impede investment and growth. Evaluate the concept of a "sandbox" as a regulatory approach for enabling innovation and the feasibility of implementing such an approach in Texas.*

### **Growing start ups**

Texas competes in a global marketplace. The source of our economic prosperity is a balance between attracting and retaining large and mid-sized global corporations while at the same time nurturing high-growth, sometimes high-tech, start ups and small businesses.

The Texas University Network for Innovation and Entrepreneurship is comprised of nearly twenty universities across Texas that work together to promote innovation and entrepreneurship and share best practices across schools. The University of Texas at Dallas (UTD), which hosted this committee for our hearing, is a member. The UTD Institute for Innovation and Entrepreneurship is one of the many tools located all around the state, some at our universities, some at private organizations, such as the Capital Factory, that develop and foster start ups. These "accelerators" or "incubators," or as UTD calls theirs, the Venture Development Center, provide office space, specialized resources, mentors, and access to funding. At UTD, roughly two-thirds of the startups are direct results of technology commercialization efforts, led by the Office of Research at UTD. From 2013-2017, the 56 companies that UTD has supported have raised nearly \$70 million through some grants but mostly venture funding. Today nearly thirty companies operate from UTD's Venture Development Center. UTD's Institute for Innovation and Entrepreneurship's Executive Director, Steve Guengerich, emphasized the need for greater grant funding but pointed out that their relatively small amount of seed capital has achieved a multiplier effect.

### **Venture capital**

By some estimates, between half to two-thirds of all current economic growth in the United States comes from high-growth, high-technology firms. Richardson Chamber of Commerce President and CEO Bill Sproull sees a need to boost entrepreneurship, especially in the absence of the now defunct Emerging Technology Fund. A state with a healthy venture capital market attracts such entrepreneurship with new high-tech companies, increased competitiveness of existing businesses, and encourages the training, retention, and relocation of much needed STEM talent. Venture capital has been on a steady decline in Texas. Back in 2005, Texas was the 3<sup>rd</sup> largest market for venture capital in the world, today, however, we rank 7<sup>th</sup> in the United States, with only Austin as one of the top cities<sup>2</sup>.

Dr. Ed Egan, Director of Rice University's McNair Center for Entrepreneurship and Innovation and fellow with the Baker Institute for Public Policy, highlighted two policies that could increase venture capital investment in the state. His first policy recommendation is a resolution endorsing Economically Targeted Initiatives (ETIs). ETIs have been adopted in more than 20 states, including most of the top 10 states for venture capital. These initiatives provide for "tie-breaker"

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rules for pension funds. If a pension fund faces two investment opportunities with equal expected returns, then the tie-breaker rules say that the investment should go to the one that provides some additional economic benefit to the state. The state must be careful, however, to not harm a venture capitalist's ability to choose their investments to maximize their profit and thus, the economic benefits to the state.

His second suggestion works in tandem with the first. Texas has a large number of state pension and investments funds including the Teachers Retirement System (TRS), Employees Retirement System (ERS), University of Texas Investment Management Company funds which include the Permanent University Fund (PUF), the Texas Treasury Safekeeping Trust, National Research University Fund, and of course the Economic Stabilization Fund (ESF), better known as the Rainy Day Fund. Currently, these funds collectively hold more than a quarter of a trillion dollars. The percentage of each fund that invests in alternative assets, such as venture capital, private equity, hedge funds etc., varies from 0% in the ESF to 12%. A resolution to simply encourage these funds to consider venture capital, especially in combination with ETIs, could potentially resolve Texas' venture capital shortfall, provided that these funds invest in top quartile, market-based venture capitalists. Increased allocation to ventures from these funds would also generate additional returns to the funds, helping them to meet their future obligations with little to no taxpayer support. CalPERS, the California Public Employees Retirement System, which is comparable to the size of Texas' public funds, has around \$12 billion invested in venture capital and private equity.

### **“Sandbox”**

A regulatory sandbox creates a "safe space" in which businesses, often start ups, can test innovative products, services, business models, and delivery mechanisms in the context of regulation, with regulators. This approach attempts to facilitate innovation without diminishing consumer protection. A regulatory sandbox is a structure set up by a regulator to allow companies to conduct small scale, live testing of products and services in a controlled environment prior to full-scale public release.

Arizona enacted the first sandbox among the states earlier this year that temporarily exempts innovative financial technology products from the state's standard licensing requirements while they are tested in the marketplace. The new law covers a wide range of financial service providers. When states consider this approach they need to consider several factors: objective, eligibility, restrictions, timing, cost to the state, and most importantly how they will determine success<sup>3</sup>.

### **Recommendations**

The state should adopt a resolution endorsing Economically Targeted Initiatives (ETIs). If a state pension fund faces two investment opportunities with equal expected returns, then the tie-breaker rules should state that the investment should go to the one that provides some additional economic benefit to the state.

As technologies continue to grow more sophisticated and emerging industries become more high-tech, universities have become important players in the processes of invention, innovation,

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and commercialization. We must make sure our universities are strong. One key step in doing this is to adequately fund higher education including health-related institutions. Additionally, the state should explore ways to further support the commercialization of university innovation. We currently invest heavily in the front end of the process using tools such as the Governor's University Research Initiative to recruit distinguished researchers from around the world to the state. We need to take our efforts a step further and make sure that invention, innovation, and commercialization continue to thrive in Texas.

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## **Charge 3. Workforce needs**

*Evaluate the ongoing and long-term workforce needs of the state's business and industries. Determine whether state resources are adequate to address shortages and assist with closing the existing or future gaps in workforce readiness and skills to ensure the continued economic security or utilization of incentives.*

### **Manufacturing workforce**

Workforce plays an essential role in the success of economic development. Paul Mayer, CEO of the Garland Chamber of Commerce and the Dallas County Manufacturers Association, emphasizes that for his employers, it starts with attitude over aptitude when evaluating employees looking to join the workforce. Employers value applicants with communication, collaboration, and critical thinking skills. These fundamental skills need to be instilled early in the "pipeline," while the next generation of our state's workforce is still in K-12. However, as advances in technology continue to transform the manufacturing sector, an employee's aptitude is vital. In order to keep up with this ever-changing technological landscape, the Skills Development Fund is a very useful tool for these manufacturers to enhance the skills of their incumbent workforce.

### **Technology workforce**

The technology industry has long been calling for more industry-ready science, technology, engineering, and mathematics or STEM graduates. Because of hiring shortcomings in these disciplines, some companies have had to rely on foreign nationals to help close gaps in their workforce needs. Today, many companies recognize the importance of attracting and retaining the top STEM talent and are investing heavily in education initiatives to improve the success of Americans in STEM-related fields. Texas Instruments, as an example, helped establish what is known today as the University of Texas at Dallas.

Over the last decade, employment in STEM occupations grew significantly faster than non-STEM occupations, 24.4% compared to 4% respectively. This growth is expected to continue. STEM workers command higher wages, earning almost 29% more than their non-STEM counterparts<sup>4</sup>. However, with only 25.6% of bachelor's degrees being conferred in STEM subjects, we are not currently projected to meet STEM workforce demands<sup>5</sup>.

The mathematics scores of Texas students are another concern emerging among technology employers across the state. Looking at eighth grade students' mathematics tests results, Texas, which once ranked second among all states in 2011, has declined to the middle of the pack. Given that mathematics scores are a strong indicator of future success in high school and college, STEM studies need to be encouraged early on in a student's education. Technology companies know that they cannot rely on the state alone to encourage STEM education. Texas Instruments' TI Foundation has donated not only grants but also employee volunteers to programs that enhance STEM teacher effectiveness. The TI Foundation also hosts STEM-focused competitions in robotics and engineering design and donates technology to schools.

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STEM workers will drive the ability of Texas to remain competitive going forward according to Peter Balyta, Texas Instrument's Vice President of Academic Engagement and Corporate Citizenship. He offered two suggestions for the state. First, reverse the lowered mathematics requirements established by HB 5, in particular the requirement for Algebra II. As is, he believes this will cause a long term pipeline issue for the technology sector that will be seen once the first full high school HB 5 cohorts graduate in the spring. Secondly, continued funding for university research is necessary, in particular the Texas Research Incentive Program whose funding was dramatically reduced by the legislature in 2017.

### **“Second chance employment”**

In Texas, 70,000 inmates are released from prison every year. Employment after incarceration is a problem many ex-offenders face. Studies have shown that employment after being released significantly reduces recidivism. Employment of those previously incarcerated improves the economy and public safety. For those out of prison looking for a job, barriers remain. The Texas Workforce Commission provides services to ex-offenders in the same manner as all Texans. Last fiscal year, TWC served 23,699 ex-offenders on parole or within a year of release. The Commission's local workforce boards have several different local programs. The board of Greater Dallas created Project Phoenix, a partnership with Texas New Era and Jobs with Justice that works to place young, non-violent felony probationers into apprenticeship programs. Workforce Solutions Heart of Texas in Waco partners with the City of Waco, Waco Police Department, Texas State Technical College, and others to connect participating offenders to resources such as housing, healthcare, and employment. In Concho Valley, the board has a collaboration agreement with the Windham School District to provide services to offenders attaining certificates and degrees and assist in finding employment upon release. In addition to these local programs and partnerships, TWC offers fidelity bonding services free of charge for up to six months to employers that hire ex-offenders.

The Texas Department of Criminal Justice (TDCJ) assists offenders in preparing for a successful return to the community with an emphasis on gainful and long term employment. Several programs under TDCJ all work together to accomplish this including the Parole Division, Reentry and Integration Division, Rehabilitation Programs Division, and the Windham School District. The Windham School District offers education and vocational programming for GEDs and technical certifications in a variety of areas. The Rehabilitation Division partners with ten colleges across the state offering 26 vocational and 4 degree programs. TDCJ also hold job fairs. At the time of our hearing on April 12, 2018, 47 job fairs had been held since July 2014.

### **Recommendations**

The state should encourage local economic development professionals and businesses to work closely with public schools and community colleges. Additional tools focused on the development of interpersonal skills necessary to obtain and maintain employment should be explored.

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To ensure the state's workforce is able to meet the demands of the growing technology innovation and IT markets, higher education institutions and public schools should work with private employers to craft, adopt, and promote IT certifications for students and workers.

An example of this collaboration is evidenced in the California Cloud Workforce Project or "CA Cloud," which is comprised of 19 Los Angeles area community colleges and their local high school partners. They recently announced a collaboration with Amazon Web Services (AWS) to offer a regionally-recognized cloud computing certificate. This inter-system education collaboration aligns local talent development systems, K-12 institutions, workforce boards, community colleges, and four-year universities with the future labor needs of key industries<sup>6</sup>.

Another state that is taking a step toward ensuring their workforce can meet the demand for employers seeking applicants with cloud computing skills is Virginia with the Northern Virginia Community College. Their program, called NOVA, recently announced a cloud computing specialization as part of its Information Systems Technology (IST) Associate of Applied Science degree starting in fall 2018. The program will be one of the first cloud computing degrees in the nation offered by a community college<sup>7</sup>.

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## **Charge 4. Economic development incentives**

*Analyze current data on the distribution of state economic development incentives across the state. Identify advantages or qualities, if any, possessed by the regions frequently awarded state incentives. Accordingly, identify resources available to underserved regions to increase awareness or utilization of incentives.*

### **Distribution of incentives**

The state's economic development incentives are meant to keep Texas competitive in attracting new businesses and jobs. According to King White, CEO and founder of the Dallas-based Site Selection Group, when businesses look at opening a new manufacturing center or research laboratory or office complex, they consider many factors including economic development incentives, infrastructure, labor and wages, real estate, business climate, etc. Inherently, rural areas and even medium-sized cities can be at a significant disadvantage as they simply cannot provide the skilled workforce and logistics of a large, metropolitan area. White stated that programs like the Texas Enterprise Fund that have "high wage thresholds" can only go to companies in large cities where high-wage labor is available. However, Richardson Chamber of Commerce President and CEO Bill Sproull cautioned against lowering any wage standards as lower wages equate with lower economic growth and low-wage jobs often have high turnover and little economic benefit. King suggested looking to other states such as Arkansas and North Carolina, which have a tiered approach to awarding incentives. In these states, counties are ranked based on their economic well-being using factors such as unemployment rate, population, and median income. This tier system is then incorporated into various state programs to encourage economic activity in the less prosperous areas of the state<sup>8</sup>. White noted that in Texas, rural areas are dependent on local incentives like grants, such as the Skills Development Fund, tax abatement programs, and economic development corporations. Sproull suggested that broadband access is an overlooked issue in the economic development of rural areas that needs to be addressed.

### **Historic and heritage tourism**

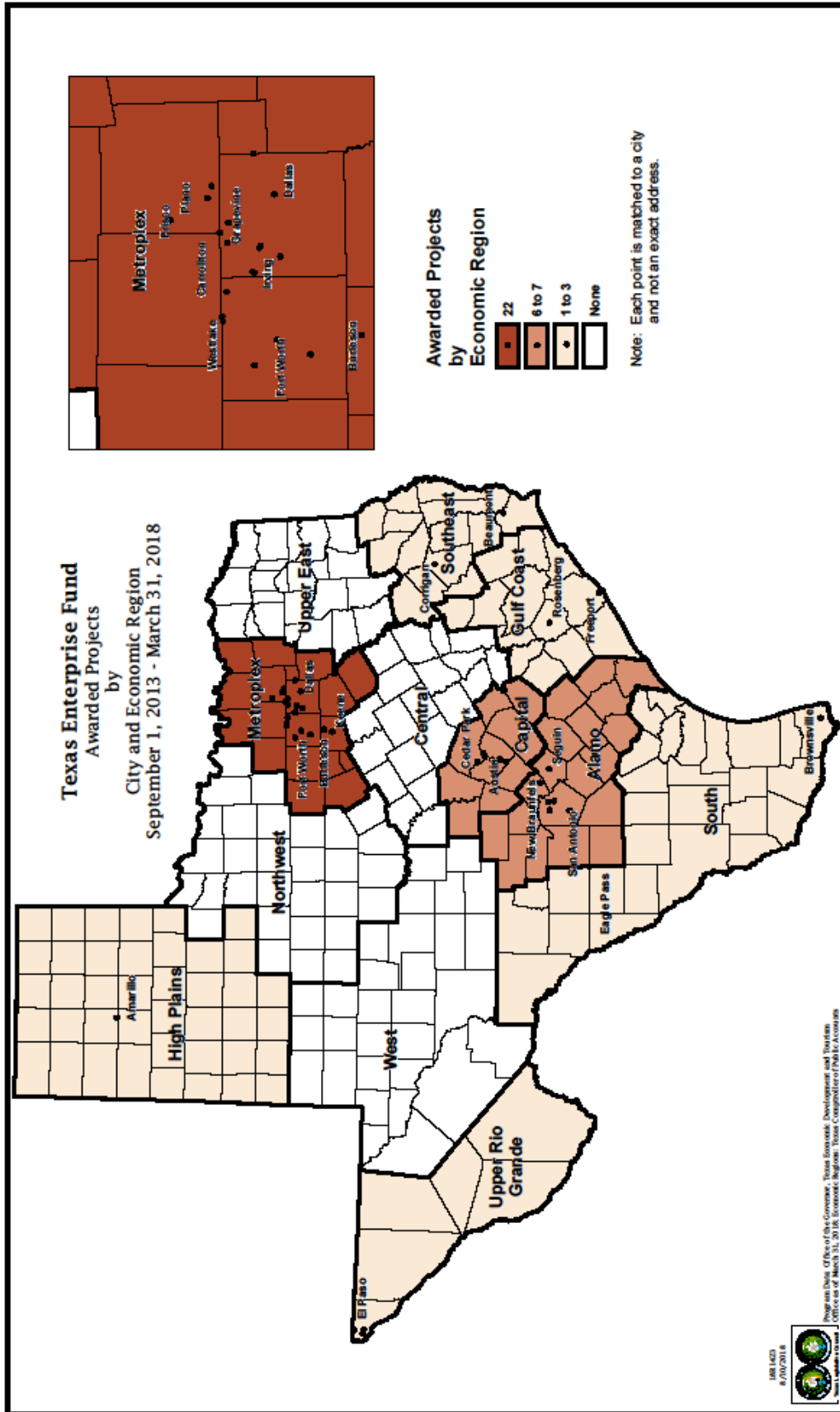
The preservation and marketing programs of the Texas Historical Commission are an often-overlooked but useful economic development tool for all of Texas and especially rural Texas. A 2015 University of Texas and Rutgers University study on the economic impact of historic preservation in Texas found that those whose purpose of travel was "visiting a historic site" spent approximately \$7 billion, making up about 12.5% of total travel spending in Texas. The Texas Historical Commission has programs such as the Courthouse Preservation Program and the state's Historic Tax Credit for the restoration or repurposing of the state's architectural and historic treasures, along with the Heritage Trails and Main Street programs which help rural communities attract travel and tourism dollars and related economic development. These programs are hugely important to small rural communities that are rich in history but threadbare in funding for marketing and outreach.



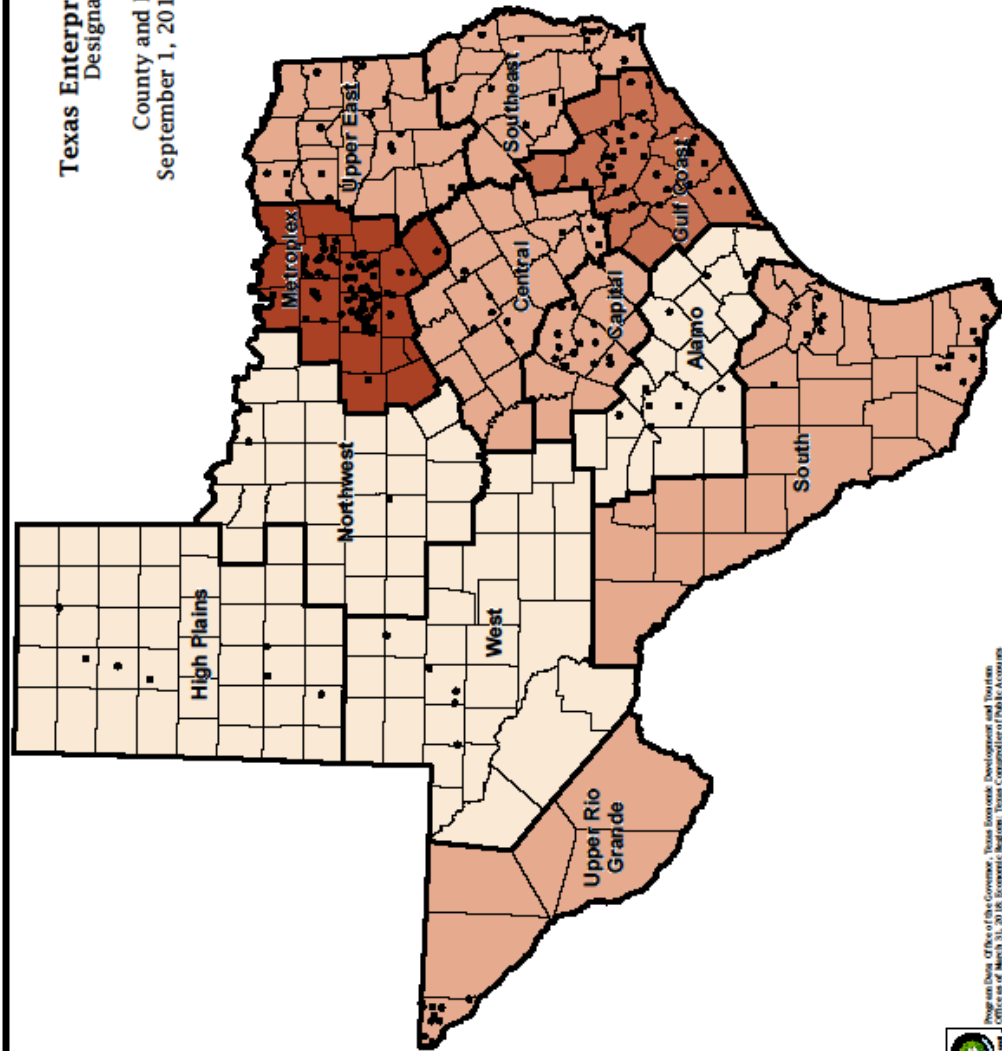
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## **Maps**

The Texas Legislative Council compiled the following maps of the awards of several state and local economic development incentive programs based off of information obtained from the state agency specified. The maps generally cover the past five years, from 2013 through 2017, with some exceptions detailed on the map set's description. The maps designate award location by city or county and show the economic regions of the state as designated by the Comptroller.



**Texas Enterprise Zone Program**  
 Designated Projects  
 by  
 County and Economic Region  
 September 1, 2013 - December 1, 2017



**Designated Projects  
 by  
 Economic Region**

- 73
- 35
- 11 to 20
- 4 to 10

Note: Each point is matched to a county and not an exact address.

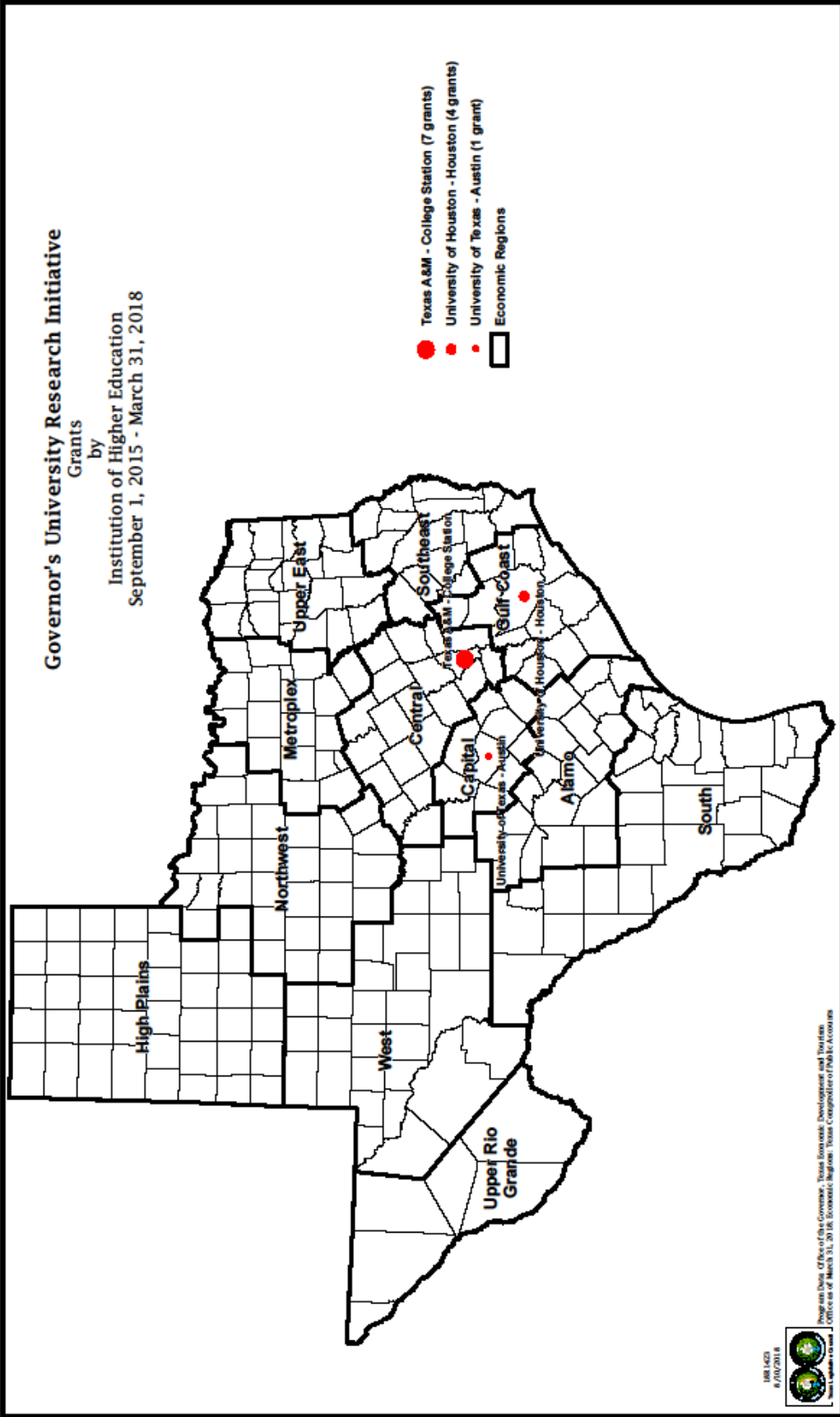
# Governor's University Research Initiative

Grants

by

Institution of Higher Education

September 1, 2015 - March 31, 2018



MSL 605  
8/10/2018



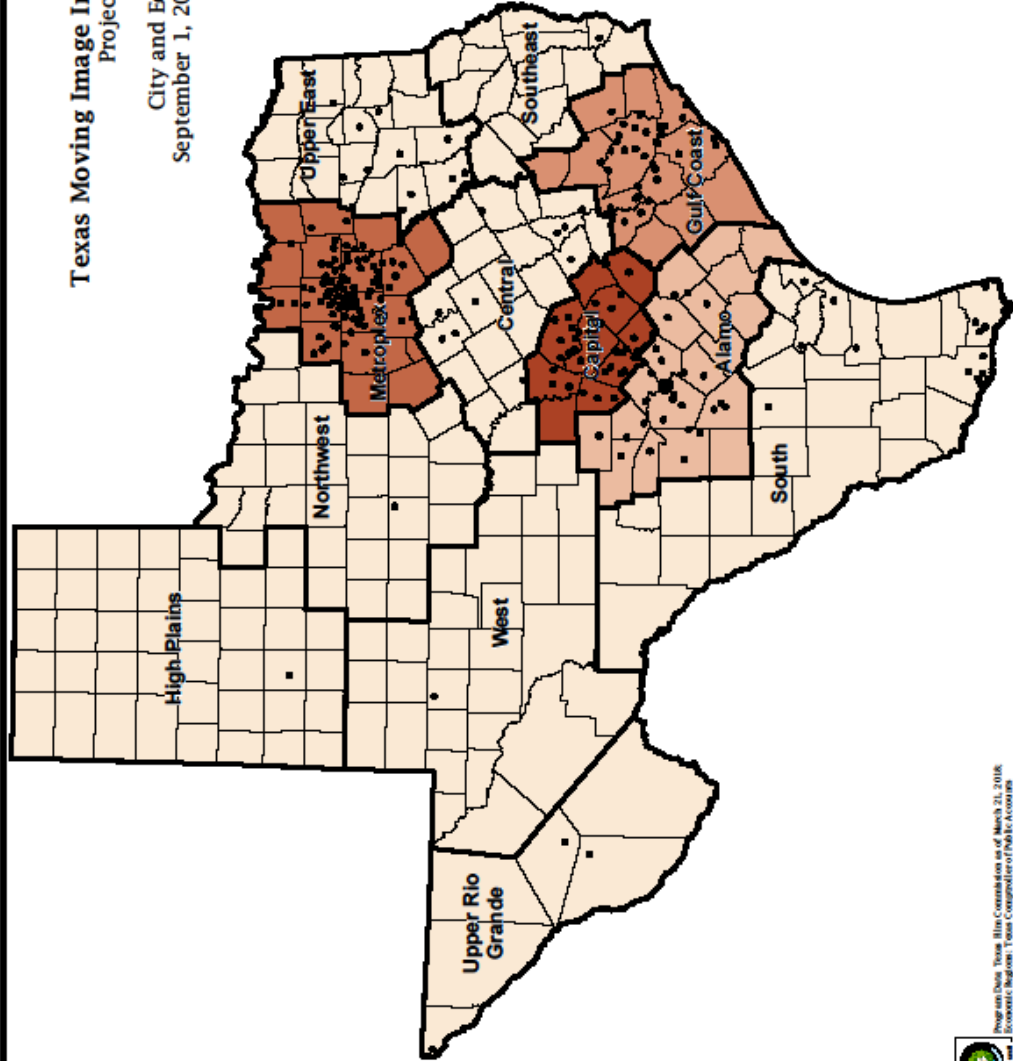
Texas Economic Development and Tourism  
Commission  
Office of March 31, 2018 Economic Inquiries Team Coordination (EIT) Activities

# Texas Moving Image Industry Incentive Program Project Locations

by

City and Economic Region

September 1, 2012 - March 31, 2018

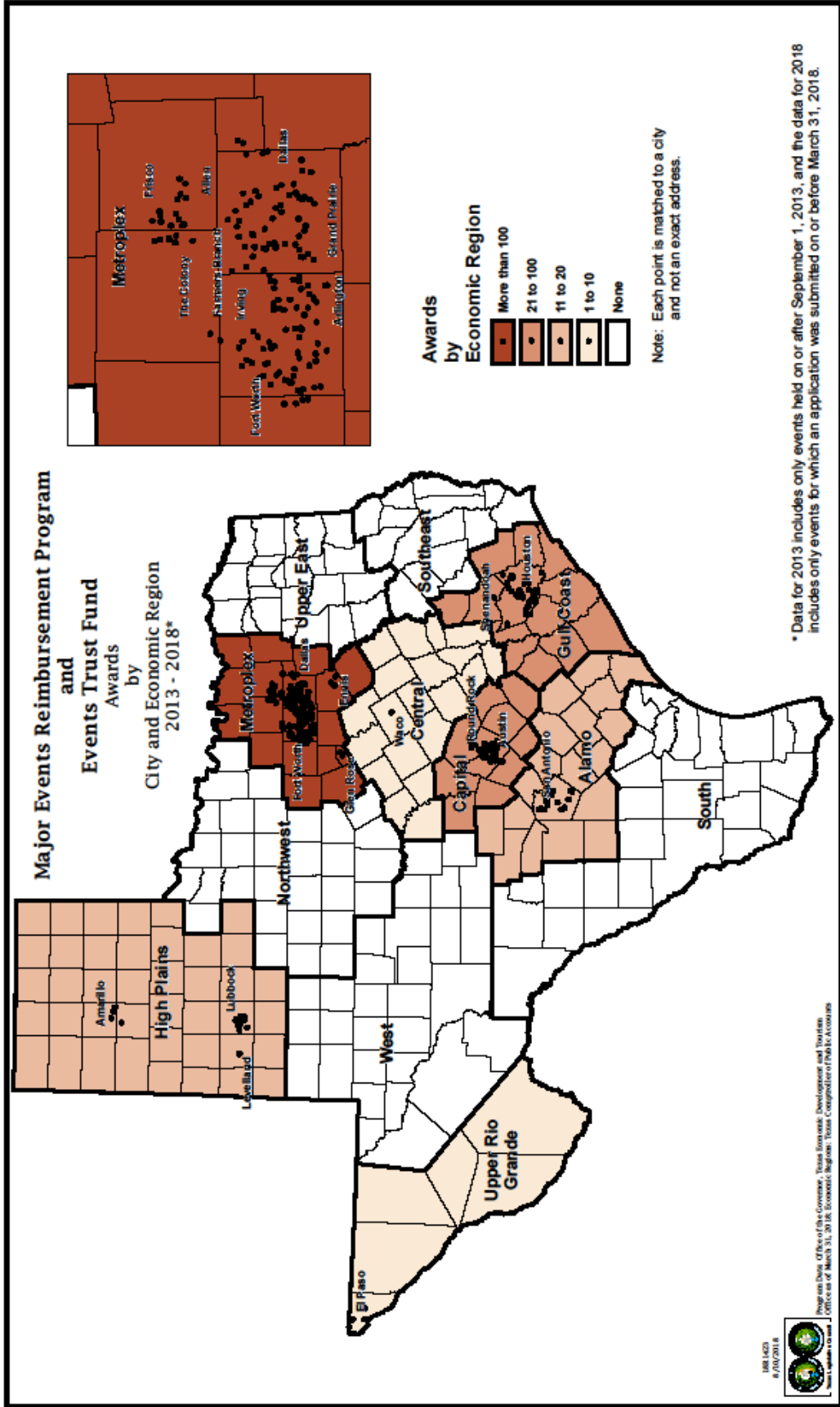


Note: Each point represents a city with one or more project locations. Some project locations could not be mapped.

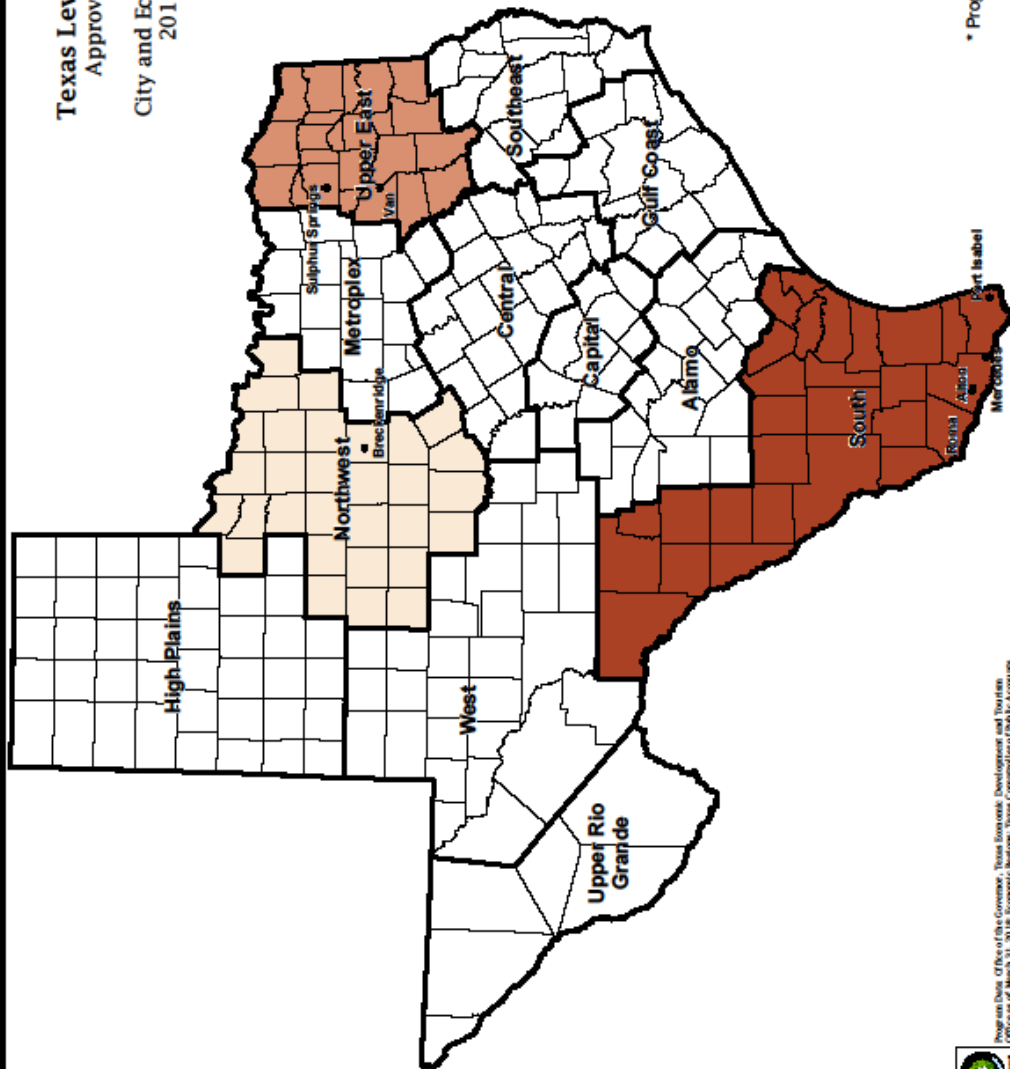
1001 LACS  
8/10/2018



Program Dates: From File Completion on March 31, 2018  
Economic Region: Texas Department of Economic Development

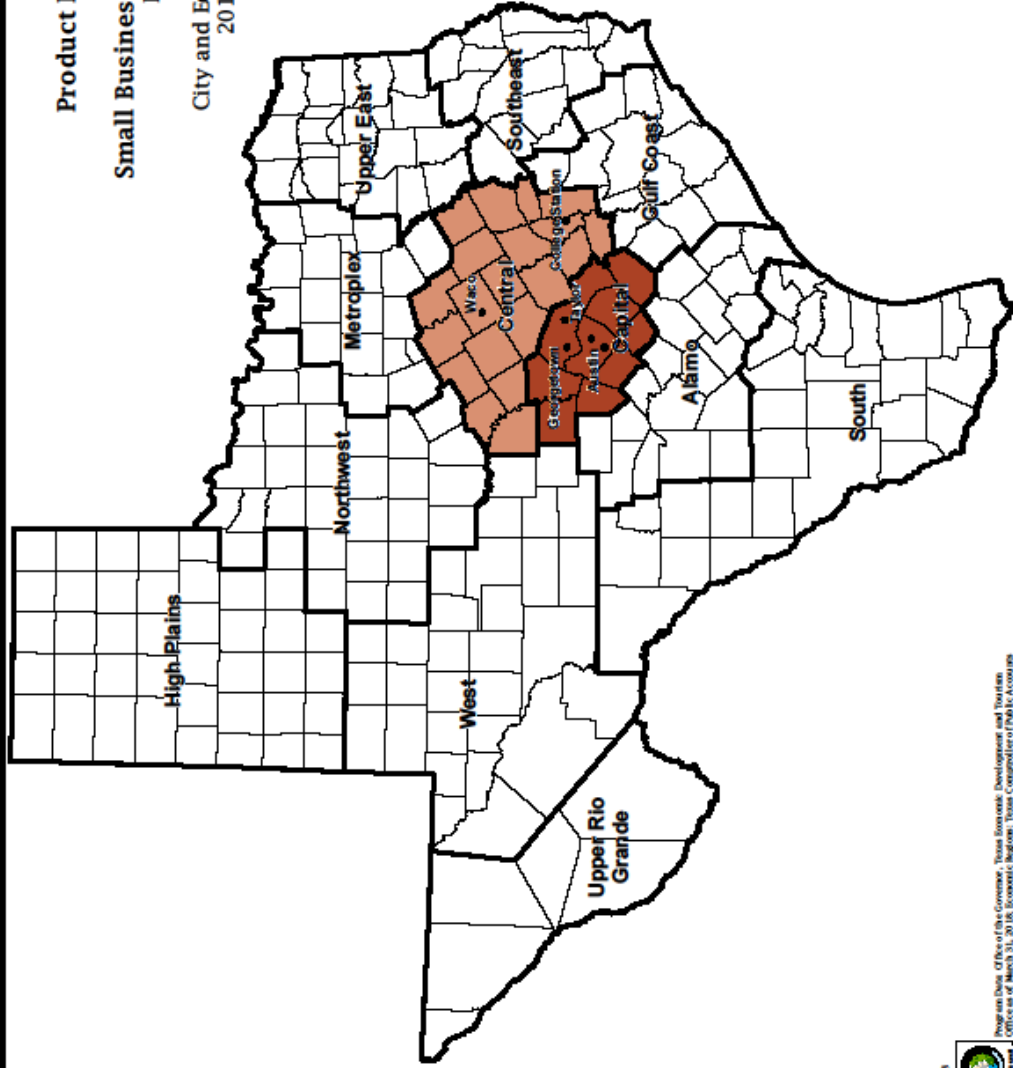


**Texas Leverage Fund\***  
 Approved Projects  
 by  
 City and Economic Region  
 2013 - 2015



\* Program is currently inactive per TEDTO website.

**Product Development  
and  
Small Business Incubator Funds**  
Loans  
by  
City and Economic Region  
2014 - 2016



Loans  
by  
Economic Region

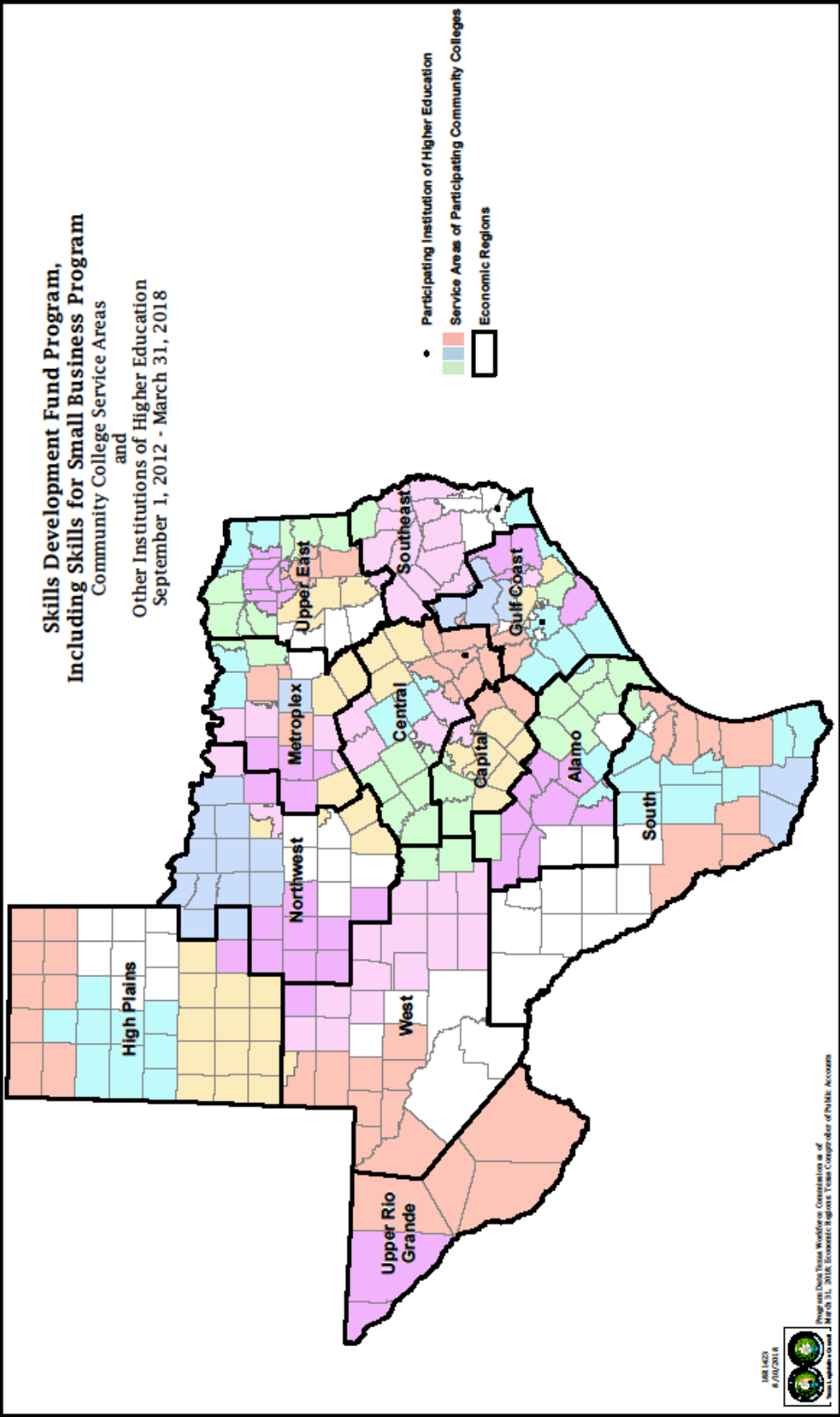
4  
2  
None

Note: Each point is matched to a city  
and not an exact address.



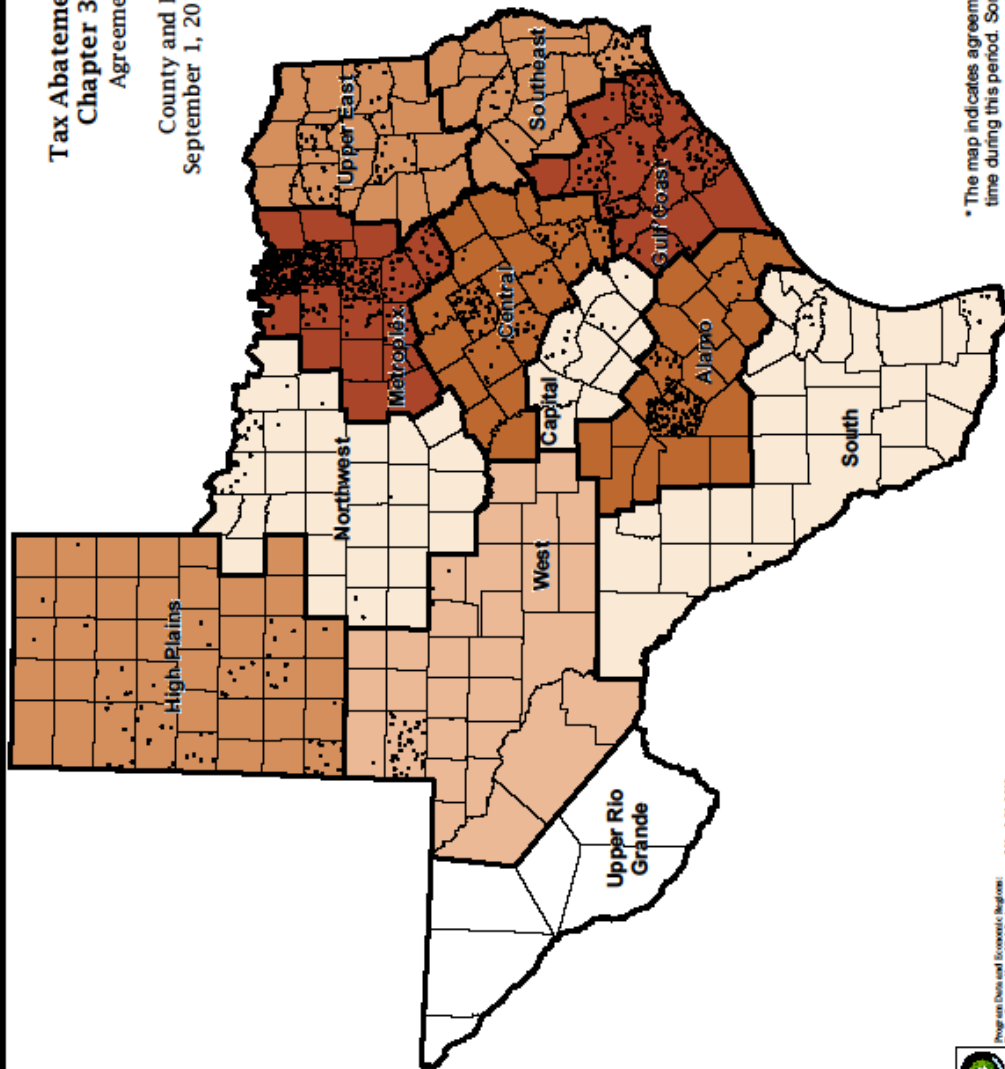
**Skills Development Fund Program,  
Including Skills for Small Business Program**  
Community College Service Areas

and  
Other Institutions of Higher Education  
September 1, 2012 - March 31, 2018



MBL 605  
8/10/2018  
 Prepared by: Steve Winkler, Coordinator of  
 MBOL, 2018 Economic Impact Team, Coordinator of Public Accounts

**Tax Abatement Agreements:  
Chapter 312, Tax Code**  
Agreements in Effect  
by  
County and Economic Region  
September 1, 2012 - March 31, 2018\*



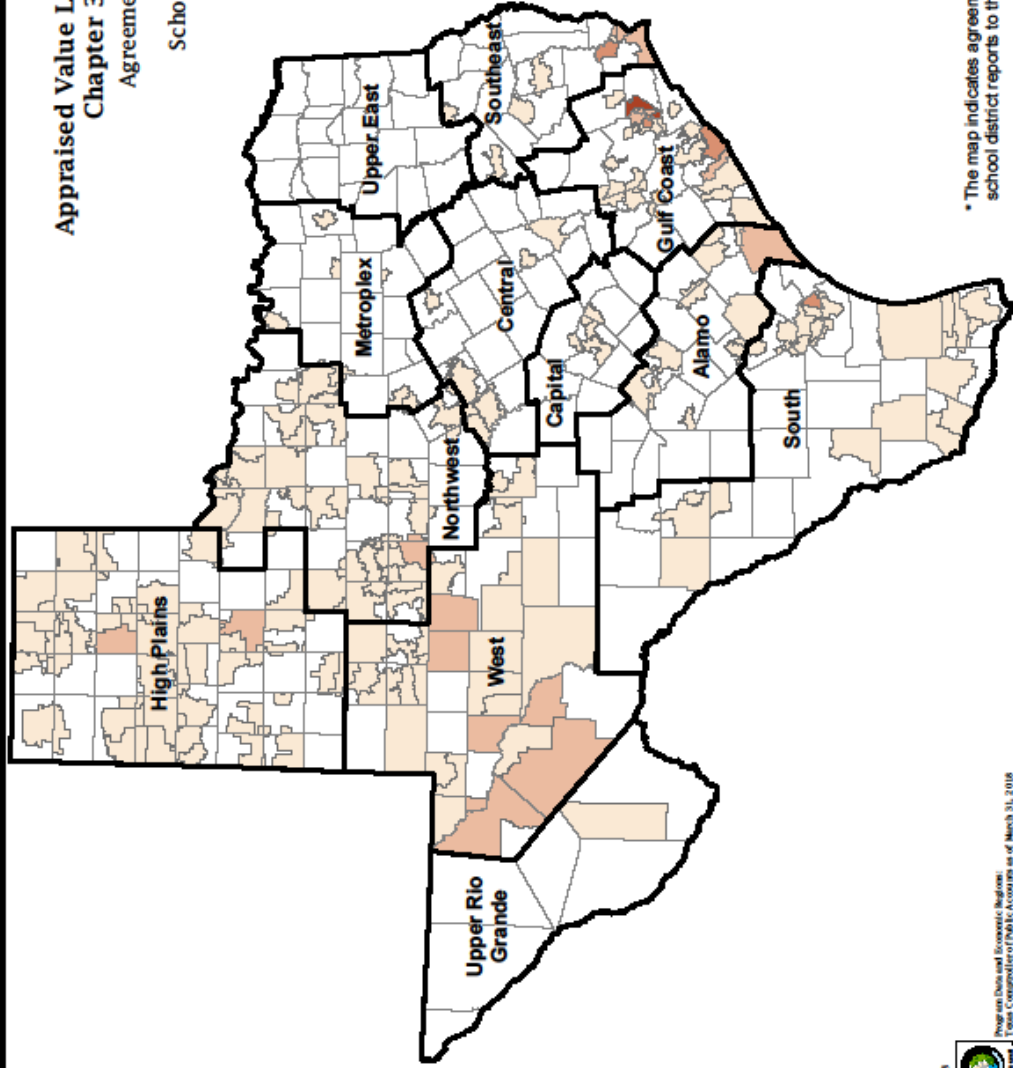
Note: Each point is matched to a county and not an exact address.

\* The map indicates agreements known by the comptroller to be in effect at some time during this period. Some agreements may have expired or been canceled.



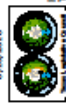
# Appraised Value Limitation Agreements: Chapter 313, Tax Code

Agreements in Effect\*  
by  
School District



Agreements in Effect  
by  
School District

- 24
- 10 to 16
- 5 to 9
- 1 to 4
- None
- Economic Regions



Texas Department of Transportation  
Office of Transportation Planning  
March 31, 2018

\* The map indicates agreements in effect as of March 31, 2018. The data is based on school district reports to the comptroller and may not include all agreements in effect.

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## **Recommendations**

The size and diversity found in the state of Texas is one of our greatest economic assets. Maintaining a diverse economy is key to economic longevity. Keeping this in mind, we can not have a one incentive fits all approach to economic development. It is vital to have balance. Incentive programs like the Texas Enterprise Fund offer large sums to big companies that historically locate in urban areas. Additionally, it is important to maintain the tools that smaller communities use including the Property Tax Abatement Act in tax code Chapter 312 and the Texas Economic Development Act found in Chapter 313. Many cities have successfully adopted a Type A or Type B sales tax and consider it vital to their economic development pursuits. Heritage tourism allows a rural community to be successful for embracing their history and culture. The committee recommends maintaining a comprehensive approach to the states' economic development strategy and looking for ways to help enhance or highlight the attributes individual regions possess.

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## **Charge 5. Aviation, aerospace, & defense manufacturing industry**

*Study the economic impact of the aviation, aerospace, & defense manufacturing industry in Texas and the state's ability to facilitate industry job growth and investment. Review the relationship between the economic vitality of industry and military veterans transitioning into the workforce. Determine existing and potential barriers to the retention and expansion of the manufacturing industry in the state and the broader economic implications it may have on workforce readiness, as well as veteran employment and support services. (Joint charge with the House Committee on Defense & Veterans' Affairs)*

### **Veterans' employment**

The Texas Workforce Commission (TWC) and the Texas Veterans Commission's (TVC) Employment Services Program together coordinate and deliver employment services to all veteran job seekers and their families. They were able to assist 93,042 veterans in fiscal year 2017. Some of these programs are highlighted below.

#### WorkInTexas.com

WorkInTexas.com is the state's labor exchange or job matching system run by TWC. While the website and its resources are available to all job seekers in Texas, there are special features just for veterans. A two day hold is created on all newly-created job postings and are available only to veteran applicants in those first two days. Employees are able to designate their jobs as "For Veterans Only" as well.

#### Texas Veterans Leadership Program

The Texas Veterans Leadership Program (TVLP) is a resource and referral network for veterans returning from Iraq and Afghanistan who are transitioning back to civilian life. TVLP employees 18 Veterans Resource and Referral Specialists across the state, all veterans themselves, who focus special attention on individuals facing specific or complex challenges as they reintegrate into the workforce.

#### College Credit for Heroes

College Credit for Heroes was established by the 82<sup>nd</sup> Legislature with the goal of maximizing the amount of college credit that our veterans receive for their military training and occupational experience while reducing the amount of time spent in the classroom. This program includes a web-based application and is a collaboration with the Texas Higher Education Coordinating Board and 52 colleges across the state. Veterans participating in this program receive on average 25 college hours.

#### Hiring Red, White and You veteran job fairs

Since 2012, during the week of Veterans' Day, veterans hiring events have been held all around the state in partnership with TWC, TVC, the Governor's office, the Texas Medical Center, and the local workforce boards. These are open to active-duty military, transitioning service members, veterans, and spouses.

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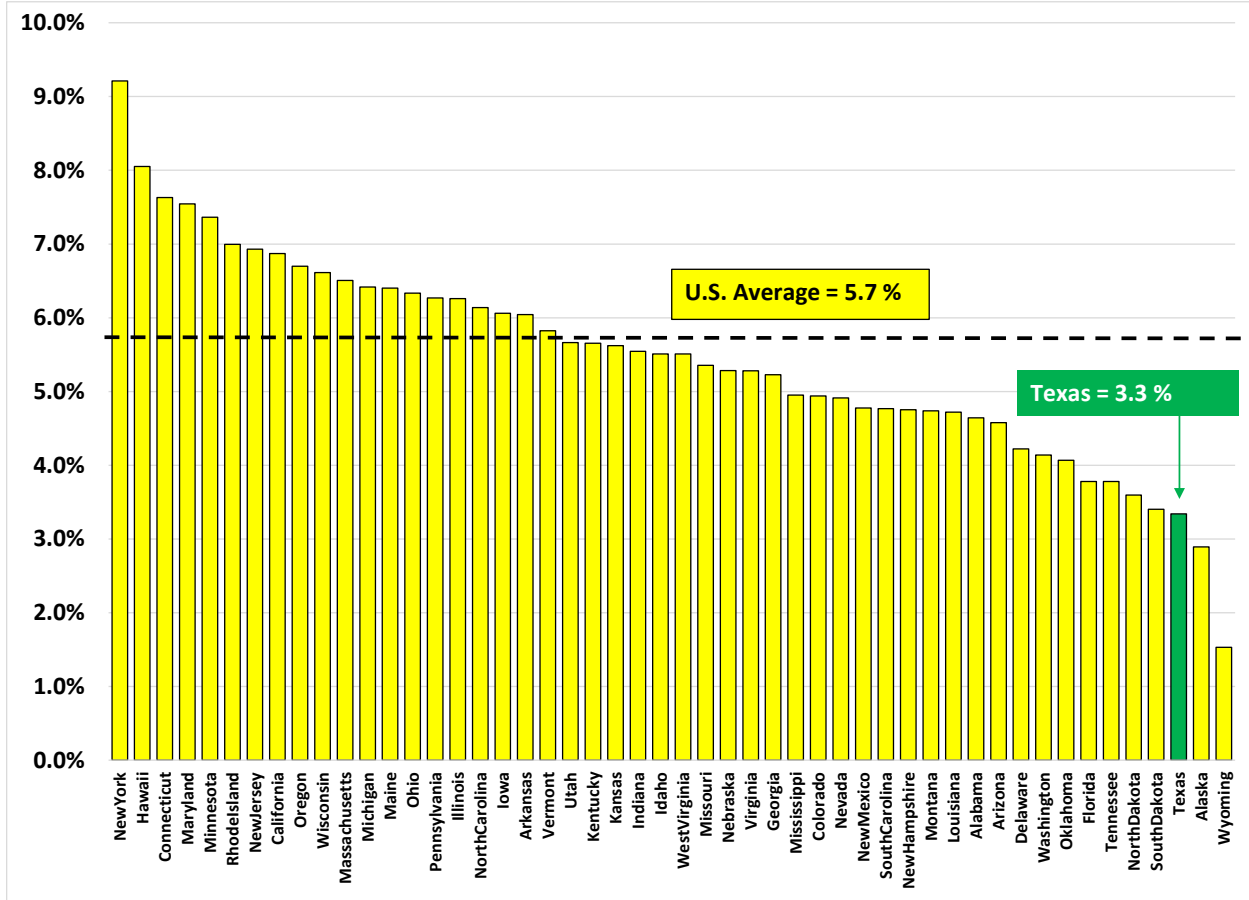
In addition, the TWC and TVC are in charge of overseeing and implementing several federal programs, grants, and employer tax credits that are aimed at assisting veterans in transitioning their military skills into civilian jobs. TWC has identified a growing demand for skilled workers in the following target industries: petrochemical manufacturing, advanced manufacturing, and informational technology. Veterans often have the discipline and capacity to learn these in-demand skills quickly and TWC has been able to provide further job opportunities in these high-wage, high-demand industries. TWC has also dedicated funds to community colleges who partner with these industries to provide training and prepare veterans for these jobs.

Defense industry companies are doing their part as well to make sure returning veterans can find meaningful employment in an industry in which they are already familiar. Currently, Raytheon employs almost 10,500 veterans, making up nearly 17% of their entire workforce. Their program, Operation Phoenix, is a talent acquisition program that attracts, recruits, and retains veterans and military talent. RAYVETS is another veterans employment program that utilizes engagement, mentorship, and sponsorship. Boeing is another example. Since 2011, they have hired 8,600 veterans and pledged to hire more over the next five years. Boeing has contributed financially to several organizations and programs such as the United Service Organization (USO) to assist veterans and their families. The aviation, aerospace, and defense industry presents a great opportunity for veteran employment, therefore keeping this sector competitive to grow more jobs in Texas is critical.

## Aviation, aerospace, & defense manufacturing

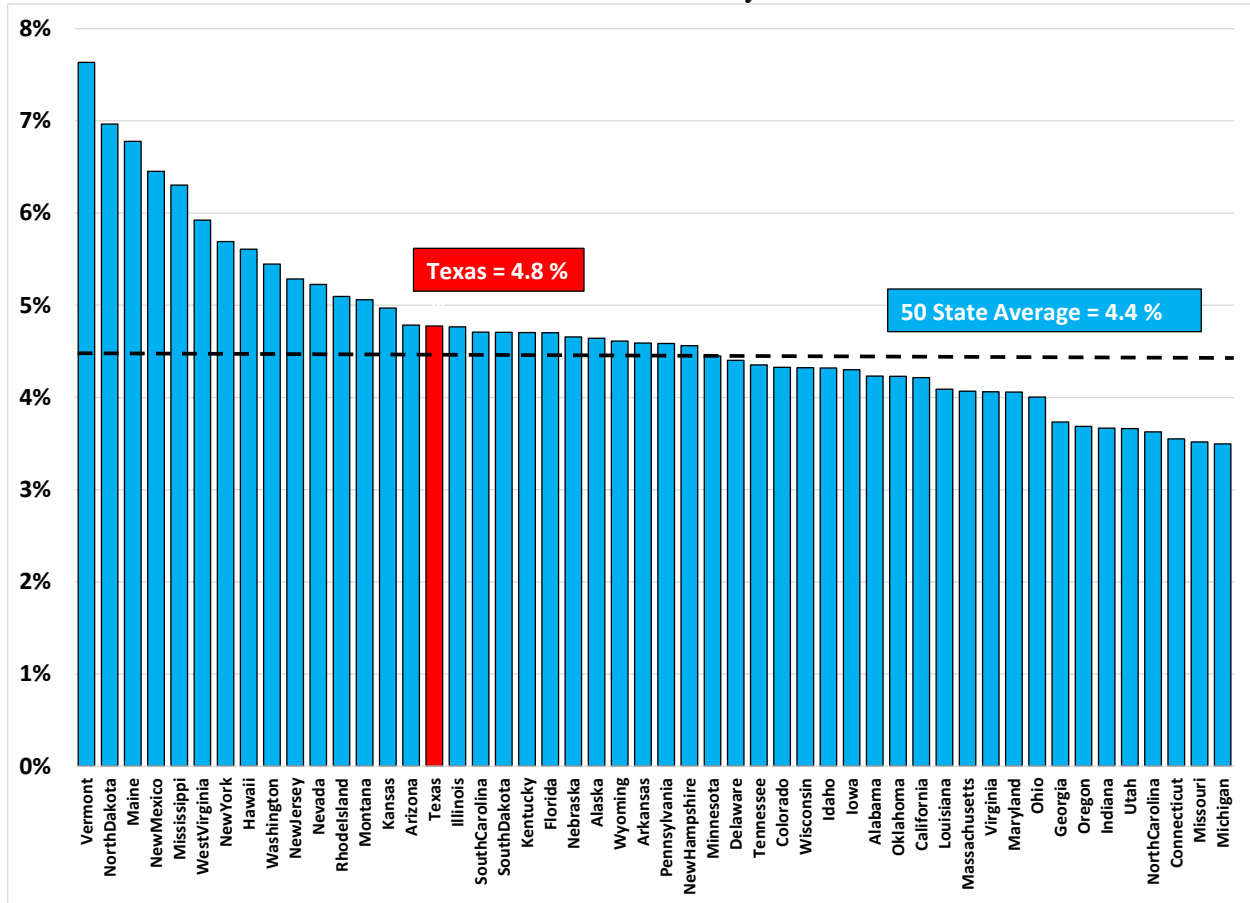
With no personal income tax, Texas is often thought of as a very taxpayer-friendly state. However, the low individual tax burden is offset by taxes levied against the states' numerous businesses. State and local taxes, particularly property and sales taxes, are higher than average and are particularly burdensome for capital intensive, goods-producing industries such as aviation, aerospace, and defense manufacturing companies.

Tax Burden on Individuals by State<sup>9</sup>





Tax Burden on Business by State<sup>10</sup>



PricewaterhouseCoopers (PwC) does an annual ranking of the Top States for Aerospace Manufacturing Attractiveness. PwC released their most recent study in September 2018 and ranked Texas second behind only Washington. Seventeen of the twenty largest aerospace manufacturers in the world have major operations in Texas. The aerospace and aviation industry directly employs more than 135,000 Texas workers at approximately 1,300 firms. As a result, about 9% of all aerospace manufacturing jobs are in Texas.<sup>11</sup> This industry, unlike others such as oil and gas or technology, is not isolated to a particular area of the state with Lockheed Martin and Bell in Fort Worth, Raytheon in McKinney and Richardson, and Boeing in Houston, San Antonio, Corpus Christi, and Plano to name a few.

But, Texans never like to settle for only second best and in order to keep this thriving industry from going elsewhere, there are some things the legislature should consider. Under the franchise or margins tax, defense companies, like all other companies doing business in Texas, must choose between taking a cost of goods sold deduction for direct manufacturing costs or a services deduction for compensation paid to employees. However, defense companies are not like all other companies in that they must comply with the Department of Defense’s Federal Acquisition Regulations (FAR). These federal regulations provide “uniform policy and

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procedures” for companies doing business with the federal government. Aviation, aerospace, and defense manufacturing companies face a unique challenge because their contracts require not only manufactured goods, but also the services that support those products. An obvious solution would be to conform the Texas franchise tax deductions for these companies to the costs definitions contained in the FAR, which more accurately reflect the actual costs incurred by these companies.

Another way to improve Texas' attractiveness to aviation manufacturers would be to expand the sales tax exemption for aircraft parts and labor. In Texas, this exemption is limited to commercial carriers only, which excludes many general aviation employers. While Texas is home to the second most corporate headquarters for corporate and general aviation companies, these aircraft often leave Texas for maintenance services, repairs, and other work, taking those high-paying jobs with them to other states and countries<sup>12</sup>.

### **Recommendations**

The Legislature should adopt policy to conform the Texas franchise tax deductions for the aviation, aerospace, and defense manufacturing industry to the costs definitions contained in the Federal Acquisition Regulations (FAR), which more accurately reflect the actual costs incurred by these companies.

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## **Charge 6. Agency oversight**

*Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 85th Legislature.*

### **Skills Development Fund**

Witnesses at the April 12<sup>th</sup> hearing over incentives had very different views regarding the Skills Development Fund. Dallas-based site selector King White argued that his clients, businesses looking to expand or relocate, view programs like the Skills Development Fund as “soft” incentives. He defined soft incentives as programs in which money does not go directly to the company like in the form of grants or tax incentives. He is correct, the Skills Development Fund awards grants to the public high school or community or technical college that partners with a private company to provide specialized training programs and instruction for that company's workforce. According to White, these soft incentives carry very little weight for companies considering Texas. Richardson Chamber of Commerce President and CEO Bill Sproull, who also works with companies considering North Texas, argued that the Skills Development Fund is a vital and successful tool in Texas' incentives arsenal especially when he and the committee hear consistently from businesses that workforce development is the number one issue.

The Skills Development Fund (SDF) is the state's premiere job training program that provides customized employer driven training that supports the growth and competitiveness of Texas employers, while assisting employees with enhancing existing skills or obtaining new skill sets. According to the Texas Workforce Commission, the agency that oversees the SDF, in fiscal year 2007, 47 SDF grants were awarded with an average award of \$479,513. They served 118 businesses, supported the creation of 2,771 new jobs, and assisted in the retraining of 11,575 current workers in existing jobs. At the end of training, participating workers receive career and/or advancement opportunities which include wages equal to or greater than the prevailing wage in the area<sup>13</sup>.

### **85<sup>th</sup> Legislation**

The 85<sup>th</sup> Legislature enacted two pieces of legislation affecting the Skills Development Fund. HB 108 (85R) by Representative Carol Alvarado expands the use of the Skills Development Fund to facilitate “fast track” training for the relocation to or expansion in the state for employers offering complex or high-skilled employment opportunities. Requests for the rapid training under this bill will be evaluated by TWC on a case-by-case basis. TWC has marketed and made this program available through economic development organizations, associations, and community colleges.

The second is SB 634 (85R) by Senator Craig Estes and sponsored by Chairwoman Button in the House which requires schools who receive Skills Development Fund grants and fail to file their biennial report to TWC, as required by Texas Labor Code, to repay any unexpended funds to the Comptroller. The legislation also makes those schools ineligible to receive future SDF grants until they comply with the reporting requirements.

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## **Sunset legislation**

During the 84<sup>th</sup> Legislature, four programs were transferred to the Texas Workforce Commission from the Department of Assistive and Rehabilitative Services as part of TWC's sunset review process in SB 208 (84R) by Senator Donna Campbell. Those programs were the Vocational Rehabilitation (VR) program for people with visual impairments, including the Criss Cole Rehabilitation Center, VR for individuals with other disabilities, the Business Enterprises of Texas program, and the Independent Living Services for Older Individuals Who Are Blind grant. These programs were successfully transitioned by the September 1, 2016 deadline as outlined in the legislation. Also, as directed by SB 208, TWC consolidated the two separate VR programs into one on October 1, 2017. TWC is currently integrating the local VR offices into the local Workforce Solutions offices as required. SB 208 outlined for this to be completed by August 1, 2018, however, due to the existing leases of many of the local VR offices, the integration of VR offices into the local TWC offices will continue past the deadline. As of May 1, 2018, 26 VR offices have been integrated with 90 offices remaining. By the end of Fiscal Year 2018, 11 of the 28 workforce offices will have fully integrated all VR offices into theirs<sup>14</sup>.

## **Governor's Office of Economic Development & Tourism**

Bryan Daniel, Executive Director of Economic Development & Tourism within the Office of the Governor, testified that when looking at the general economic health of the state, there are two metrics to consider: growth in Gross Domestic Product (GDP) and job creation. In the aftermath of Hurricane Harvey, there were many concerns about how the state's economy would respond. Daniel reported that in the fourth quarter of 2017, Texas experienced a 5.2% growth in GDP and for a twelve month period from March 2017 to March 2018 created approximately 211,000 new jobs. Texas led the nation in both measures. Texas' economy remains strong and continues to see sustained growth. For the sixth consecutive year, Texas was awarded the "Governor's Cup" recognizing the top state for business and jobs. Chief Executive magazine again selected Texas at the very top of their list for the state best to do business, citing the state's low tax and fair regulatory climate.

## **Recommendations**

Continue to explore ways we can ensure the Skills Development Fund remains a useful and beneficial tool for employers. Explore the increased use of the Skills Development Fund for training in interpersonal or "soft skills." Continue to examine the state's economic development policies and their ability to maintain and enhance our diverse economy.

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## ENDNOTES

<sup>1</sup> The Texas Tribune, “Hurricane Harvey was year's costliest U.S. disaster at \$125 billion in damages,” January 8, 2018

<sup>2</sup> Testimony of Dr. Ed Egan, Rice University McNair Center for Entrepreneurship and Innovation, April 12, 2018

<sup>3</sup> Testimony of Ann Badour, Texas Appleseed, before the House Committee on Investments and Financial Services, April 24, 2018

<sup>4</sup> STEM Jobs: 2017 Update, U.S. Department of Commerce, Economics and Statistics Administration, Office of the Chief Economist

<sup>5</sup> U.S. Department of Education: Institute of Education Sciences, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), Fall 2001 through Fall 2015 Completions component

<sup>6</sup> Amazon Web Services Insider, <https://awsinsider.net/articles/2018/01/16/linkedin-skills.aspx>

<sup>7</sup> Amazon Web Services, <https://aws.amazon.com/blogs/publicsector/major-in-the-cloud-nova-and-aws-announce-first-cloud-computing-degree/>

<sup>8</sup> North Carolina Department of Commerce <https://www.nccommerce.com/research-publications/incentive-reports/county-tier-designations>

<sup>9</sup> Council on State Taxation 2017 report on "Total state and local business taxes"

<sup>10</sup> Council on State Taxation 2017 report on "Total state and local business taxes"

<sup>11</sup> PricewaterhouseCoopers 2018 Top 10 States Ranked For Aerospace Manufacturing Attractiveness

<sup>12</sup> Testimony of Tony Bennett, Texas Association of Manufacturers, May 15, 2018

<sup>13</sup> Testimony of Aaron Demerson, Texas Workforce Commission, May 15, 2018

<sup>14</sup> Testimony of Karen Latta, Texas Workforce Commission, May 15, 2018