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MORE FUNDING PROPOSED FOR ECONOMIC DEVELOPMENT PROGRAMS

In March 2000, CPPP released a first-of-its-kind report which compiled in one document information about direct economic development program spending and tax breaks for economic development. The report estimated that Texas would spend at least \$729 million in the 2000-01 biennium on economic development programs, compared to about \$3.8 billion in economic development tax incentives. This Policy Page describes how the House and Senate propose to increase economic development program spending in 2002 and 2003 and discusses legislation that would improve the state's funding of development programs by creating an integrated economic development budget.

STATE BUDGET AS INTRODUCED

Legislators' starting point—the \$108.2 billion draft budget prepared by the Legislative Budget Board (LBB)—proposed \$783 million in 2002-03 appropriations for a wide range of economic development programs such as foreign market development, small business development centers, travel and tourism promotion, customized job training for individual employers, and industry research activities at various public universities. This represents an increase of \$54 million, or 7.4 percent, from 2000-01 funding—a higher growth rate than the LBB recommended for state funding overall (6.2 percent).

These 2000-01 and 2002-03 estimates of state economic development program spending are derived from a CPPP analysis of agency strategies which did not limit itself to programs included in Article VII of the budget, set aside for Business and Economic Development. Instead, CPPP looked through all articles of the General Appropriations Acts, identifying entire agencies or funding strategies with explicit economic development purposes. This method of identifying amounts budgeted for economic development programs will most likely result in an understatement of true spending, because some costs (such as fringe benefits for state employees) will not be included in strategy-level funding. Also, some economic development initiatives such as the Texas Growth Fund do not appear at all in the appropriations act.

Another important methodological problem to mention is that comparing a specific program's funding from one biennium to another is not always possible because the

budget format and other information may change. For example, the 2000-01 budget stipulated that the University of Texas could spend \$200,000 annually from the Available University Fund for the Austin Technology Incubator; the 2002-03 proposals do not mention the Incubator at all. Another example: the bill pattern for the Texas Department of Economic Development has been completely revised, making it impossible to compare current and proposed funding levels for specific strategies such as International Business Marketing, Defense Dependent Communities, and Community Assistance. With those caveats in mind, let's look at how the Senate Finance and House Appropriations marked up the original proposals for economic development spending.

SENATE BOOSTS FUNDING FOR AGRICULTURE, R&D, AND ASSISTANCE PROGRAMS

The Senate's proposed funding for economic development programs totals \$792 million for 2002 and 2003. **In addition to** the LBB recommended amounts, the Senate's budget would provide

- \$400,000 in biennial funding for the Historical Commission's development assistance strategy,
- \$200,000 for a Small Business Development Center (SBDC) at Midwestern State University,
- \$400,000 for Texas Tech's SBDC and \$200,000 more for its International Trade Center,
- \$2.4 million for the Agricultural Experiment Station and \$1.8 million for the Agricultural Extension Service,

- \$534,000 for the Engineering Experiment Station, and
- \$1.2 million for the Department of Agriculture's marketing strategy.

Proposed reductions from the LBB recommended levels include an \$851,000 cut to the Railroad Commission's strategy to promote LP gas.

HOUSE ACTION

The House markup would also increase total economic development program appropriations beyond levels recommended by the LBB, though not as much as the Senate. The House proposal of almost \$786 million for these programs includes, **in addition to** LBB recommendations, the following:

- The same actions by the Senate to increase funding for Midwestern State and Texas Tech and to cut funding for the Railroad Commission's LP Gas promotion,
- \$3.1 million more for the Aerospace Commission,
- \$156,000 more for the Agricultural Extension Service,
- A \$75,000 reduction to the Texas Department of Economic Development,
- A \$17,000 reduction to the Texas Department of Transportation travel information strategy;
- A \$132,600 reduction to the Agricultural Experiment Station; and
- A \$106,000 reduction in Engineering Experiment Station administrative spending.

IMPROVING THE ALLOCATION OF STATE ECO. DEV. RESOURCES

As mentioned earlier, the state budget does have a separate article for Business and Economic Development, Article VII, but it leaves out many of the programs funded through the Education and General Government articles. Article VII also includes programs such as the state lottery and bingo regulation, highway funding, unemployment insurance administration, and other items which most people would **not** consider economic development. Legislators thus do not have a complete picture of what the

state is actually spending on economic development when they mark up the proposed budget or consider other legislation that would create new economic development programs. Furthermore, legislators are often unable to consider direct program spending in light of existing or proposed tax incentives for business development, because tax and program information—as well as any performance measures indicating the outcomes of program spending—is currently scattered across several agency reports and budget documents. **HB 932 (Solis)/SB 275 (Shapleigh)** would help narrow this information gap by requiring the Comptroller to compile and make available to legislators all existing information on economic development program spending and tax incentives, including performance measures. The House bill was heard on March 7th by the Economic Development committee but was left pending. Passage of this bill or similar legislation would enable legislators to make better decisions in allocating Texas' scarce public resources for economic development programs.

FOR ADDITIONAL INFORMATION

The executive summary of the CPPP's March 2000 report on economic development can be found at

<http://www.cppp.org/products/reports/EDexecsum.html>

A February 2001 article by Dick Lavine, CPPP, on the advantages of a state integrated economic development appeared in the *Texas Business Review*, Bureau of Business Research, University of Texas at Austin. See

http://www.utexas.edu/depts/bbr/tbr/feb_01_tbr.pdf

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THE POLICY PAGE

Proposed Spending for State Economic Development Programs, 2002 and 2003 (million \$)

	SB 1 as Filed (LBB)	Senate	House
Small Business	10.1	10.7	10.7
Foreign Markets/Trade	2.1	2.3	2.3
Agriculture (including research)	122.7	126.2	122.7
Other Targeted Industries	86.8	85.9	89.0
Industrial/Customized Training	95.4	95.4	95.4
Research and Development	186.2	190.1	186.1
Assistance (Financial, Technical, & Educational)	232.2	234.4	232.2
Other Business Development	47.4	47.3	47.3
TOTAL	\$782.8	\$792.3	\$ 785.6

SOURCE: CPPP Analysis of General Appropriations Bill, 77th Legislature, Legislative Budget Board Recommendations, CSSB 1, and CSSB 1 (HCR, first printing). Does not include Article 11.