

SUBJECT: 4B development corporation support for higher education facilities

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 4 ayes — Ritter, B. Cook, Kolkhorst, Seaman
0 nays
3 absent — Anchia, Deshotel, McCall

WITNESSES: For — Leanne Byrd, Howard College; Michael Dalby, San Angelo Chamber of Commerce; Johnny Griffin, Workforce Board; Cecil Jameson, San Angelo Community Medical Center; Jamie Rainey
Against — Rodrigo Carreon; D. Dale Fowler; Tom Palmer, Texas Economic Development Council

BACKGROUND: The Development Corporation Act of 1979 authorizes Texas cities to establish nonprofit industrial economic development corporations for the purpose of financing projects to develop certain businesses and promote the creation and retention of primary jobs. Development corporations are the legal entities with statutory authority to spend economic development sales tax dollars.

A city may levy a sales and use tax for the benefit of a development corporation and the projects it finances. This sales tax must be approved by local voters. Two types of development corporations, known as “4A” and “4B,” are named after the sections of the act in which they were established. A 4B development corporation dedicates proceeds of this tax for use in financing and promoting a wide range of economic development projects, including for specific quality-of-life improvements. These can include such improvements as parks, affordable housing, entertainment facilities, and other similar categories defined by the act.

The general definition of an economic development project includes infrastructure developments — such as streets and utilities — and job training for the purpose of developing primary jobs. A primary job is a job in a company of which the majority of products or services ultimately are exported to markets outside the city where the company is located. A

primary job also is one that is included on the act's list of specific qualifying job sectors, examples of which include manufacturing, management of companies, and scientific research.

DIGEST:

HB 568 would expand the definition of an allowable 4B development corporation project to include improvements that the local development board found to be appropriate for the development or expansion of educational facilities at an institution of higher education.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2005.

SUPPORTERS
SAY:

HB 568 would allow development corporations to fund programs at local colleges and universities for the training of residents in career-oriented fields. Using the sales tax fund in this way would help create an expanded and prepared workforce for local needs. This would be especially helpful in cases where training start-up and expansion costs were so high that the educational institution could not handle them on their own.

HB 568 would support the mission of the Development Corporation Act by enhancing local workforces and attracting outside businesses. A workforce is one of the most important elements in any economic development effort. A potential employer seeking to relocate often makes the decision based on the local workforce available in a given town.

Residents who were trained locally would be more inclined to stay in the area, thus enhancing the town's quality of life. In some cases, there might be a greater economic benefit in training citizens to take high-paying local jobs than in using development corporation funds to attract an employer.

Nursing provides a good example of how the career-oriented training promoted by this bill could benefit a community. There currently is a nursing shortage in many communities. If a local college were able to use 4B funds to enhance its nursing program, it could expand the pool of local nurses, which would increase employment and place local graduates in positions that otherwise might have remained open or been filled by outsiders. Also, a shortage of nurses leads to a shortage of hospitals, which makes it very difficult for a community to attract prospective employers. Finally, the presence of qualified nurses in a community attracts companies in the health care industry, one of the fastest-growing sectors of

the economy in recent years. While the occupation of nursing is not included in the act's list of primary jobs, it should qualify for 4B funding, as should other occupations that benefit local economies and quality of life.

Allowing local communities to make decisions about how their sales tax should be used would be in keeping with the Development Corporation Act. If a community wished to use 4B funds rather than bonds to more quickly respond to workforce needs, it should have that option. In some communities, there is a surplus of undedicated 4B sales tax revenue that has reached millions of dollars. HB 568 would enable money that currently sits idle to be invested in economic development. There are plenty of safeguards in place to keep these funds from being spent in an inappropriate way.

**OPPONENTS
SAY:**

This bill represents an erosion of legislative intent regarding use of the 4B sales tax. It is not the appropriate vehicle to support workforce and higher education. 4B sales tax dollars should go toward training for primary jobs, as the act specifies. Nursing does not count as a primary job.

There are 400 cities that levy 4B sales taxes. HB 568 would place these communities under intense pressure to use 4B funds for higher education, which might leave them short of funds with which to close deals for the attraction of new businesses — the true intent of the act. Higher education already has a number of other funding mechanisms, including bond authority. This bill might set a precedent for funding local higher education through a sales tax, which could lead to future complications.

If a community did not create more primary job opportunities and instead used 4B sales tax funds for higher education, locally trained students ultimately would have to seek work elsewhere. Communities should use 4B dollars to create a new tax base and primary jobs, which would generate revenues that in turn could be used for higher education.

Problems could arise for communities whose citizens voted to approve a sales tax under conditions that were changed by this bill. There is some question as to whether a development corporation could change the way it used 4B funds without seeking voter approval.

It appears that this bill is an attempt to accommodate the needs of one community that has a nursing shortage. Changes to state law should not be driven by the narrow needs of just one community.

OTHER
OPPONENTS
SAY:

The Development Corporation Act is designed to support the public. The bill should be written to allow for the use of 4B sales tax funds only in public educational institutions. It would be inappropriate for the 4B sales tax funds to go to private institutions.