

McKinney Report

As provided by Legislative Consultant Angela Hale

Economic Development

I attended the Economic and Small Business Development hearing at the Capitol this week. This hearing involved important information about economic development, the interim and the upcoming legislative session.

Governor Perry has run economic development in Texas for 14 years with a predictable regulatory framework that has kept Texas number one in the nation for job creation. Since, Perry is leaving office the legislature is looking at all the economic developments tools Texas has been utilizing over the past decade. All the top people in Governor Perry's office gave testimony about the Texas Enterprise Fund, Texas Emerging Technology Fund, Texas Film Commission, and the Texas Workforce Commission (Aaron Demerson is now the Director of Employer Initiatives at the Workforce Commission)

The Chair of the committee asked for cities, economic development corporations or chambers of commerce to submit letters supporting how The Enterprise Fund has helped seal deals in their communities and bring jobs and offer recommendations on how to improve the fund. We should discuss whether to send a letter to the committee clerk to be included in the interim report. The interim study will be used to draft legislation in the next session. There will be opportunities to testify before the committees on this issue.

The committee will consider the following interim charges:

Examine and evaluate economic development incentives to determine if the incentives are achieving the desired outcomes for which the incentives were initially established. Review which economic development goals and incentives are most important and report on methods to further improve those goals and incentives while reducing ones not meeting their desired objectives.

Review the Governor's Office of Economic Development and Tourism and determine its effectiveness on economic development in Texas. Determine how the office could be more efficiently coordinated with local and regional economic development entities and other state agencies to help further the economic development goals of the state.

Monitor manufacturing and manufacturing workforce development initiatives passed by the 83rd Legislature.

Key points made by Jonathan Taylor, Executive Director, Economic Development and Tourism, Office of Governor

- **Applications have doubled to the funds. If the pace continues the funds will be depleted by the end of the next session. Legislators will need to appropriate more money to the Texas Enterprise Fund & the Texas Emerging Technology Fund**
- **The Enterprise Fund currently has \$115 million, it has disposed of \$400 million and received back \$38 million in claw back money, created 117,000 direct hires and 228,000 indirect hires**
- **20 other states have a Enterprise Fund or deal closing fund**
- **30 other states have an Emerging Tech Fund**
- **He says he believes the funds should stay at the Governor's Office because of the gravitas the office brings to open doors and get to the decision makers immediately and close deals**
- **He says without the fund Texas will be out of the game. Many states are faster and better and an educated workforce outsells any incentive**
- **A lot of changes have happened in the economic development world in the last few years. We need to change the law for a shorter approval time. The law currently says up to 90 days to be approved by the Governor, Lt. Governor & Speaker. This needs to be changed to 14 days to compete with the competition**
- **An educated workforce outsells any incentive**
- **Rep. Workman asked what site selection people are saying about water. Mr. Taylor shared that it depends on the industry and for those that are most concerned with water they are willing to invest to make water available. He**

added chemical companies, petro companies and Chinese companies are willing to invest in their own water and build what they need

- **Rep. Rodriguez asked what California is doing right in respect to tech. Mr. Taylor shared that we are 50 years behind Silicon Valley and that Silicon Valley is not California.**

The Director of the Emerging Technology Fund testified that this is fund is primarily working on funding university investment.

- **She stated they have seen 5 to 1 for each dollar invested in follow on funds. She stressed the importance of actually creating a product that goes to market and creating jobs. She also pointed out more money is now university investment and less goes to startups.**
- **The focus is for the fund to pay to attract the best talent in the country such as a tenured PHD to invest in Texas universities and take a product to market. This is what the Silicon Valley did about 40 years ago by partnering with Stanford and Berkeley and doing PHD research that goes directly to market, which creates businesses that attract more businesses and has a pipeline of really smart students to fill the jobs and grow the technology sector.**
- **Texas is following this model. A&M has partnered with a pharmaceutical company to make vaccines and is one of only four facilities in the world. This was launched by state and federal funding**
- **Texas Tech has created a tech transfer office has recruited PHD talent on wind technology and is doing amazing work**
- **Texas State has also created a tech transfer office and a new business park**
- **She stated that she would prefer the fund stay at the Governor's office**

MEDC positions on economic development “Interim-Charges” for Board Consideration

The Chair of the committee asked for cities, economic development corporations or chambers of commerce to submit letters supporting how The Enterprise Fund has helped seal deals in their communities and bring jobs and offer recommendations on how to improve the fund.

Texas Enterprise Fund: The committee asked that communities submit letters addressing how the Enterprise Fund has assisted their communities in closing deals.

- a. In McKinney the Enterprise Fund helped with:
 - i. Raytheon 2005 (200 Job's / \$21 million Cap invest. (\$1 million award)
 - ii. Torchmark's HQ. 2006 (500 jobs / \$26.6mm invest. (\$2 million award)
- b. \$8 million was also approved for Re-Shore but project has not chosen McKinney.
- c. Additionally, the Enterprise just won Toyota to Plano and attached is a sheet of North Texas awards that brought significant jobs and investment to our area many of which have executives living in McKinney.
- d.

Suggested Position: This is an important tool to keep; however, there are improvements that need to be made in the management and use. Currently, the law gives leadership 90 days to make a final determination while other states make decisions in two weeks or less. This dramatically hampers Texas Communities competitiveness. MEDC feels that a decision should be able to be made within 14 days and the law should allow no more than 30.

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Local:

1. McKinney currently has both a Type A and Type B economic development sales tax funds as elected by the Citizens. The MEDC and MCDC have had significant positive impacts on our community in both attracting economic development projects and providing significant quality of life enhancements for our citizens, establishing McKinney as one of America's best places to live.

Suggested Position: Continue with both the Type A and Type B sales tax supported economic development corporations as elected by the local community.

Topic for consideration: Currently Type B corporations are governed slightly differently than Type A when it comes to expenditures. Type B corporations can expend their funds on all Type A projects as well as a wide variety of additional “community development” type projects such as parks, entertainment venues, tourism, etc. A Type B corporation has to have a public hearing and wait 60 days prior to spending funds on a specific project. While this does not impact quality of life projects such as parks, it is less than optimal for “economic development projects” that would generally fall under the 4A law. **We may consider advocating for allowing Type B corporations to follow the Type A guidelines on projects that are allowable under the Type A law?** This would make it easier to manage cooperative project between the MEDC and MCDC bringing their approval processes into alignment.

2. Additionally, other local tools that are important are:

a. Tax Incentives

Abatements – Current law applies to new value only and has a max term of 10 years. Chapter 380 and 381 incentives. (This essentially allows municipalities and Counties to use general fund money and assets for the furtherance of economic development projects). EX: property or sales tax “rebates”, infrastructure assistance, the sale of city assets below market for a “project” as an incentive.

State:

- b. Enterprise Zone Program: Allows communities to “nominate” projects for state sales and use tax rebates over a period of up to 5 years.
- c. Workforce training dollars: Skills Development Fund and Self Sufficiency Fund Used in cooperation with the nearest community college
- d. Enterprise Fund: Deal Closing Fund for major projects
- e. Emerging Tech Fund: Used to fund research and development through colleges and Universities to support emerging tech.
- f. Texas Leverage Fund: Allows Type A and Type B corporations to leverage their income for loans from the State’s Economic Development Bank at generally favorable rates
- g. Freeport Exemption: Exempts inventory received into a local facility, turned into a final product and transported directly out of state within 175 days from property taxes (City, County, ISD, College).
- h. Various specialized programs for specific industries... (R&D, Movie and video game, etc.)
- i. Chapter 313: Allows ISD’s to put a value cap on property for functionally 10 years. The cap level is different for different sized districts (McKinney is at \$100 million).

Suggested position: We believe that essentially all tools that are currently available should be kept to continue Texas’ competitive position.

A couple of issues that could use attention:

- Chapter 313 property tax cap only applies for projects in specific industries. For example it applies to energy projects and Data Centers (that have high investment and very low employment) but the Toyota Corporate HQ would not have qualified. We may consider advocating for local control on this issue regarding what types of projects qualify.
- In speaking with site selectors, I have received comments that the Economic Development function in Texas should be moved out of the Governor's Office and into a stand alone Dept. of Commerce or Dept. of Economic Development and Tourism under a cabinet level Secretary position to try to de-politicize and expedite our processes. Although I agree with this, I feel that we need to be very careful making a stand against the governor's office. We may have Angela Hale provide testimony directly from the consultants that feel that way and not from us.