



# INTERIM REPORT

*to the 85<sup>th</sup> Texas Legislature*



HOUSE COMMITTEE ON  
ECONOMIC & SMALL BUSINESS DEVELOPMENT



DECEMBER 2016

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**HOUSE COMMITTEE ON ECONOMIC & SMALL BUSINESS DEVELOPMENT  
TEXAS HOUSE OF REPRESENTATIVES  
INTERIM REPORT 2016**

**A REPORT TO THE  
HOUSE OF REPRESENTATIVES  
85TH TEXAS LEGISLATURE**

**ANGIE CHEN BUTTON  
CHAIRWOMAN**

**COMMITTEE CLERK  
VICTORIA SMITH**

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Committee On  
Economic & Small Business Development

December 5, 2016

Angie Chen Button  
Chairwoman

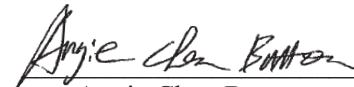
P.O. Box 2910  
Austin, Texas 78768-2910

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-fourth Legislature hereby submits its interim report including recommendations for consideration by the Eighty-fifth Legislature.

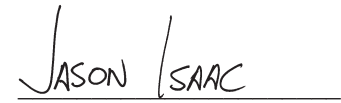
Respectfully submitted,

  
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## INTRODUCTION

At the beginning of the 84th 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, Eric Johnson, Vice Chair, Charles "Doc" Anderson, Wayne Faircloth, Jason Isaac, Will Metcalf, Eddie Rodriguez, Jason Villalba, and Hubert Vo.

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: Jason Isaac, Chair, Wayne Faircloth, Eric Johnson, Will Metcalf, 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 contributed to this report.

After three committee hearings, two joint hearings, one subcommittee hearing, and a trip to Garland, TX, the Committee on Economic & Small Business Development has adopted the following report.

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## **INTERIM CHARGES**

In November 2015, Speaker Joe Straus released the following interim charges for the Committee:

1. Study the impacts of the declining price of oil and the continuously depressed price of natural gas on the Texas economy and the fiscal implications for the Texas budget. Consider impacts on local communities most dependent on oil and gas activity, including impacts on supporting economies such as retail, manufacturing, housing industries, etc. Recommend strategies for sustained energy development and workforce growth during time of depressed energy prices. (Joint charge with the House Committee on Energy Resources)
2. Evaluate what local governments are doing to attract businesses to their communities and examine ways the state can leverage these practices and provide support. Include ways to improve local economic development programs to ensure a continued return on investment for taxpayers. In addition, study the authority, financial accountability, and types of statutorily allowed expenditures of economic development corporations. Provide analysis of 4A and 4B sales tax programs and determine if they are still meeting their intended purpose effectively.
3. Study opportunities and financial incentives for expansion and growth of small businesses in Texas. Examine if adequate resources and capital exist for small businesses. Include analysis of any regulatory or tax hurdles and provide recommendations to alleviate these burdens. Furthermore, review programs available to provide training and support to develop business management and finance skills. Consider financial incentives that would incentivize expansion of small businesses and growth for new small business.
4. Oversee implementation of HB 26 (84R). Review best practices for measuring success of economic development incentives. Consider general metrics or principles to aid the Legislature in determining viable and sustainable incentive programs that provide a "Return on Investment" for taxpayers.
5. Evaluate Texas' competitiveness with other states in recruiting and cultivating high-growth, high-tech industries, fostering economic development, and creating new jobs. Examine if current incentives and regulations assist or hinder the state's ability to compete with other states for economic growth and sustainability.
6. Examine if the state has an adequately diversified economic foundation and make recommendations on how to better achieve diversification. Look at ways to achieve balance between rural and urban economic development. Consider methods to improve workforce development initiatives and incentives that will provide re-employment after layoffs and release from incarceration as well as methods to improve employment rates for recent graduates.

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7. Evaluate how Texas can support shared economy growth in the state and include implications of such growth on existing businesses. Develop characteristics by which to classify "shared economy" business and determine how the state can ensure customer security and satisfaction as well as public health without enacting burdensome regulations.
  8. Examine partnerships between higher education institutions, public school districts, and workforce that promote postsecondary readiness. Provide coordination recommendations to ensure vocational, career, and technical education programs are more accessible. Determine the most effective ways to invest in these partnerships and programs to direct at-risk students to stable career paths. Examine current rules and laws limiting employers from providing meaningful internships, apprenticeships, and other opportunities. Consider new methods to finance workforce training programs and associated assets in high schools and postsecondary schools, including way to reduce or eliminate these costs and options to incentivize businesses to invest in training equipment for schools. (Joint Charge with House Committee on Public Education)
  9. Conduct legislative oversight and monitoring of the agencies and programs under the Committee's jurisdiction and the implementation of relevant legislation passed by the 84th Legislature. In conducting this oversight, the committee should:
    - a. consider any reforms to state agencies to make them more responsive to Texas taxpayers and citizens;
    - b. identify issues regarding the agency or its governance that may be appropriate to investigate, improve, remedy, or eliminate;
    - c. determine whether an agency is operating in a transparent and efficient manner; and
    - d. identify opportunities to streamline programs and services while maintain the mission of the agency and its programs.
    - e. monitor the impact of major economic development legislation passed by the 84th Legislature.
    - f. include updates regarding transfer of duties and services from health and human services to the Texas Workforce Commission, including implementation of SB 208 and SB 212. Coordinate with the Legislative Oversight Committee constituted by SB 208, when necessary.
    - g. evaluate the impact of incentive reform legislation, including the elimination of the Emerging Technology Fund and the transition of contracts to the Comptroller's office.

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## **COMMITTEE FINDINGS AND OVERALL RECOMMENDATIONS**

Texas remains a leader in economic development as a result of our favorable business climate which includes a low regulatory environment, favorable tax policy, and innovative economic incentive programs. Texas has managed to weather the decline in oil prices well compared to other "oil states" as a result of these policies. It is important that we continue looking forward to ensure our policies are competitive with the ever changing economy.

Throughout the interim hearings, a skilled workforce was identified as a key economic development tool. A skilled workforce is a major factor in a company's decision to locate to a region. The Committee encourages more collaboration between the state, institutions of education, and private industry to meet the needs of potential employers.

As a result of technology, business models are constantly evolving. It is important that the state do the same in developing policies and guidelines that allow for the growth of these markets while protecting the consumer and not encroaching too far on local control. While licensing and regulation are important in order to protect Texas consumers, they can also prove to be burdensome especially to small and medium-sized businesses. The Legislature should keep these small and medium-sized employers in mind when examining the potential consequences of any new policy adopted.

While the state does offer resources to rural and small businesses, and the Office of the Governor has taken important steps toward helping these businesses grow and flourish in Texas, this area has been identified as one that can use improvement. The Committee recommends increased outreach and use of the tools available to small businesses and possible increased coordination with organizations that can help disseminate information on the available resources. Additionally, the Committee recommends examining available economic incentive programs for their potential to better meet the needs of rural and small businesses.



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## **Charge 1. Economic effects of declining oil prices**

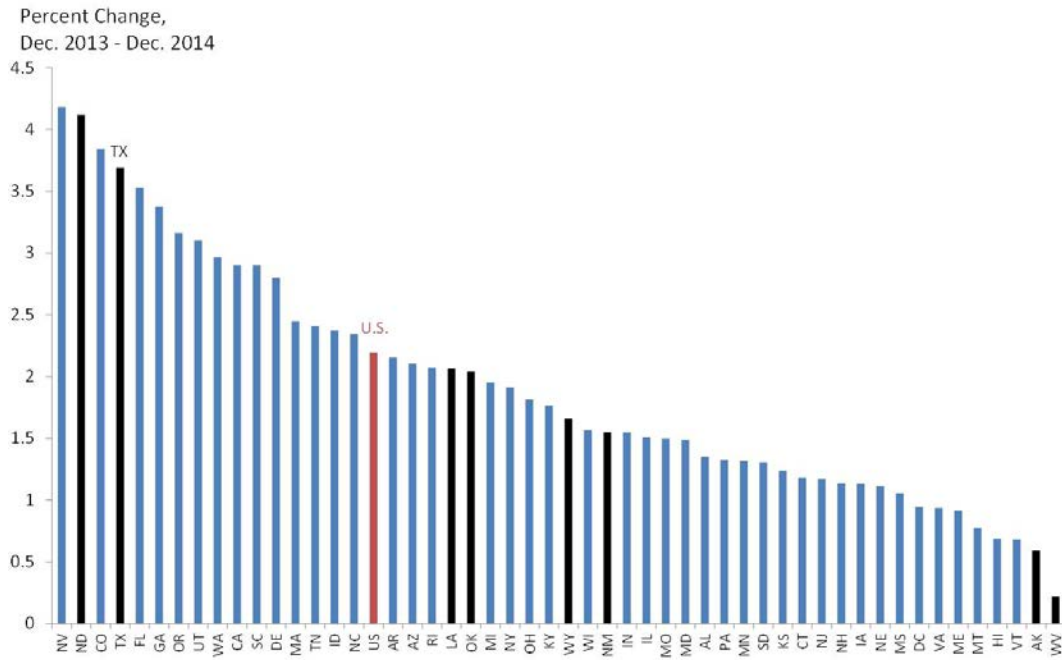
*Study the impacts of the declining price of oil and the continuously depressed price of natural gas on the Texas economy and the fiscal implications for the Texas budget. Consider impacts on local communities most dependent on oil and gas activity, including impacts on supporting economies such as retail, manufacturing, housing industries, etc. Recommend strategies for sustained energy development and workforce growth during time of depressed energy prices. (Joint charge with the House Committee on Energy Resources)*

### **Impacts on the Texas economy**

It is no secret that Texas' economy relies on its oil and gas resources. The oil and gas industry in 2014 contributed to about 40% of Texas's gross state product.<sup>1</sup> The Texas economy, in comparison to other energy-producing states and the larger oil bust of the 1980's, has fared the recent decline in oil and gas prices quite well. Keith Phillips of the Federal Reserve Bank of Dallas credits the diversification of the state's economy, noting that in 2015 Texas continued to grow despite the significant decline in the energy sector. Job growth was obviously weaker but still positive. Some industries that managed to offset the job losses in energy included healthcare, leisure and hospitality, and construction which all grew in 2015. Manufacturing, an industry generally supported by the energy sector, on the other hand, saw a decline in jobs.

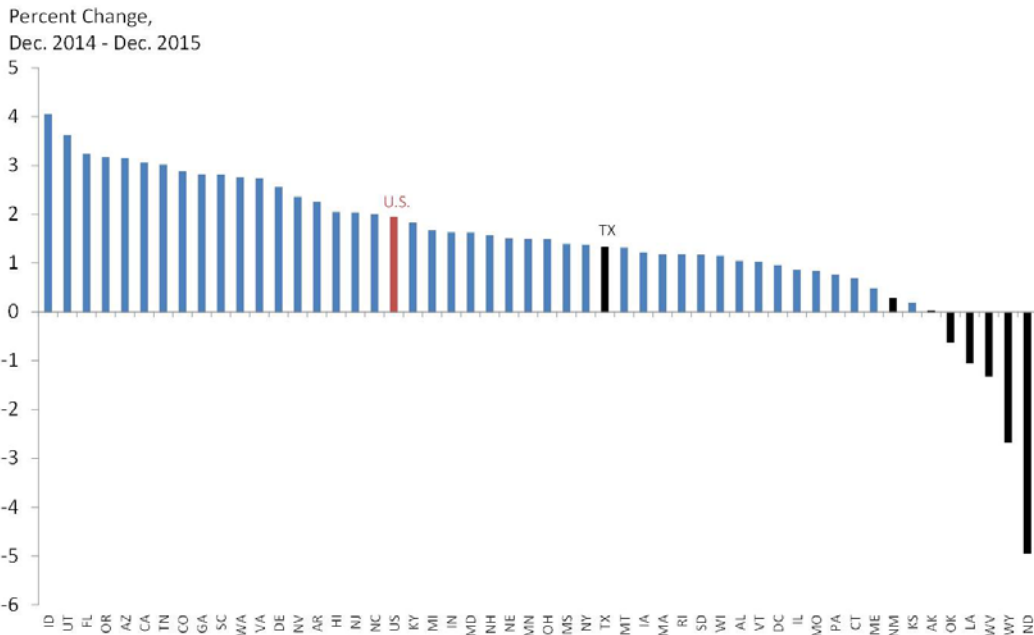
Obviously, the impact of job losses in the oil and gas sector are not spread evenly across the state with heavy oil-producing regions like Odessa, Midland, and Longview seeing the most significant job losses. Larger metropolitan areas such as Austin and Dallas and their more diverse local economies were able to offset losses elsewhere. Houston is the largest metro area significantly affected by the oil and gas downturn and its job market continued to grow just at a much slower pace.

## Job Growth by State in 2014



NOTE: Black bars represent major energy-producing states.  
SOURCE: Bureau of Labor Statistics

## Job Growth by State in 2015



NOTE: Black bars represent large energy-producing states.  
SOURCE: Bureau of Labor Statistics

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### **Fiscal implications for the Texas budget**

Severance tax collections on oil and gas in Texas remain a very volatile source of revenue. While the Comptroller of Public Account's office, in their Certification Revenue Estimate (CRE), does expect a decline in severance tax collections due to lower oil and gas prices and production, they suggest only a "modest impact" on available revenue for the purposes of the state budget. This is because, since 1987, only a portion of the severance tax collections go toward revenue certified for general purpose spending while any over a certain threshold are transferred to the Economic Stabilization Fund, commonly referred to as the Rainy Day Fund, and more recently, the State Highway Fund.<sup>3</sup>

### **Recommendations**

Continue examining ways to diversify our economy in order to weather fluctuations in any one industry. Maintain and potentially expand programs that offer job retraining. Maintain business friendly environment in Texas including favorable regulatory environment, a low tax burden, and current economic development programs in order to continue to bring jobs to Texas.

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## **Charge 2. Local economic development programs**

*Evaluate what local governments are doing to attract businesses to their communities and examine ways the state can leverage these practices and provide support. Include ways to improve local economic development programs to ensure a continued return on investment for taxpayers. In addition, study the authority, financial accountability, and types of statutorily allowed expenditures of economic development corporations. Provide analysis of 4A and 4B sales tax programs and determine if they are still meeting their intended purpose effectively.*

### **Local tools and programs**

The Texas Economic Development Act is found in Chapter 313 of the Tax Code and is commonly referred to as Chapter 313. It allows a school district to offer a temporary limitation and tax credit for school property taxes on the property value of new investment in the state. The Act was passed in 2001 in response to Texas losing a number of major new industrial projects to other states due to high property taxes. In exchange for the limitation and tax credit, the property owner must create a specific number of jobs and build or install real property of a certain value. In 2015, the State Auditor's Office (SAO) was directed to audit at least three Chapter 313 agreements per year. The report concluded that the Act has encouraged capital investment and job creation. The report also concluded that there was no verification by the school districts of amount of capital investment or number of jobs actually created, although statutorily not required. There is also no requirement to disclose conflicts of interest in these agreements between businesses and school districts. The report also revealed school districts mistakenly paying tax credits directly to businesses instead of credit toward future property taxes as required by code.<sup>4</sup>

The economic development sales tax was created to give Texas communities the resources to support economic development projects. At a recent forum in Austin of global site selectors, the state's economic development sales tax was cited as one of the best tools Texas has to offer. There are two types of economic development corporations (EDCs), Type A and Type B. These differ in the type of economic development projects they are allowed to use the sales tax revenues towards. Type B can fund all projects Type A is allowed, but also includes projects such as water supply facilities, parks, athletic and entertainment facilities, and affordable housing. Many bills have been introduced that seek to allow certain EDCs to fund general infrastructure projects. Many EDCs have used their funds, within current statute, to fund certain infrastructure projects as long as they could demonstrate that the funds went directly to job creation or retention projects.<sup>5</sup>

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## **Local perspective**

The Committee heard from a handful of city chambers and local economic development corporations (EDCs) from House District 112. Most of these cities are suburbs or bedroom communities in the greater Dallas metropolitan area and face unique challenges when it comes to economic development. Being largely residential, the cities mentioned their focus on commercial development in order to diversify their tax base. They use tools such as partnerships with local chambers of commerce, Chapter 380 agreements, Tax Increment Reinvestment Zones, and Municipal Management Districts to name a few. Many of these cities are Dallas Area Rapid Transit (DART) member cities and contribute 1% of their local sales tax to the regional transportation system. This doesn't allow these cities the ability to be a Type A or Type B corporation due to the cap on the local sales tax. Whereas, neighboring cities that are not DART member cities and are Type A/Type B corporations have an advantage in attracting economic development projects.

## **Recommendations**

During the 84th legislature, HB 26 passed creating the Economic Incentive Oversight (EIO) Board. This Board was tasked with examining our state's economic incentive programs and to recommend further study or audit if deemed necessary. The Committee recommends tasking the EIO Board with examining Chapter 313 agreements and with making recommendations on how the program can be improved without hindering the role these agreements play in the overall landscape of economic incentives in Texas. While a valuable economic development tool, overall accountability and transparency of agreements could be strengthened in the following areas as recommended in the November 2014 Audit Report No. 15-009 and the August 2015 Audit Report No. 15-042 conducted by the State Auditor's Office:

- Require an independent verification of the information that businesses with agreements submit to school districts.
- Require school district board members, employees, and consultants to disclose on an annual basis any business, professional, and personal relationships that could create potential conflicts of interest with agreements.

Since originally authorized, Type A and Type B agreements have seen Texas go through great growth. Many cities that originally adopted these programs have grown from small "rural" communities to large powerhouses in the economic development arena. The Committee recommends a closer look at Type A and Type B agreements to ensure that all Texas communities that choose to use this tool, are able to do so in the most effective manner possible. Additionally, the committee recommends Type A and Type B agreements be examined by the EIO Board to better allow the Board to take a comprehensive look at economic development in Texas.

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### **Charge 3. Small business**

*Study opportunities and financial incentives for expansion and growth of small businesses in Texas. Examine if adequate resources and capital exist for small businesses. Include analysis of any regulatory or tax hurdles and provide recommendations to alleviate these burdens. Furthermore, review programs available to provide training and support to develop business management and finance skills. Consider financial incentives that would incentivize expansion of small business and growth for small business.*

#### **Office of the Governor small business advocacy**

The Office of the Governor's (OOG) Economic Development and Tourism Office offers a variety of resources available to small business. Staff supports small business owners by providing direct technical assistance and assisting with permitting and other regulatory requirements. The OOG offers several forums or workshops directed at small businesses throughout the year and all around the state. In partnership with the Texas Workforce Commission, the Governor's Small Business Forums provides resources to small business owners regarding workforce and skills development programs, management and marketing training, contracting with government agencies, and export and networking opportunities.

The OOG also offers funding programs for small businesses. The Product Development and Small Business Incubator (PDSBI) fund provide loans directly to small businesses. These loans are specifically structured with the needs of start up and small businesses in mind. The Texas Leverage Fund provides loans to local economic development corporations (EDC) as a cost effective alternative to bonds. These loans can then be used for infrastructure or given to local small businesses.<sup>6</sup>

#### **Small business perspective**

Texas has over 2.4 million small businesses operating in the state. According to the National Federation of Independent Businesses (NFIB), "Government Regulations and Red Tape" was the number two problem for small business owners in February 2016, per their monthly Small Business Economic Trends survey. Annie Spilman with NFIB-Texas cited that the majority of these regulatory burdens occur at the local level, as opposed to the state or federal level.<sup>7</sup> Patrick Hitchins, CEO and founder of FitRankings, an Austin-based tech company, identified access to capital and access to talent as the two leading problems small businesses, especially tech startups, face.<sup>8</sup>

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## **Recommendations**

Allow for a supplemental award out of the Texas Enterprise Fund for recipients who can demonstrate an investment in Texas businesses. Continue programs such as Product Development and Small Business Incubator (PDSBI) fund and Small Business Forums. While the OOG has opportunities available to small businesses, many business owners do not utilize these resources. We recommend the OOG work to disperse information on available resources to small businesses. The state should also explore ways to increase access to capital and enhance the venture capital climate for small businesses in Texas.

Regulation has a large impact on small business owners and their ability to function and plan for future growth. The Legislature should approach any new regulations or licensing with caution and examine ways to remove some of the regulatory burden on small businesses.

Finding skilled workers remains a challenge to small businesses. Many jobs are available however skilled workers can be difficult to find in some areas. By offering students additional workforce training options at all levels of education, graduates can immediately enter the workforce.

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## **Charge 4. Implementation of HB 26**

*Oversee the implementation of HB 26 (84R). Review best practices for measuring success of economic development incentives. Consider general metrics or principles to aid the Legislature in determining viable and sustainable incentive programs that provide a "Return on Investment" for taxpayers.*

### **Measuring the success of incentives**

There has been a trend over the past few years of state governments beginning to regularly evaluate their major economic or tax incentive programs. Texas joined these states in 2015 with the passage of House Bill (HB) 26 (84R). The Pew Charitable Trusts studies incentive programs of all the states and recommended a series of questions to determine if these programs are working. These questions or guiding principles include: Is the program effectively targeted to achieve its intended goal? To what extent did the incentive change business behavior? How does the incentive compare to alternative policies for achieving the same goals? And lastly, what are the net results for the state economy? These metrics do not only seek to determine if these programs are accomplishing their intended results but are these programs the most efficient way to achieve said result.<sup>9</sup>

### **HB 26**

HB 26 was signed into law by the Governor and went into effect on September 1, 2015. The Office of the Governor (OOG) was able to quickly implement the new, shortened timeframe to allow for a speedier approval process for awards from the Texas Enterprise Fund. The transfer of the formerly named, Major Events Trust Fund (METF) now known as the Major Events Reimbursement Program (MERP), from the Comptroller's office to the OOG took place September 1, 2015. A significant change to the program came in response to the State Auditor's report regarding the then METF, the OOG modified how the post-event economic impact is calculated. HB 26 created the Governor's University Research Initiative (GURI). The OOG adopted rules for administration after seeking input and comment from interested parties. The first grant awards from GURI were announced in July 2016. These consisted of ten awards to three universities.<sup>10</sup> In order to increase transparency and accountability, HB 26 also created the Economic Incentives Oversight Board to review the state's major incentives programs. Board members are appointed by the Governor, Lieutenant Governor, Speaker of the House, and Comptroller. Currently, appointments have been made by the Governor and Comptroller.

HB 26 called for the elimination of the Emerging Technology Fund (ETF) and directed the management of winding down the existing contracts and awards to the Texas Treasury Safekeeping Trust Company (TTSTC) located within the Comptroller's office. However, some grants, primarily educational grants to universities, remain under the OOG's management. HB 26 required the TTSTC to wind down the investments in a manner that, to the extent feasible, maximizes the return on the state's investment. The TTSTC was handed over files on 128 portfolio companies from the former ETF. The TTSTC reached out to all portfolio companies and have held discussions with 93 companies. Of those 128 total companies, 98 companies are still operating and in various stages of raising capital or funding. The TTSTC has identified



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companies likely to qualify for follow-on investment, assumed board positions, begun exercising board observer rights where possible, and is using its resources to identify opportunities for sources of potential funding to help these companies execute business plans, and to better position themselves for realizations or exits.<sup>11</sup>

### **Recommendations**

Currently GURI can only be used to recruit "distinguished researchers" which is defined as a researcher who is:

- A Nobel Laureate or the recipient of an equivalent honor; or
- A member of a national honorific society, such as the National Academy of Sciences, the National Academy of Engineering, the National Academy of Medicine or an equivalent honorific organization.

The Committee recommends expanding the definition to include rising stars who, although have not yet reached the specific designations in the current definition of "distinguished researchers," are well on their way and can bring their expertise and future accomplishments to Texas.

HB 26 created the Economic Incentive Oversight Board that was tasked with reviewing the effectiveness and efficiency of state incentive programs and funds administered by the offices of the Governor, the Comptroller, and the Department of Agriculture. Remaining vacancies on the Board should be filled. Additionally, Chapter 313 agreements and Type A and B agreements should be evaluated by the Board because of their large, statewide impact on economic development in Texas.

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## Charge 5. Evaluate Texas' high-growth, high-tech industries

*Evaluate Texas' competitiveness with other states in recruiting and cultivating high-growth, high-tech industries, fostering economic development, and creating new jobs. Examine if current incentives and regulations assist or hinder the state's ability to compete with other states for economic growth and sustainability.*

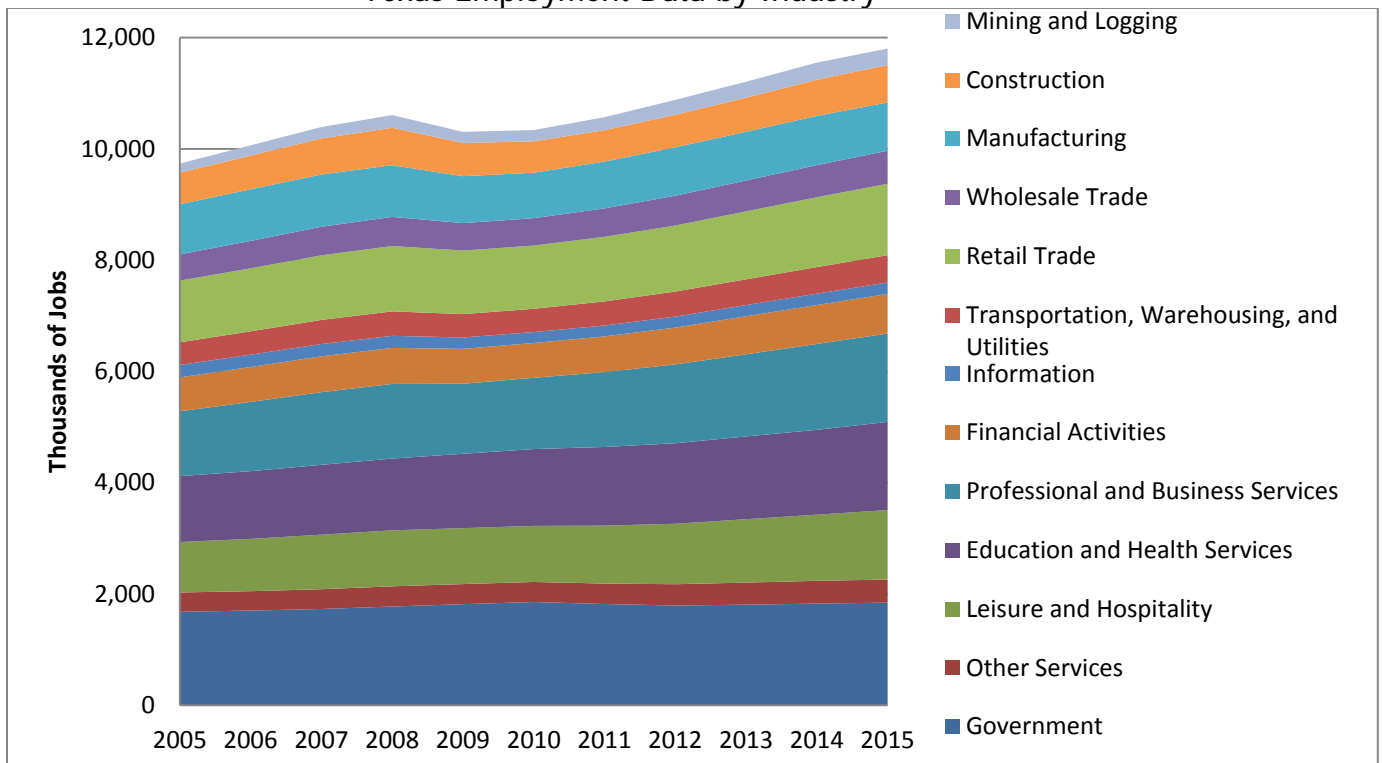
### Texas' high-growth industries

High-growth businesses on average account for 2-7% of all companies in a given year but account for nearly all net jobs and GDP growth.<sup>12</sup> Several economic indicators can be used to determine "high-growth" industries. Using employment data or simply how many jobs an industry has created, Dr. Jojo Estrada of the Comptroller's office identified five sectors that have shown to be high-growth when compared to their national counterparts. These sectors are:

- Mining and Logging (even despite the recent job losses due to low oil prices);
- Leisure and Hospitality;
- Professional and Business Services;
- Education and Health Services; and,
- Wholesale Trade.<sup>13</sup>

Looking at growth rate as the economic indicator of high-growth, as Keith Phillips of the Federal Reserve Bank of Dallas did, he was able to identify similar industries as high-growth most notably the Leisure and Hospitality and Education and Healthcare industries.<sup>14</sup>

Texas Employment Data by Industry<sup>15</sup>



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## **Technology industry in Texas**

Texas has a robust and growing technology industry. In 2015, Texas ranked third in tech employment growth behind California and New York. In Texas, the tech industry employs approximately 6% of private sector workers and the average wage is almost double the private sector average. While good, high-paying tech jobs are plentiful in Texas, a gap exists between available jobs and qualified candidates for those jobs. One of the biggest concerns heard from tech industry representatives is the need for STEM-educated, job-ready graduates. Texas' 60x30 plan to have 60% of young adults with a post-secondary degree or certificate by 2030 is a program aimed at addressing this skills gap. There are state STEM-oriented programs such as educational grants for STEM academies and U-Teach for recruiting STEM teachers, but still the lack of qualified graduates exists. The Governor's University Research Initiative (GURI) is a useful tool for attracting top talent to state universities; however tech industry representatives note the need for expanding or including industry participation or commercialization in the recruitment of GURI candidates.<sup>16,17</sup>

Texas' formula of low costs, relatively low taxes, moderate regulatory burden, and tort restraint make it appealing to all industries. High-tech companies tend to thrive in "innovation ecosystems," which refers to the combination of strong research universities, large pools of venture capital, experienced entrepreneurs and entrepreneurial resources, and established technology companies. This interplay between talent, technology, and capital is clearly seen in Silicon Valley and Boston. Austin serves as Texas' best innovation ecosystem for high-tech companies and is rapidly growing but there are still needs, such as available capital and tech talent.<sup>18</sup>

## **Recommendation**

The Research and Development (R&D) tax credit has been beneficial and should be continued. The state is still lacking in bridging the gap between innovation and commercialization and should explore ways to increase access to capital and enhance the venture capital climate in Texas.

The Governor's University Research Initiative (GURI) should be available for universities to use to help recruit "rising stars." Additionally, as the education and healthcare industry have been identified as high-growth, the Legislature should consider methods to adequately fund all institutions engaging in these areas.

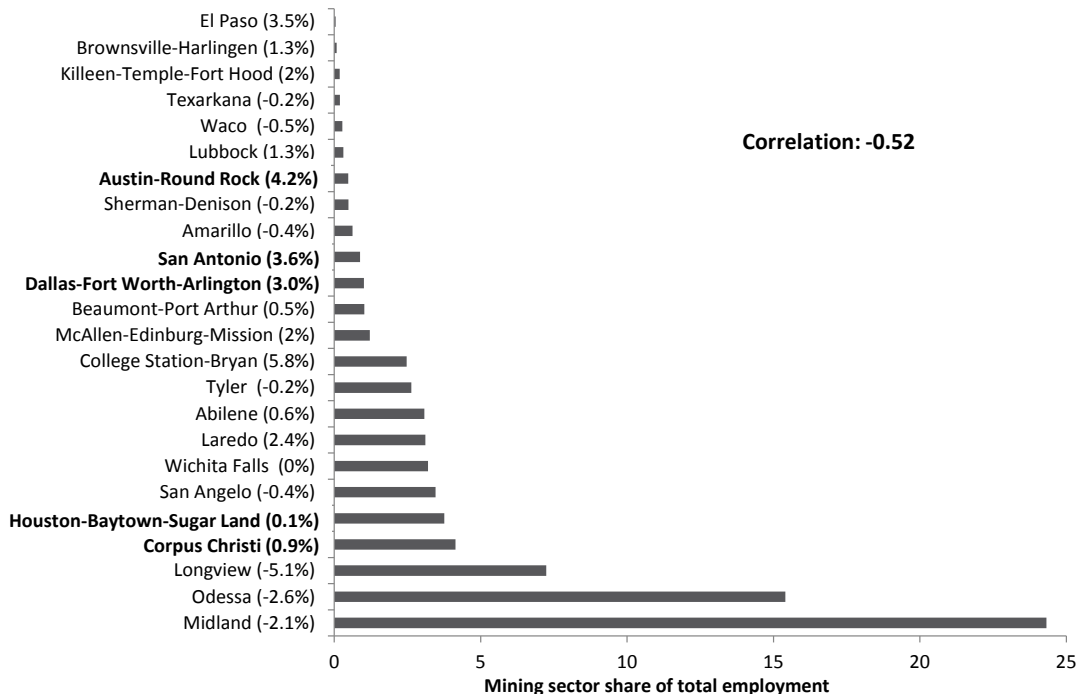
## Charge 6. Diversification of state economy

*Examine if the state has an adequately diversified economic foundation and make recommendations on how to better achieve diversification. Look at ways to achieve balance between rural and urban economic development. Consider methods to improve workforce development initiatives and incentives that will provide re-employment after lay-offs and release from incarceration as well as methods to improve employment rates for recent graduates.*

### Economic diversification

Texas' economy is more diversified than in the 1980's during the last major "energy crash." This is evidenced by only smaller cities with heavy dependence on the energy sector, such as Midland-Odessa, suffering the worst in job losses, while all major metropolitan areas such as Austin, Dallas and even Houston, which is undergoing a major expansion in petrochemicals, were able to maintain sustained job growth.<sup>19</sup> When looking at the state's economy, there is a divide between urban and rural economies. Rural economies in the state tend to rely mostly on energy and agriculture. Like we have heard from witnesses all interim, these agricultural small businesses often have trouble accessing capital. The Department of Agriculture offers several economic development programs that provide loans or grants to these rural small businesses as well as programs aimed at expanding or improving public infrastructure in rural areas.<sup>20</sup>

Metro Areas' Job Growth Rate by Energy/Mining Sector Employment<sup>21</sup>



Note: Data in parentheses are annualized job growth, Dec. 2014 - Nov. 2015. Mining share data as of 2014.  
 SOURCES: Texas Workforce Commission, Bureau of Labor Statistics, Federal Reserve Bank of Dallas.

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## **Employment**

Employment after incarceration is a problem many face. In Texas, 70,000 are released from prison every year. Studies have shown that employment after being released significantly reduces recidivism. Employment of those previously incarcerated improves the economy and public safety. There are federal incentive programs in place for employers and some prisons here in Texas offer vocational training programs, but only to those that can afford it. For those out of prison looking for a job, barriers remain.<sup>22</sup>

The Texas Workforce Commission's (TWC) Rapid Response services target those affected by layoff. When TWC is made aware of layoffs, they work with employers to try to avert those layoffs by possibly offering upgraded training through the Skills Development Fund. When layoffs cannot be avoided, Rapid Response services include on-site orientation for those laid off, assisting with unemployment benefits, and job searching. TWC also administers the Trade Adjustment Assistance program that provides support, including relocation allowances, to those laid off by companies moving jobs overseas. TWC also locally identifies "second chance" employers and works to put these employers together with previously incarcerated job seekers. Texas Consumer Resource for Education and Workforce Statistics (CREWS) is a partnership between TWC and the Higher Education Coordinating Board that provides information to students to make informed college decisions. Through CREWS, student can learn schools' and their programs' employment rates and average wages or salaries upon graduation.<sup>23</sup>

## **Recommendations**

Continue using all of the tools we currently have to bring jobs to Texas. Regularly examine job readiness at all levels to ensure we are meeting the ever changing demands of the job market. Also, we recommend proactively marketing workforce programs and resources available to our state's veterans.

The Committee recommends using the Enterprise Fund to reward large companies doing business with Texas based companies to potentially provide additional support for smaller businesses and those located in rural areas.

The Committee also recommends investigating ways to make existing "second chance" employer incentives more robust and examine the guidance given to employers on hiring formerly incarcerated individuals, particularly those employers who benefit from tax credits and workforce development boards.

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## **Charge 7. The "sharing economy"**

*Evaluate how Texas can support the shared economy growth in the state and include implications of such growth on existing businesses. Develop characteristics by which to classify "shared economy" businesses and determine how the state can ensure customer security and satisfaction as well as public health without enacting burdensome regulations.*

### **The rise of the "sharing economy"**

The sharing economy is the peer-to-peer based platforms that allow individuals to collaboratively make use of under-utilized goods and services via fee-based sharing. It goes by many names: the app or gig economy, the peer-to-peer market, collaborative consumption. This model is not new but has been revolutionized by the growth of data analytics, location-based technology, social media, and widespread use of smartphones. It allows consumers to efficiently connect with others who have extra capacity of goods, services, or skills. Consumers have embraced these services because often they offer lower prices, higher quality of service, and increased options. Popular sharing economy businesses include ridesharing companies like Uber and Lyft and short-term rental marketplaces like AirBnB and HomeAway. Ebay is one of the earliest examples.

### **Impact on traditional, existing business**

According to Texas Taxi Inc., a Houston based taxicab company that operates in three of the state's largest cities, business is down as much as 50% in some Houston areas since the rise of Uber and other transportation network companies (TNCs). In Dallas, there are 300 less taxis on the roads. Texas Taxi blames the higher costs of doing business. It takes an estimated \$950 per month per driver to operate traditional taxicabs. Yellow Cab does have an app, Hail-A-Cab. If Yellow Cab were to forego all other forms of dispatch and use only the app, cost per driver per month would plummet to only \$1.11. However, Texas Taxi claims this is prevented by city regulations governing their operations. Some cities have adopted modern TNC rules covering safety measures like background checks and transparency in pricing.<sup>24,25</sup>

The short term rental (STR) marketplaces are another hotly debated topic in the sharing economy. Austin is home to one of the largest, HomeAway. HomeAway argues that STRs cater to an entirely different clientele than traditional hotels. They often serve larger groups and travelers that stay for longer periods of time than those who chose hotels. STRs also appeal to those traveling to small towns or rural areas where there may not be any hotels.<sup>26</sup> The Texas Hotel and Lodging Association (THLA) says that small bed & breakfasts often face the most competition from STRs.<sup>27</sup> Some STRs have made another enemy with local home and property owners. David King with the Austin Neighborhoods Council testified that STRs have some unintended negative economic consequences. These include decreased property values of homes located next to STRs and high prices of STRs that drive long term rental and home prices up and families further to the suburbs losing the city those tax dollars.<sup>28</sup>

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## **Regulations**

In general, the traditional, existing businesses affected by the rise of these sharing economy businesses argue that these new competitors should be subject to the exact same regulations they are. This regulatory uncertainty is a very significant barrier to future growth of sharing economy businesses. TechNet, a national network of technology companies that includes several sharing economy businesses in its membership, believes that the best way to address the regulatory challenges these businesses bring, is with policies that are neither punitive nor arbitrary and not designed to shut down new business models or industries. They warn against applying some decades-old regulations to new and emerging technologies. The purpose of regulation should be to ensure consumer safety, however Tech Net points out that robust consumer protections are already hardwired into several of these platforms. Features like real-time GPS tracking and peer-to-peer review systems ensure transparency and accountability.<sup>29</sup>

## **Recommendations**

The sharing economy is here to stay and will continue to grow and change. Sharing economy businesses and jobs will go to states with policies that foster innovation rather than states that are not thoughtful in their approach and enact regulations that stifle competition.

The Committee recommends developing state-wide policies to provide a stable environment for these emerging industries to flourish while providing adequate consumer protections.

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## **Charge 8. Workforce partnerships**

*Examine partnerships between higher education institutions, public school districts, and workforce that promote postsecondary readiness. Provide coordination recommendations to ensure vocational, career, and technical education programs are more accessible. Determine the most effective ways to invest in these partnerships and programs to direct at-risk students to stable career paths. Examine current rules and laws limiting employers from providing meaningful internships, apprenticeships, and other opportunities. Consider new methods to finance workforce training programs and associated assets in high schools and postsecondary schools, including ways to reduce or eliminate these costs and options to incentivize businesses to invest in training equipment for schools. (Joint Charge with House Committee on Public Education)*

### **Successful partnerships**

With the passage of HB 5 (83R) in 2013 and the greater emphasis on Career and Technical Education (CTE), there have been an increase in the number of partnerships with public schools, colleges and universities, and businesses aimed at workforce development. SA Works in San Antonio is a successful example of these partnerships. SA Works is an employer-led collaborative that received its initial funding from HEB, one of the largest private employers in the state. Employer involvement is important to address and identify the skills and workforce needs from local industry. Another, Lubbock ISD created the Advanced Technology Center as a partnership with the local community college and the City of Lubbock.

Some barriers that were highlighted by witnesses included Child Labor Laws and liability issues for young students, sufficient training for counselors on available opportunities, eligibility requirements for high school students for some programs, and CTE certification of teachers from TEA/ISDs differing from higher education institutions.

### **HB 3062**

The Texas Workforce Commission's (TWC) Jobs and Education for Texans (JET) program defrays the startup costs, such as equipment purchases, associated with the development of career and technical education programs to public community colleges. HB 3062 (84R) transferred the JET program from the Comptroller's office to the TWC. This included 19 contracts including 3 still active. HB 3062 also expanded the program to independent school districts (ISD). The TWC accepted applications and has announced grant awardees for 2016 that included 15 ISD recipients.<sup>30</sup>



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## **Recommendations**

It is important that we are educating our students to enter the workforce upon the completion of their education. Whether that completion is from a high school, technical school, or a four-year university, students should be able to obtain a job when they graduate. When developing programs toward this goal, it is imperative that we allow for flexibility and local control so that educators can adapt to the changing needs of their local economy.

Texas must work to bridge the "tech skills gap." Infrastructure is an important component in achieving this goal. By providing sufficient infrastructure and network connectivity with the necessary speed, capacity, and reliability to support technology in the classroom, we can take an important step toward bridging the gap. Additionally, we should take steps to increase staff expertise at all levels in the realm of digital learning initiatives.

The Legislature should consider ways to foster relationships with Texas business and institutions of public education. Currently, in schools' accountability ratings (A-F), one of the domains they are graded on is Community & Student Engagement. This area should be explored for the potential to encourage schools to develop partnerships with local businesses. Additionally, updating the state's career readiness standards in communication with business could prove valuable.

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## Charge 9. Agency oversight

*Conduct legislative oversight and monitoring of the agencies and programs under the Committee's jurisdiction and the implementation of relevant legislation passed by the 84th Legislature. In conducting this oversight, the committee should:*

- a. consider any reforms to state agencies to make them more responsive to Texas taxpayers and citizens;*
- b. identify issues regarding the agency or its governance that may be appropriate to investigate, improve, remedy, or eliminate;*
- c. determine whether an agency is operating in a transparent and efficient manner; and*
- d. identify opportunities to streamline programs and services while maintain the mission of the agency and its programs.*
- e. monitor the impact of major economic development legislation passed by the 84th Legislature*
- f. Include updates regarding transfer of duties and services from health and human services to the Texas Workforce Commission, including implementation of SB 208 and SB 212. Coordinate with the Legislative Oversight Committee constituted by SB 208, when necessary.*
- g. Evaluate the impact of incentive reform legislation, including the elimination of the Emerging Technology Fund and the transition of contracts to the Comptroller's office.*

### SB 208

SB 208 (84R) transferred the following programs from the Department of Assistive and Rehabilitative Services (DARS) to the Texas Workforce Commission (TWC) on September 1, 2016:

- Vocational Rehabilitation (General and Blind), including the Criss Cole Rehabilitation Center;
- Business Enterprise for Texas;
- Independent Living for Older Individuals who are Blind Grant.

This transfer included 1,861 DARS employees and \$309,078,198 in state and federal funding.

Transition plans were submitted, working groups between the agencies were created, and orientations were held for both staffs of DARS transitioning over to TWC as well as current TWC staff on vocational rehabilitation basics. DARS continues to update and test the connectivity of the financial and contracting systems and their integration with the TWC systems. The main focus of this transition was that there was no disruption of services during or after and that the state continues to meet requirements to receive federal funding.<sup>31</sup>

### SB 212

Formerly under the Texas Council on Purchasing from People with Disabilities, SB 212 (84R) transferred oversight of the Purchasing from People with Disabilities program to TWC. This successfully took place September 1, 2015. This included one current contract and one full time employee. TWC has added another full time employee as well. A 13-member advisory

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committee was also formed consisting of those representing different segments of the population that are served or participate in the program. They will provide feedback and recommendation to TWC regarding community rehabilitation programs (CRPs). They have already met 4 times this year.<sup>32</sup>

### **Office of the Governor Economic Development & Tourism**

Since the transfer of the newly renamed Major Event Reimbursement Program (MERP) to the Office of the Governor (OOG), 57 funds have been awarded, a number the Governor's office claims is consistent with previous years when managed by the Comptroller's office. The OOG also plans to adopt new rules regarding the MERP to align with the State Auditor's recent report on the program.

The OOG internally retooled to dedicate staff solely focused on small business as the Subcommittee on Small Business heard testimony on. From January 2016 to testimony on June 6, 2016, the OOG conducted 227 community visits and events with local businesses and assisted over 1,100 small businesses.

Beginning in Fiscal Year 2015 and continuing through the end of May, the OOG developed 363 new business prospects and shared about 125 leads with Texas communities. During the same time period, they tracked the creation of 13,928 jobs and a capital investment of \$29.5 billion as a direct result of those efforts.

Since last January, the OOG has worked with the Lt. Governor and the Speaker of the House to offer 20 Texas Enterprise Fund awards. Those awards total \$56.8 million and represent the creation of 8,726 jobs and nearly \$1.7 billion in capital investments in corporate headquarter relocations, manufacturing, pharmaceuticals, financial services, and technology.

The 11 that have been announced as of the June 6, 2016 hearing include:

- Kubota Tractor Corporation – Grapevine
- LiveOps, Inc. – Cedar Park
- Gestamp Steel US Inc. – Amarillo
- GM Financial – San Antonio
- CGT U.S. Ltd. – New Braunfels
- McKesson Corporation – Irving
- Galderma – Fort Worth
- SATA S.P.A. – Brownsville
- Jamba, Inc. – Frisco
- Thomson Reuters – Carrollton
- W.W. Grainger, Inc. – San Antonio<sup>33</sup>

### **Recommendations**

Ease the process to apply for economic incentive programs in Texas by creating one uniform application.

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## Appendix A

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TEXAS HOUSE OF REPRESENTATIVES



EDDIE RODRIGUEZ      FIFTY-FIRST DISTRICT

November 29, 2016

Rep. Angie Chen Button, Chairwoman  
House Committee on Economic and Small Business Development  
P.O. Box 2910  
Austin, TX 78768

Re: Committee Interim Report to the 85th Texas Legislature

Chairwoman Button:

Thank you for your leadership of the House Committee on Economic and Small Business Development and your guidance throughout the interim hearing process.

I am signing the Committee's interim report. I have significant concerns, however, regarding Interim Charge 7 and the Committee's recommendation of state-wide policies in the shared economy. Many elements of businesses associated with the shared economy are highly localized and state-wide policies could pre-empt local initiatives that take into account the unique needs and wishes of local communities. It is imperative that state law not be used as a tool to erode local control.

I respectfully request that this letter be attached to the final committee report. Thank you and it has been a pleasure serving with you on the Committee.

Sincerely,

Eddie Rodriguez

POST OFFICE BOX 2910  
AUSTIN, TEXAS 78768-2910  
512-463-0674



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## ENDNOTES

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- <sup>6</sup> Daniel, Bryan, Office of the Governor, Economic Development & Tourism. Testimony before House Committee on Economic & Small Business Development Subcommittee on Small Business, April 28, 2016. Retrieved from [http://tlchouse.granicus.com/MediaPlayer.php?view\\_id=37&clip\\_id=11931](http://tlchouse.granicus.com/MediaPlayer.php?view_id=37&clip_id=11931).
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