THE POLICY PAGE
An Update on State and Federal Action
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April 4, 2005 For more information: Contact Don Baylor, baylor@cppp.org No. 235

Who's Funding Workforce Development?

Already overwhelmed by demand, the Skills Development Fund—Texas' most successful state-funded workforce training program—is slated for massive cuts. The Senate is proposing to cut General Revenue appropriations for the Skills Development Fund by nearly 60%, or $14.5 million, compared to the current biennium. As a result, 9,000 fewer workers per year would receive customized job training. The Texas Enterprise Fund, a program designed to lure employers to Texas, compounds the funding crisis by using scarce Skills Development dollars as an incentive bonus for training costs that should be financed either by companies that are new to Texas or by the Enterprise Fund itself.

WHAT IS THE SKILLS DEVELOPMENT FUND?

The Skills Development Fund (SDF) is an integral piece of Texas' workforce development system. Established in 1996, the SDF represents the most significant state-level investment in workforce training. The SDF makes it possible for public community and technical colleges, the Texas Engineering Extension Service (TEEX), and community-based organizations to develop customized training programs in conjunction with local employers' needs. Administered by the Texas Workforce Commission (TWC), the Skills Development Fund enables both new and incumbent workers to participate in customized training programs.

Over the past three years, the Skills Development Fund has financed training programs for 15,559 new jobs and 28,832 incumbent jobs. At a cost of about $900 per job, the Skills Development Fund is cost-efficient and enables training in a wide range of industries and occupations, although the health care and manufacturing sectors represent 70% of skills development grants. The economic impact of the Skills Development Fund amounts to an additional $72 million in statewide payroll. The average hourly wage of an SDF "graduate" is $15.11, according to TWC.

The Skills Development Fund has several important restrictions on its use. The Fund cannot be used:

- To pay training costs for intrastate relocations
- To purchase proprietary and production equipment for a training project of a single local employer
- To pay trainee wages
- To pay for trainee or instructor travel costs or trainee drug tests.

The Skills Development Fund is the most reliable state-funded program that creates jobs, upgrades worker skills, and grows the economy.

FUNDING SKILLS DEVELOPMENT

Currently, the biennial appropriation for the Skills Development Fund is $24.5 million. Included in TWC's Legislative Appropriations Request (LAR) was a proposal to nearly double the Skills Development Fund appropriation level to $49.5 million for 2006-2007. During budget testimony, TWC documented the need for increased funding, noting that the demand for customized training exceeds SDF resources by about 4:1. In fiscal 2004, TWC received over $41 million in SDF proposals, and awarded 26 grants totaling just over $12 million. From 1996-2004, TWC has received almost $384 million in proposals, while awarding $106.4 million in training grants.

Despite the overwhelming demand for skills development, the Senate version of the 2006-07 state budget (SB 1) would reduce the SDF appropriation to $9.9 million per biennium. With a 60% reduction, TWC would only be able to train approximately 6,000 workers per year, compared to about 15,000 workers with current funding. The House budget committee's proposal would appropriate $20 million to the Skills Development Fund.

Investments in worker training and skills development represent the most efficient mechanism to boost the economy and equip more workers with 21st century skills. Reductions in SDF funding are a step in the wrong direction.

THE IMPORTANCE OF SB 1177

In the Senate budget proposal, another $10.2 million could be transferred to SDF from reserves of the Smart Jobs Holding Fund, to be renamed the Skills Development Holding Fund—contingent upon passage of SB 1177. SB 1177 (Staples) would assign 0.1% of employers' unemployment insurance tax, assessed by TWC. TWC would deposit the revenue into a new Skills Development Holding Fund. The holding fund is authorized to supplement unemployment insurance collections and insufficient legislative appropriations for Skills Development. If the unemployment compensation fund is below 100% of the floor, TWC would be authorized to transfer enough money from the Holding Fund to bring the compensation fund to 100% of the floor. Any remaining revenue would be transferred to the Skills Development Rainy Day Trust Fund. The Rainy Day Trust Fund would also include legislative appropriations, in addition to any gifts or grants received from TWC for Skills Development.

The Skills Development Assessment revenue would reserve these funds for the creation of the Skills Development Operating Trust Fund. Any remaining funds would be transferred to the skills development rainy day trust fund, up to a balance of $100 million.

Both the House and Senate versions of the state budget would appropriate $140.8 million for the Texas Enterprise Fund in 2006-07—nearly $145 million short of its current biennial funding levels. However, a budget rider—contingent on passage of SB 1177—would transfer $130 million to the Texas Enterprise Fund for 2007.

This contingency appropriation would be problematic for the following reasons:

- The Skills Development Fund would experience an almost 20% cut, while the Enterprise Fund would be reduced by 5%.
- Texas employers, through a "skills development assessment tax," would be subsidizing potential competitors via the Enterprise Fund—instead of job training—for fiscal 2007.
- The Enterprise Fund is not obligated to reimburse the Skills Development Fund for training grants that accompany incentive deals—further eroding the intent and impact of the Skills Development Fund.

THE LONG ARM AND GRASPING HAND OF THE ENTERPRISE FUND

The Enterprise Fund's authorizing legislation enables the Office of the Governor to use Enterprise Fund appropriations for "economic development, infrastructure development, community development, job training programs, and business incentives."

While some monies have been designated for infrastructure and community development, the Enterprise Fund has dipped into the Skills Development Fund to secure working training for economic development projects, including at least $3 million each for the Toyota and Tyson deals. While current Skills Development funding is only 8% of the Enterprise Fund allocation, committed Enterprise Fund projects could consume up to 60% of the Senate appropriation for Skills Development.

Since Enterprise Fund projects represent "new" jobs and these employers would be obliged to train workers upon a site relocation, Skills Development allocations to Enterprise Fund projects drain precious resources from an underfunded program intended to serve current employers. In other words, Skills Development grants to Enterprise Fund recipients represent another monetary incentive used to attract employers to Texas, and therefore, should be financed through the Enterprise Fund as an allowable use for connected "job training programs."

The Enterprise Fund should assume 100% of related project costs, including worker training, either through reimbursing the Skills Development Fund or including a job-training set-aside within a specific Enterprise Fund grant.

The Skills Development Fund, including any Holding Fund revenue (as outlined in SB 1177), should be reserved for businesses currently operating in the state. The Legislature should not authorize a mechanism that taxes current in-state employers to recruit out-of-state companies that might pose competition to Texas-based firms. The SB1 budget rider would effectively collect unemployment insurance taxes from current employers and redistribute this state revenue to companies, and potential competitors, operating elsewhere.

STRATEGIC ATTACK AGAINST JOB QUALITY

Enterprise Fund projects have not only reduced training opportunities for existing Texas employers, these projects have the potential to undermine key job quality standards outlined in the Texas Economic Development Act.

For example, HB 1499 (Phillips) expands the definition of a strategic investment area county to allow employers receiving local tax abatements to pay only 50% of employee's health benefits, instead of 80%. HB 1499 completely strips a provision mandating county wage standards for manufacturing jobs. Under the current definition a "strategic investment area" must have both an above state average unemployment rate and below state average per capita income. Under this expanded definition, local development projects in another 163 counties would qualify for expanded franchise tax credits, and these related qualifying jobs would have a lowered health coverage threshold. The fiscal note did not specify an amount of lost revenue for localities, but the Legislative Budget Board estimated "it could reduce the amount of taxable property values and the related ad valorem taxes collected by units of local government."

TYSON FOODS PLUCKS TEXAS WORKERS AND TAXPAYERS

Among these "new" strategic investment area counties would be Grayson County, where Tyson Foods plans to renovate an existing meatpacking plant with $7 million from the Texas Enterprise Fund. In Arkansas, over 7% (1,738) of the state's Tyson Foods employees are on public entitlement programs, including Medicaid and CHIP. Because enabling legislation for the Enterprise Fund fails to ensure health benefits coverage, HB 1499 would allow more employer recipients of local tax assistance and Enterprise Fund grants to:

- Avoid paying a decent or living wage
- Pay a smaller share of employee's health benefits.

In sum, HB 1499 is an example of how the Enterprise Fund fails to guarantee job quality and to hold companies accountable for meeting higher standards if they receive local tax assistance or Enterprise Fund grants. Since Enterprise Fund contracts do not mandate employer health coverage, the Economic Development Act serves as the primary mechanism for ensuring adequate wages and health benefits for covered workers.

Supporters of the Skills Development Fund are exploring other options to ensure that workforce development is adequately funded. CPPP recommends more job training investments arising directly out of the Enterprise Fund to supplement spending shortfalls in Skills Development. The debate about funding levels for workforce development programs will continue as HB 2421 (Chavez) moves through the legislative process. This legislation would create the Texas Jobs Program through a 0.1% Employment Training Investment Assessment.
