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House Skills Development Bill Quadruples Training Opportunities for Texas Workers

Senate Version Taxes Employers to Replenish Enterprise Fund, Shortchanges Training Needs

HB 2421 Overwhelmingly Passes House, Heads to Senate;

SB 1096 Passes Senate, Scheduled for House Economic Development Hearing

HB 2421 (Chavez) would create a larger and more stable source of funding for the Skills Development Fund (SDF)—Texas' primary state-funded workforce development program. For the past several years, the Skills Development Fund, administered by the Texas Workforce Commission (TWC), has been hampered by relatively flat General Revenue funding at approximately \$25 million per biennium. By dedicating a portion of unemployment insurance tax paid by employers, HB 2421 would generate \$49.3 million for the Skills Development Fund for Fiscal Year 2007 grants. In contrast, SB 1096 would dedicate the vast majority of these unemployment insurance revenues to the Enterprise Fund—a program that promotes job creation at 10 times the cost of the Skills Development Fund and mostly subsidizes projects in metropolitan areas.

What HB 2421 does:

By Fiscal Year 2007, HB 2421 would replenish the Skills Development Fund without dedicating any new General Revenue. The bill would dedicate 0.1% of employers' current unemployment insurance tax and create a Skills Development Assessment (SDA), effective January 1, 2006. The 0.1% assessment would not increase employers' unemployment insurance tax, as their general tax bill would be reduced by 0.1% in order to accommodate the SDA. SDA revenue would be deposited into the Skills Development Holding Fund.

Of the Holding Fund, 80% would be transferred into the Skills Development Fund to finance program operations and customized job training; 20% of the annual Holding Fund revenues would be allocated to the Skills Development Economic Stabilization Fund. The Economic Stabilization Fund would be reserved for instances when the unemployment trust fund falls below the established floor, as determined by current TWC methodology.

HB 2421 directly recognizes the role of the Skills Development Fund and customized training programs in promoting economic development and job creation, especially for rural and medium-sized areas throughout the state. For trainees, the Skills Development Fund represents a vehicle for building skills and increased wages. For employers, the SDF meets area and industry-specific workforce needs through collaboration with community colleges and training providers. More importantly, HB 2421:

- Acknowledges the immediate need to upgrade worker's skills and to attract high-wage employers to non-metropolitan areas;
- Directly engages community colleges in the success of the local workforce system;
- Recognizes the SDF's high efficiency rating in building human capital and creating and retaining jobs.

Over the past three fiscal years (FY '02-'04), TWC has issued 91 SDF grants resulting in 44,391 new and retained jobs. During this period, the Skills Development Fund performed at an average rate of \$849 per job. By generating approximately \$49.3 million for the Skills Development Fund for FY 2007 expenditures, HB 2421 would enable TWC to nearly quadruple the value of training grants issued under current funding levels. If current efficiencies continue, an additional 41,000 to 48,000 workers per year could receive customized training from Fiscal Year 2007 to 2009.

What SB 1096 does:

In many ways, SB 1096 represents the “alter ego” of the House version. The earmarking of 0.1% of the unemployment insurance tax—beginning in January 2006—is the chief similarity between the two bills. SB 1096, however, dedicates 80% of the first \$160 million in biennial Employment Training Investment Assessment (ETIA) revenue for the Enterprise Fund, with the remaining 20% of eligible revenue dedicated for the Skills Development Fund. If any dollars remain in the Employment and Training Investment Holding Fund, those dollars would be allocated to the Training Stabilization Fund. For Fiscal Years 2007-2009, ETIA revenue (not including GR appropriations) would result in annual SDF allocations ranging from \$12.3 million to \$15.1 million.

If Holding Fund amounts are deemed insufficient to meet the legislative appropriation for that fiscal year, SB 1096 authorizes the Training Stabilization Fund to transfer 62.5% and 37.5% of the monies to the Enterprise Fund and Skills Development Fund respectively.

In contrast to HB 2421, SB 1096 would dedicate revenue towards a program—the Texas Enterprise Fund—with performance indicators that are more difficult to quantify. Unlike the Skills Development Fund, Enterprise Fund disbursements do not directly close the skills gap that threatens Texas’ economic prosperity for years to come. Additionally, its direct impact is diluted by the package of tax abatements and local incentives that normally accompany such deals, making a dollar-for-dollar comparison even more unfavorable for the Enterprise Fund’s per-job performance measures. Regardless, the Enterprise Fund’s approach to job growth costs the state close to \$9,000 per job—more than ten times the per-job cost of the Skills Development Fund.

CREATING AND RETAINING JOBS IN TEXAS: HB 2421/SB 1096—Side-by-Side

Indicator	HB 2421	SB 1096
Funding Mechanism	Skills Development Assessment (0.1% of UI tax)	Employment Investment Training Assessment (0.1% of UI tax)
Uses	Skills Development Fund	Enterprise Fund; Skills Development Fund
Projected Program Allocations (FY 2007-2009)	\$169.1 Million (SDF)	<ul style="list-style-type: none"> • \$42.3 Million (SDF) • \$169.1 Million (TEF)
Projected New and Retained Jobs (FY 2007-2009)	169,000-191,000 (SDF)	61,000-68,600 (SDF/TEF)

Sources: Legislative Budget Board, 2005; Texas Workforce Commission, 2005; CPPP Analysis: For the Skills Development Fund, the high-end job projection is based upon FY '03 performance indicators (\$885/job), while the low-end projection (\$1,000/job) assumes increasing training costs due to increased wages, equipment costs, and inflation through Fiscal Year 2009. All projected allocations assume that FY '07-'09 assessments would not be diminished to replenish the Unemployment Insurance Trust Fund.

By Fiscal Year 2007, HB 2421 would enable Texas employers, community colleges, and training providers to quadruple the number of trainees served with current funding; SB 1096, by preferring the relatively inefficient Enterprise Fund, would increase training slots by only 10-15% for FY '07-'09.

A “No-Brainer” for Texas Employers, Workers, and the Economy:

Aside from the bill’s primary thrust, SB 1096 includes a few sound provisions that would bolster the integrity and fairness of the Skills Development Fund and the Enterprise Fund. These provisions include:

- Small business priority to receive training incentives;
- Restrictions to curb “double-dipping” by employers, i.e. business projects that receive Enterprise Fund and Skills Development Fund grants.

Given the productivity of the Skills Development Fund and its record in efficiently creating and retaining jobs, CPPP recommends that the Legislature immediately adopt the core provisions of HB 2421, reject SB 1096’s “80/20” formulation, and adopt SB 1096’s secondary provisions outlined above.

For the 79th Legislature, HB 2421 represents the most significant piece of legislation concerning economic and workforce development, especially for Texas’ non-metropolitan and border regions. If adopted, this legislation would:

- Fulfill the workforce needs of current employers;
- Stimulate the Texas economy;
- Enable diverse regions to become more competitive in attracting high-wage employers;
- Provide Texas workers with marketable skills and increased wages.

As the market economy become more skill-oriented and employers increasingly demand specialized labor, **substantially more** advanced technical training—as promoted by the Skills Development Fund—represents the most logical and efficient use of resources to promote job creation and economic development. As such, HB 2421 embodies the clear choice to move Texas forward through a substantial commitment to employers and working Texans.

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