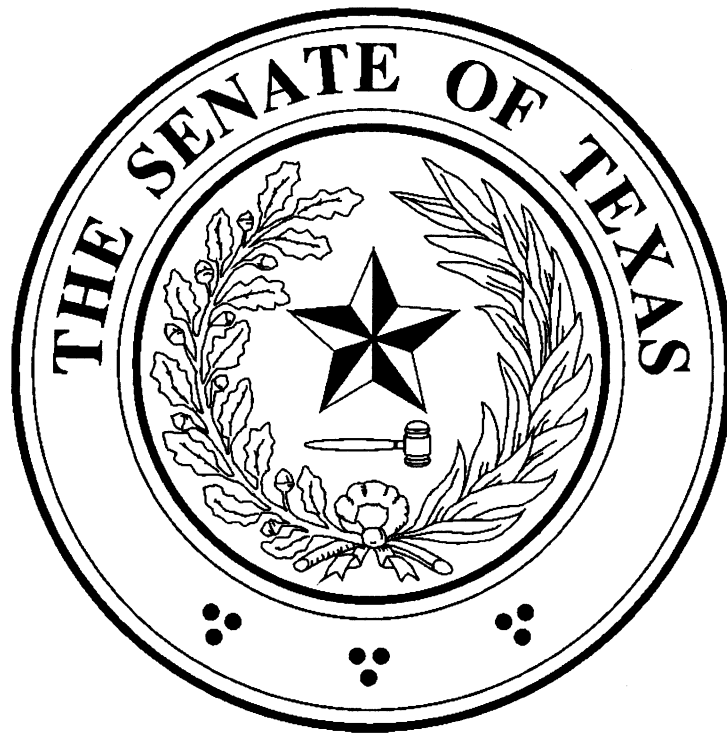

SENATE COMMITTEE
ON
ECONOMIC DEVELOPMENT



INTERIM REPORT TO THE
82ND TEXAS LEGISLATURE



Senator Mike Jackson
Chairman
Senator Kevin Eltife
Vice-Chairman

Senator Brian Birdwell
Senator Kirk Watson
Senator Judith Zaffirini

The Texas Senate
Committee on Economic Development

January 12, 2011

The Honorable David Dewhurst
Lieutenant Governor of Texas
The Capitol, Second Floor East
Austin, Texas

Dear Governor Dewhurst,

On behalf of the Senate Committee on Economic Development, I hereby submit the interim report on the Economic Development Committee for consideration by the 82nd Texas Legislature, in agreement with the Interim Charges that were issued this past year. The Senate Committee on Economic Development held three hearings during the Interim Session in order to gather information on these charges, and in compliance with your request, a copy of this report will be circulated to all senators and other interested parties. We thank you for your continued leadership and support.

Respectfully Submitted,

Handwritten signature of Mike Jackson in cursive script, written over a horizontal line.

Sen. Mike Jackson, Chairman

Handwritten signature of Kevin Eltife in cursive script, written over a horizontal line.

Sen. Kevin Eltife, Vice Chairman

Handwritten signature of Brian Birdwell in cursive script, written over a horizontal line.

Sen. Brian Birdwell

Handwritten signature of Kirk Watson in cursive script, written over a horizontal line.

Sen. Kirk Watson

Handwritten signature of Judith Zaffirini in cursive script, written over a horizontal line.

Sen. Judith Zaffirini

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Interim Charges

The Senate Committee on Economic Development is charged with studying the following issues prior to the 82nd Legislature:

1. Assess the effectiveness of major economic development programs in Texas. The review should include but not be limited to such programs as the Enterprise Fund, Emerging Technology Fund, Skills Development, and Enterprise Zones. Review major tax policy issues that encourage or hinder business development, including options for reinstating a margins tax research and development tax credit. Examine economic development programs in other states that have been successful and recommend changes to existing state programs, new programs, or changes in tax policy incentives that could increase job creation in Texas.
2. Review the effectiveness of state programs aimed at assisting small business growth and development, including whether the development of a Small Business Commission could lead to a more efficient use of state resources. Include an assessment of all state policies aimed to assist small business and minority-owned business persons with procurement of state contracts.
3. Review the impact of workforce development programs on economic development across the state. Focus on the impact of Texas Workforce Commission initiatives, the JET (Jobs and Education for Texas) program administered by the Comptroller's office, and federally funded stimulus programs. Make recommendations for legislation to improve and enhance workforce development in Texas.
4. Monitor the implementation of legislation addressed by the Senate Committee on Economic Development, 81st Legislature, Regular and Called Sessions, and make recommendations for any legislation needed to improve, enhance, and/or complete implementation.

Executive Summary of Recommendations

Recommendations Charge #1

- 1) Synchronize the Emerging Technology Fund's current reporting requirements for a grant recipient by requiring a fiscal total, intended outcomes and complete outcomes for all fiscal years. By statute, companies are required to report the last three years for fiscal totals, the last two years for intended outcomes, and all years for actual outcomes.
- 2) Implement a timeline for approval or denial of Emerging Technology Fund and Texas Enterprise Fund applications. A deadline for approval is necessary in order to keep Texas competitive. A sufficient deadline will give applicant businesses notice of when they can expect a decision, and therefore they will wait for an application decision from Texas before immediately accepting a grant in another state.
- 3) Assess possibilities for the implementation of an independent review panel for the Emerging Technology Fund and the Texas Enterprise Fund applications. The appointees should be independent from the Offices of the Governor, Lieutenant Governor and the Speaker of the House. The purpose of an independent third party panel would be to develop an outside opinion of whether the leadership should give a grant based on the due diligence completed by the Office of the Governor's Economic Development staff on the Emerging Technology Fund or the Texas Enterprise Fund applications.

Recommendations Charge #2

- 1) Continue providing resources to state programs aimed at assisting small business growth and development around the state, such as, Small Business Development Centers.
- 2) Based on testimony, the Small Business Development Centers serve as regional small business commissions, therefore a statewide Small Business Commission would be unnecessary.

Recommendations Charge #3

- 1) Continue fully funding the Jobs and Education for Texas (JET) program, as it serves to provide a skilled workforce in high demand occupations by giving grants to develop or expand programs of nonprofit organizations that prepare low-income students for careers in high-demand occupations, and it provides scholarships to students who seek a certificate or an associate's degree in a high-demand occupation.
- 2) Continue reviewing the impact of the programs administered by the Texas Workforce Commission (TWC)

Recommendations Charge #4

- 1) Implement a system to track all incentives given to a company by an economic development corporation, a city, a county and/or the state. In order to gain a clear picture of all the incentives a company is receiving, a total summary of tax incentives is necessary. A summary of a company's tax incentives from each level of government will help ensure that one company is not over incentivized.

Interim Hearing #1 - April 2010

Background

Interim Charge #3: Review the impact of workforce development programs on economic development across the state. Focus on the impact of Texas Workforce Commission initiatives, the JET (Jobs and Education for Texas) program administered by the Comptroller's office, and federally funded stimulus programs. Make recommendations for legislation to improve and enhance workforce development in Texas.

The Workforce Investment Council (TWIC), created in 1993 with the purpose of promoting the development of a highly skilled and well-educated workforce for the State of Texas, develops strategic plans which are served by the Texas Workforce Commission (TWC). TWIC's new strategic plan, Advancing Texas, is to be in effect from 2010-2015. One of the main purposes of the Advancing Texas plan is to provide a seamless transition for students into post secondary institutions.

The Jobs and Education for Texans (JET) program was a program approved in 2009 with \$25 million. The Comptroller's office administers these funds through three programs: the Job Building Fund, the Launchpad Fund and the Career and Technical Scholarship Fund. The Funds each facilitate a special purpose, those being to, help finance equipment purchases for new career and technical education programs that support high-growth industries, to expand programs of nonprofit organizations that prepare low-income students for careers in high-demand occupations, and lastly, to give scholarships to students who seek a certificate or an associate's degree in a high-demand occupation.

Discussion and Testimony

On April 29, 2010, the Senate Committee on Economic Development conducted a public hearing on Interim Charge 3, relating to the impact of workforce development programs on economic development across the state.

Invited Testimony

Cheryl Fuller, director, and Lee Rector, deputy director, of the Texas Workforce Investment Council (TWIC) both testified. Fuller stated that TWIC is attached to the Office of the Governor and serves as the state's workforce investment board as required by federal law, with the charge of assisting the Governor and legislature with strategic planning and evaluation of workforce agencies and programs. Fuller also stated that the previous TWIC strategic plan showed that over 5.2 million individuals were served by the Texas Workforce Commission (TWC) workforce programs and over 29 million were served since 2004.

Rector discussed TWIC's new strategic plan, *Advancing Texas*, which has the long-term objectives to meet the needs of employers for a skilled workforce and to ensure that students have a seamless transition into post secondary institutions through college-level courses and dual credit transfers. In order to meet these objectives, a biennial report will be provided to colleges and universities in order to help these institutions identify gaps in their programs.

The Texas Comptroller of Public Accounts (comptroller) panel comprised of Martin Hubert, deputy comptroller; Kevin Dieters, director of Educational Opportunities and Investment Division; Lisa Elledge, stimulus program manager of the State Energy Conservation Office (SECO); and Lisa Fernandez, manager, next testified.

Hubert discussed the Jobs and Education for Texas (JET) program, and said that JET awards grants through three funds: The Launchpad Fund, which gives grants to develop or expand programs of nonprofit organizations that prepare low-income students for careers in high-demand occupations; The Job Building Fund, which provides grants to defray start-up costs for new career and technical programs at junior colleges and technical colleges; and lastly the Career and Technical Scholarship Fund, which provides scholarships for students in technical and career education programs. Hubert stated that the project application process is open to the entire state, but the next round of grants were targeted towards areas of the state that had not been served. Hubert also indicated that the comptroller has gotten reports from employers about the students helped by the JET program, and that the comptroller monitors student progress throughout the program.

Elledge discussed the four stimulus programs funded by the United States Department of Energy (DOE) and administered by SECO. One of those stimulus programs is the State Energy Program (SEP), which includes the Building Efficiency and Retrofit Program. Elledge stated that although the costs of electricity in the future cannot be determined, the goal of the Building Efficiency and Retrofit Program is to save businesses money through the energy savings. She also stated that the DOE requires that all contracts for the programs be made by June 25, 2010, and that all funds be spent by September of 2012.

The comptroller panel then discussed the problems related to the Texas Trade Up Alliance Program (rebate program), the state component of the Energy Efficient Appliance Rebate Program. Elledge and Hubert stated that it is uncertain whether Helgeson Enterprises, Inc., the contractor that was hired by the comptroller to administer applications for the rebate program, would be held accountable for their failure to meet demand. They also stated that the problems are still being investigated, but Helgeson is still under contract by SECO and still charged with processing applications. Hubert stated that precautions were taken to avoid the mistakes that Helgeson had in their previous failures in other states, but they are still looking for data to explain their current failure.

Larry Temple, executive director of TWC, discussed the role that TWC plays across the state, and estimated that between 2010 and 2012 25,000 jobs would be added in the state. He stated that services are rendered through local workforce boards and centers and the WorkInTexas website. In discussing the Skills Development Fund, Temple stated that the program prioritizes resources to developing high-demand and high-wage jobs, which are determined by the local workforce boards. Temple also stated that the unemployment tax rate had increased from .99 to 1.7 in order to replenish the unemployment trust fund, and that bonds are expected to be issued as well. He also stated that the state's refusal to accept \$500 million in federal stimulus dollars would have lessened the burden on citizens in the short-term. Temple expects a \$2.5 million bond issuance if federal interest-free borrowing is not extended.

Tyane Dietz, chair, Texas Association of Workforce Boards (TAWB) stated that they are composed of the 27 out of 28 workforce boards. She strongly stated that an employer driven workforce system should be viewed, funded and measured as an economic activity rather than a social service activity. She explained that economic development success should be judged by its measures that matter to the business community, such as the creation and growth of new employers and jobs, and that TAWB supports workforce training in middle schools. Dietz stated that she wanted collaboration between schools boards, community colleges, the Texas Education Agency and local workforce development boards when developing curriculum and educational policies.

Edwards Foster, director, Career and Technical Education, Mansfield Independent School District (MISD) discussed how Ben Barber Career Technical Academy (Ben Barber) fostered the goal of closing the gap between a student's graduation from high school and entry into the workforce.

Bill Landis, director of technology, Lubbock Independent School District (LISD), discussed their partnership with Byron Martin Advanced Technology School (ATC), and that it provides a certified workforce for the community, as well as reducing their dropout rate. Landis stated he would like to see more partnerships between school districts and technical colleges across the state.

Public Testimony

Paul Skeith, Austin Interfaith and Texas IAF Network, stated that the JET program should be continued and expanded because it breaks the cycle of poverty for families and that it provides economic development in communities. He also stated that the projects that receive JET funding have experienced an overall 208 percent increase in wages.

Charles Avery, partner, Capital IDEA discussed his involvement with Capital IDEA, stating that they provide educational and training opportunities to address workforce needs.

Amanda Oretgon, participant, Project Quest, testified that her personal experience as a single parent attending career classes with Project Quest, a job training program in San Antonio, created positive changes in her life.

Susan Kamas, executive director, Workforce Solutions of Central Texas, stated that H.B. 1863, 74th legislature, Regular Session, 1995, provided guidance and structure to workforce systems in the state and has become a national model for public accountability and fiscal integrity.

MINUTES

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, April 29, 2010
10:00 a.m.
Betty King Committee Room

Pursuant to a notice posted in accordance with Senate Rule 11.18, a public hearing of the Senate Committee on Economic Development was held on Thursday, April 29, 2010, in the Betty King Committee Room at Austin, Texas.

MEMBERS PRESENT:
Senator Chris Harris, Chair
Senator Kevin Eltife
Senator Kirk Watson
Senator Judith Zaffirini

MEMBERS ABSENT:
Senator Bob Deuell

The chair called the meeting to order at 10:02 a.m. There being a quorum present, the following business was transacted:

The Chair called the following persons to provide invited testimony on Charge 3, review the impact of workforce development programs on economic development across the state. Focus on the impact of Texas Workforce Commission initiatives, the JET (Jobs and Education for Texas) program administered by the Comptroller's office, and federally funded stimulus programs. Make recommendations for legislation to improve and enhance workforce development in Texas (see attached witness list).

Witnesses providing public testimony and registering on Charge 3 are shown on the attached list. The chair moved that the public testimony be closed; without objection, it was so ordered.

There being no further business, at 1:15 p.m. Senator Harris moved that the Committee stand recessed subject to the call of the chair. Without objection, it was so ordered.

Senator Chris Harris, Chair

Kristen Webb, Clerk

WITNESS LIST

Economic Development
April 29, 2010 - 10:00 AM

Charge 3: Workforce development programs

ON:

Avery III, Charles (Capital Idea), Round Rock, TX
Dietz, Tyane (also providing written testimony) (Texas Association of Workforce Boards), Lufkin, TX
Elledge, Lisa (also providing written testimony) (Texas Comptroller of Public Accounts), Austin, TX
Foster, Ph.D., Ed (Mansfield Independent School District), Mansfield, TX
Fuller, Cheryl (Texas Workforce Investment Council), Austin, TX
Hubert, Martin (also providing written testimony) (Texas Comptroller of Public Accounts), Austin, TX
Kamas, Susan (Workforce Solutions of Central Texas), Temple, TX
Landis, Bill (also providing written testimony) (Lubbock Independent School District), Lubbock, TX
Ortegon, Amanda (Project Quest / C.O.P.S. & Metro), San Antonio, TX
Rector, Lee (Texas Workforce Investment Council), Austin, TX
Riley, Steve (Texas Workforce Commission), Austin, TX
Skeith, Paul (Austin Interfaith and the Texas IAF Network), Austin, TX
Temple, Larry (also providing written testimony) (Texas Workforce Commission), Austin, TX

Registering, but not testifying:

On:

Jamison, Pat (Mansfield Economic Development Corporation), Mansfield, TX
McNair, Jerri (Mansfield Independent School District), Mansfield, TX
Painovich, Robin (Career & Technology Association of Texas), Austin, TX

Interim Hearing #2 - July 2010

Background

Interim Charge #1: Assess the effectiveness of major economic development programs in Texas. The review should include but not be limited to such programs as the Enterprise Fund, Emerging Technology Fund, Skills Development, and Enterprise Zones. Review major tax policy issues that encourage or hinder business development, including options for reinstating a margins tax research and development tax credit. Examine economic development programs in other states that have been successful and recommend changes to existing state programs, new programs, or changes in tax policy incentives that could increase job creation in Texas.

The Texas Enterprise Fund (TEF) was established to provide financial resources to help strengthen the state's economy. For a project to be funded by the TEF the Governor, the Lieutenant Governor and the Speaker must unanimously agree to support the use of funds for the project. Considered projects must maximize benefit to the state and realize a significant rate of return of the public dollars being used for economic development in Texas.

The Emerging Technology Fund (ETF) is designed to create jobs and grow the economy over the long-term by expediting the development and commercialization of new technologies and attracting and creating jobs in technology fields. The program will work through partnerships between the state and institutions of higher education and private industry.

The Skills Development Fund was created to assist Texas public community and technical colleges finance customized job training for their local businesses, and is administered by the Texas Workforce Commission. Grants are provided to help companies and labor unions form partnerships with local community colleges and technical schools to provide custom job training.

The Texas Enterprise Zone Program is an economic development tool for local communities to partner with the State of Texas to promote job creation and capital investment in economically distressed areas of the state. Designated projects are eligible to apply for state sales and use tax refunds on qualified expenditures.

The purpose of reinstating a tax credit on research and development would be to be used as an economic development tool to ideally stimulate research and development in industries of all sizes, and to keep Texas research and development companies competitive in the market.

Discussion and Testimony

On July 22, 2010, in Arlington, Texas, the Senate Committee on Economic Development conducted a public hearing on Interim Charge 1, relating to assessing the effectiveness of the state's major economic development programs, review of major tax policy issues that hinder or encourage business development, and examining successful economic development programs in other states.

Invited Testimony

Rob Elsenbaumer, vice president, Research-Federal Relations, The University of Texas at Arlington (UT-Arlington) that the university has been focused on many application areas that are important to society, including developing sources of energy. Elsenbaumer also discussed a current UT-Arlington research project, in which ignite coal is converted to petroleum fuel products, and stated that the technology could be used for an estimated 10,000 to 15,000 barrels a day at \$16 a barrel within the next 18 months if the engineering works properly. Elsenbaumer also stated that the Emerging Technology Fund, the Superior Talent Acquisition Program, the Texas Research Incentive Program, and programs that move university-based technology into the marketplace have been beneficial to economic development in Texas. He went on to recommend that programs like the Advanced Technology Program and the Technology Development and Transfer Program should be reconsidered even though they no longer exist.

Aaron Demerson, executive director, Economic Development and Tourism, Office of the Governor (OOG), testified that business development and tourism-related activities in the state continue to yield favorable results. He went on to say that the enterprise zone (EZ) program is an economic development tool that is used to encourage private investment in distressed areas and for the creation and retention of high quality jobs. In showing data, Demerson pointed out that there is a substantial amount of capital investment that will result in both the creation and retention of jobs in Texas. He also discussed the Texas Enterprise Fund (TEF) which is used primarily for attracting new businesses to Texas or assisting with the expansion of existing business. He asserted that TEF projects need flexibility in allocating assets, and that TEF projects must have strong local support as well as, a significant return on the state's investment. He said that as of April 30, 2010, \$392 million has been awarded through TEF and that has resulted in 53,000 direct jobs and a combined capital investment of more than \$14 billion.

Demerson went on to discuss claw back provisions, which take effect when a company does not meet job creation requirements or other contractual obligations. When asked about his recommendations, Demerson replied, that local development professionals might be the best people to give recommendations, since they are the main beneficiaries of TEF. Demerson also commented that an independent audit of TEF or an advisory committee would help assist the OG in transparency, but they also might slow the process for TEF projects. He went on to say that there is no time limit for the approval of TEF projects but the decision is usually made within four to six weeks. He stated that \$200 million is currently appropriated by the legislature to the TEF.

Jonathan Taylor, OG, discussed the Emerging Technology Fund (ETF) describing the different subchapters. He stated that Subchapter D (Incentives for Commercialized Activities), Chapter 490 (Funding for Emerging Technology), Government Code, is the most misunderstood statute relating to the ETF, saying that taxpayers invest in companies through this statute. Taylor said that Subchapter E (Research Award Matching), Chapter 490, Government Code, allows the state to draw from federal and private research sponsors and that Subchapter F (Acquisition of Research Authority), Chapter 490, Government Code, allows the state to recruit the best researchers to Texas. When asked to explain why the ETF ran out of money, Taylor responded that the OG took advantage of the best deals as they came along, and that the Federal Emergency Management Agency reimbursement funds to the ETF have been slow. In response to an inquiry about a \$50 million dollar ETF project in which funds were transferred from the TEF, Taylor said that the Legislative Budget Board had oversight of the funds transferred to the ETF. In concluding he stated that the ETF projects are good investments for the State of Texas.

Robert McClain, North Texas Regional Center for Innovation & Commercialization testified that they help create a dialogue with investors, entrepreneurs, and universities involved in ETF projects. He went on to say that without the ETF partnerships among local development agencies, communities and universities would be slow to happen, and stressed that the ETF has a catalytic impact on commercialization and economic development in the state.

Robert Wood, director, Local Government Assistance and Economic Development, Texas Comptroller of Public Accounts (comptroller), discussed provisions of the Tax Code relating to tax increment financing (TIF), tax abatements, and value limitations on independent school district property taxes. He stated that school districts can no longer participate in TIF zones or tax abatements, and that the city or county must create them. He said that the comptroller's role is to compile a biennial report for the legislature and to maintain a registry of the TIF zones and abatement agreements. Wood also discussed Chapter 313 of the Texas Economic Development Act (Chapter 313), Tax Code, which allows school districts to attract economic development by offering tax credit and an eight-year limitation on appraised property value for the maintenance and operation of the school district property tax. Businesses, in exchange for the credit, must agree to create a specific number of jobs and to build specific types of property. Wood also discussed major changes in Chapter 313 by the 81st legislature, including the amendment of wage target for qualifying jobs.

Richard Dayoub, Metro 8 Chamber of Commerce, testified that the 81st legislature made changes to Chapter 313 that will benefit many boarder communities, and the state as a whole. He specified that the amendment of wage requirements for jobs on certain projects and adding computer centers as eligible projects for school district tax incentives were both positive changes. He went on to say that even though the computer centers create few high-paying jobs, the capital investment for these projects is between \$400 million to \$500 million or greater, and that incentives for including sales and use tax exemptions for data center projects should be expanded. Dayoub also said that delays in approval for Chapter 313 agreements will cause Texas communities to miss valuable opportunities for large capital investment.

Bob O'Neal, director, Economic Development Department, City of Grand Prairie, testified that TIF zones are effective tools for economic development at the local level. He stated that they

have to offer tax incentives to attract businesses, and is concerned that these incentives have become an expectation, rather than an incentive.

Bill Hammond, president, Texas Association of Business, suggested that a franchise tax credit for research and development (R&D) be reinstated in order to improve economic development. He also stated that 30 percent of the Texas workforce currently has a postsecondary education diploma or certificate, and that Texas needs a more educated workforce to remain competitive. He suggested a change to the funding formula for universities and improvements to remedial courses would assist in increasing the percentage of educated workers.

Nick Lappos, chief technology officer, Bell Helicopter Textron (Bell), testified in favor of reinstating the R&D franchise tax credit for work done in Texas. He said that R&D is used to make products more competitive and can assist in job creation, as well as creates high paying jobs. He went on to say that 37 other states have some type of R&D tax credit, and that it would benefit businesses of all sizes.

Terry Clower, director, Center for Economic Development, University of North Texas, discussed economic development programs in other states. He stated that Texas is ranked fourth in the amount of budget allocations and resources that are available to state economic agencies, and said that Texas is in a position to be very aggressive in economic development actions. Clower recommended that the state keep programs like TEF flexible, coordinate state and local programs to better evaluate their performance, focus on entrepreneurship and innovation with tools such as a venture capital matching fund, reexamine a tax credit for R&D, and establish a tracking system for local economic development programs so that cities can better evaluate incentives being offered by competitors.

Public Testimony

Gary Slagel, mayor, City of Richardson, stated that TEF projects in Richardson have created 4,400 jobs and that ETF projects have resulted in nine companies relocating to Richardson.

Bill Allaway, Texas Taxpayers and Research Association, testified that provisions of Chapter 313, work well for economic development of the state. He said many projects would not be in Texas, but for Chapter 313, and that Chapter 313 provides a tax limitation rather than a tax elimination. He went on to say that tax credits for capital investments and R&D have proved to be effective.

MINUTES

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Thursday, July 22, 2010

10:00 a.m.

University of Texas at Arlington Maverick Activity Center

Pursuant to a notice posted in accordance with Senate Rule 11.18, a public hearing of the Senate Committee on Economic Development was held on Thursday, July 22, 2010, in the Arlington, TX, at the University of Texas at Arlington Maverick Activity Center.

MEMBERS PRESENT:

Senator Mike Jackson
Senator Kevin Eltife
Senator Kirk Watson

MEMBERS ABSENT:

Senator Brian Birdwell
Senator Judith Zaffirini

The chair called the meeting to order at 10:00 a.m. There being a quorum present, the following business was transacted:

The Chair called the following persons to provide invited testimony on Charge 1, assess the effectiveness of major economic development programs in Texas. The review should include but not be limited to such programs as the Enterprise Fund, Emerging Technology Fund, Skills Development, and Enterprise Zones. Review major tax policy issues that encourage or hinder business development, including options for reinstating a margins tax research and development tax credit. Examine economic development programs in other states that have been successful and recommend changes to existing state programs, new programs, or changes in tax policy incentives that could increase job creation in Texas. (See attached witness list)

Witnesses providing public testimony and registering on Charge 1 are shown on the attached list. The chair moved that the public testimony be closed; without objection, it was so ordered.

There being no further business, at 1:15 p.m. Senator Jackson moved that the Committee stand recessed subject to the call of the chair. Without objection, it was so ordered.

Senator Mike Jackson, Chair

Kristen Webb, Clerk

WITNESS LIST

Economic Development
July 22, 2010 - 10:00 AM

Charge 1: Economic Development Programs

ON:

Allaway, Bill (Texas Taxpayers and Research Association), Austin, TX
Clower, Terry (Center for Economic Development, University of North Texas), Valley View, TX
Dayoub, Richard (Metro 8 Chamber of Commerce), El Paso, TX
Demerson, Aaron (Office of the Governor), Austin, TX
Elsenbaumer, Ronald L. (University of Texas at Arlington), Arlington, TX
Hammond, Bill (Texas Association of Business), Austin, TX
Lappos, Nicholas (Bell Helicopter Textron), Southlake, TX
McClain, Robert (North Texas RCIC), Keller, TX
O'Neal, Bob (City of Grand Prairie), Grand Prairie, TX
Slagel, Gary (City of Richardson), Richardson, TX
Taylor, Jonathan (Office of the Governor), Austin, TX
Wood, Robert (Comptroller of Public Accounts), Austin, TX

Interim Hearing #3 - September 2010

Background

Interim Charge #2: Review the effectiveness of state programs aimed at assisting small business growth and development, including whether the development of a Small Business Commission could lead to a more efficient use of state resources. Include an assessment of all state policies aimed to assist small business and minority-owned business persons with procurement of state contracts.

The Historically Underutilized Business (HUB) Program provides HUB certification for minority and woman-owned businesses in the State of Texas. The benefits of HUB certification include that each state agency shall make a good faith effort to utilize HUBs in contracts for construction, services (including professional and consulting services) and commodities purchases.

The Institute for Economic Development based out of the University of Texas San Antonio, has twelve centers and programs to provide professional business advising, technical training, research, market analysis, and strategic planning for entrepreneurs, business owners and community leaders

The Texas Economic Development Council (TEDC) is an Austin-based, statewide, non-profit professional association dedicated to bringing new investment and jobs to Texas. The TEDC provides to members, access to economic development-related data and resources, as well as, access to training and continuing education opportunities; access to peer contact information via the membership directory; and access to job postings, etc.

Small Business Development Centers (SBDCs) are a program of the U.S. Small Business Association that provides management assistance to current and prospective small business owners. SBDCs offer assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations.

Discussion and Testimony

On September 15, 2010, in Arlington, Texas, the Senate Committee on Economic Development conducted a public hearing on Interim Charge 2, relating to reviewing the effectiveness of state programs aimed at assisting small business growth and development, including evaluating the possibility of developing a Small Business Commission, as well as, assessing state policies aimed to assist small businesses and minority-owned businesspersons.

Invited Testimony

Joe Morin, team leader, Business Development, Office of the Governor (OOG), discussed small business initiatives and activities that are currently provided by the Economic Development and Tourism Division of the Governor's Office. He stated that the OG is required by statute to employ a small business advocate in order to ensure that small businesses have access to information regarding available resources at the federal, state and local levels. He also discussed a series of forums, put together by the OG, Texas Workforce Commission and local stakeholders, which are designed to provide information to the small business community in rural and urban areas, the goal being 20 forums by January 2011. Morin stated the lack of readily available funding is a challenge facing small businesses, and that the OG provides information on traditional and nontraditional sources of funding that are available to small businesses. Morin explained that the traditional sources of funding are banks and credit unions, and that they are typically reluctant to lend to small start-up businesses, whereas, non traditional sources of funding, such as nonprofit organizations, make smaller loans available to small businesses.

In responding to criticism that the Texas Enterprise Fund and Emerging Technology Fund primarily benefit urban areas, Morin responded that with the job requirement reduction from 100 to 50 for the projects in rural areas makes the funds more accessible to rural areas. Morin stated that small business owners in rural areas can seek assistance from local banks and nontraditional lenders that offer microloans, and that the OG provides information about these resources to business owners.

Ron Pigott, director, Texas Procurement and Support Services Division, Texas Comptroller of Public Accounts (comptroller), testified that the Historically Underutilized Business (HUB) program facilitates state procurement for HUBs by requiring each state agency to make good faith efforts to utilize HUBs in agency contracts for construction, services, and commodity purchases. He also stated that through the HUB program the comptroller provides education and outreach to minority-owned businesses and women-owned businesses regarding statewide HUB program incentives and the advantages of being regarded HUB-certified. He said that there are statewide goals for HUB participation for seven different categories of projects.

Robert McKinley, associate vice president, Institute for Economic Development (IED), The University of Texas at San Antonio (UTSA), discussed the economic impact results of the services provided by IED. He stated that 32,647 clients were served by IED in 2009, which resulted in the creation of 3,000 jobs. He said that IED provides resources for small businesses to attain research and information that will help secure loans. McKinley also discussed small businesses in high growth clusters, identified by the OG as areas of high growth potential. He stated that IED and other institutions of higher education deliver knowledgeable workers for

high-skilled jobs of the future, and that IED provides programs and seminars for entrepreneurs and business owners on a variety of topics that improve business efficiency. McKinley stated that Small Business Development Centers are located in 44 counties and the business assisted by them experienced a 19.5 percent growth in sales and a 9.5 percent growth in employment compared to the average of 6.5 percent growth in sales and 1.4 percent growth in employment.

McKinley went on to recommend that emphasis be placed on rural business, international trade, and sustainable businesses. He stated that a small business is defined as 100 employees or less. He also said that it typically takes a person eight hours to complete an IED program, but can take up to 40 hours for some programs. McKinley lastly said that access to capital for small businesses is more restrictive now because of nationwide regulatory pressures.

Carlton Schwab, president, Texas Economic Development Council (TEDC), testified that no drastic changes should be made in how state and local entities deliver assistance to small businesses and entrepreneurs. He stated that Small Business Development Centers (SBDCs) provide counseling, training, and technical and financial assistance to small businesses. He stated that there are over 600 local economic development corporations in the state that focus on small businesses and entrepreneurship and that partner with SBDCs and the United States Small Business Association (SBA). He also discussed the importance of microlenders to help build communities through business lending. He also stated that it is easier for nonprofits that are located in the communities to offer small loans to help with start-up business costs that major banking institutions may not be able to offer.

Jan Triplett, chief executive officer, Business Success Center, discussed the differences between small business and microbusiness, stating that microbusiness employs fewer than 20 employees while small business employs fewer than 100 employees. She stated that there are a large number of small businesses who have no interest in growing larger, and she stated that if each microbusiness was to hire one person, approximately 300,000 jobs would be added in Texas. Triplett also stated that health care is an important issue for small business, and that Texas has set up a coalition to poll small businesses together to provide better health insurance rates. She recommended that more state contracts be awarded to small businesses and local vendors, and that the state should consider different ways to engage and communicate with the small business community in order to gain more feedback on any proposed legislation. She also recommended evaluating the impediments to starting and growing a business in Texas.

MINUTES

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

Wednesday, September 15, 2010

10:00 a.m.

Betty King Committee Room

Pursuant to a notice posted in accordance with Senate Rule 11.18, a public hearing of the Senate Committee on Economic Development was held on Wednesday, September 15, 2010, in the Betty King Committee Room at Austin, Texas.

MEMBERS PRESENT:

Senator Mike Jackson,
Chair
Senator Kirk Watson
Senator Judith Zaffirini

MEMBERS ABSENT:

Senator Kevin Eltife
Senator Brian Birdwell

The chair called the meeting to order at 10:05 a.m. There being a quorum present, the following business was transacted:

The chair called the following panel to provide invited testimony on Interim Charge #2: Review the effectiveness of state programs aimed at assisting small business growth and development, including whether the development of a Small Business Commission could lead to a more efficient use of state resources. Include an assessment of all state policies aimed to assist small business and minority-owned business persons with procurement of state contracts. (See attached witness list.)

The chair then opened the floor for public testimony. There being no persons registered to provide public testimony, public testimony was closed.

There being no further business, at 11:43 a.m. Senator Jackson moved that the Committee stand recessed subject to the call of the chair. Without objection, it was so ordered.

Senator Mike Jackson, Chair

Jenna Dailey, Clerk

WITNESS LIST

Economic Development
September 15, 2010 - 10:00 AM

Interim Charge #2: Small Business

ON:

McKinley, Robert (also providing written testimony) (UTSA - Institute for Economic Development), San Antonio, TX
Morin, Joe (also providing written testimony) (Office of the Governor), Austin, TX
Pigott, Ron (Comptroller of Public Accounts), Austin, TX
Schwab, Carlton (Texas Economic Development Council), Austin, TX
Triplett, Jan (Business Success Center), Austin, TX

Registering, but not testifying:

On:

Gibson, Paul (Texas Comptroller of Public Accounts), Austin, TX