Moving Forward:

Common Sense Policies to Promote Prosperity for Working Texans

2006

Center *for* Public Policy Priorities

Foreword

Texas aspires to be a land of opportunity, and for many, is just that. Indeed, Texas attracts people. Each month, thousands of skilled workers, students, and retirees become “new” Texans and contribute to a longstanding tradition of innovation and entrepreneurship. This continuous flow drives economic growth, replenishes the state workforce, and revitalizes urban, suburban, and rural areas across Texas.

For many people, however, opportunity is elusive. In fact, economic growth obscures the plight of millions of working Texans. To remain globally competitive, Texas must tap their potential.

This report proposes several distinct—yet interrelated—policy opportunities that can move more Texans into the middle class. These proposals blend greater state-level investments with common sense policy changes to increase economic well-being for working Texans.

While Texas policy makers have recognized the connection between workforce productivity and economic development, state economic development strategies depend too heavily on corporate incentives. State workforce investments have lagged behind. As incentives become more expensive, they will deliver lower and lower returns on investment. A sustainable growth agenda is necessary to truly improve economic well-being, enhance marketable skills, and create wealth-building opportunities for working Texans.

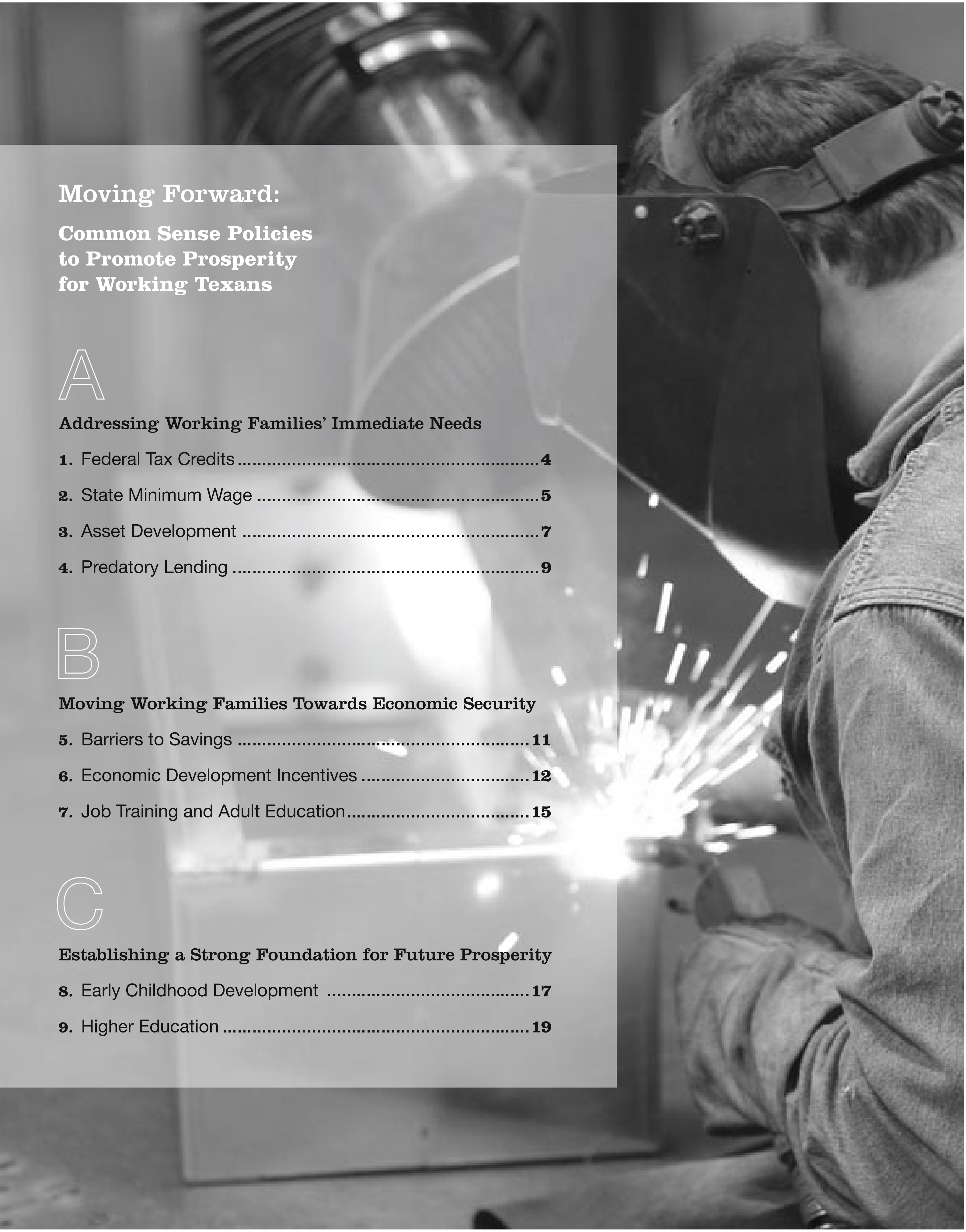
Texas faces multiple challenges in its quest to become a 21st century global leader. In order to chart a path to prosperity for more Texans, Texas needs to improve its human capital infrastructure by:

- Addressing the immediate needs of working families;
- Enabling more working families to achieve economic security; and
- Establishing a strong foundation to ensure continuing prosperity.

This report includes nine sections with recommendations to:

- Maximize Federal Tax Credits Targeted for Working Families;
- Raise the State Minimum Wage;
- Strengthen Asset Development Policies and Programs;
- Protect Working Families’ Incomes and Assets from Predatory Lending;
- Remove Savings Barriers for Working Texans;
- Use Economic Development Incentives to Increase Workers’ Skills and Raise Wages;
- Expand Job Training and Career Development Opportunities for Working Adults;
- Invest in Child Care and Early Childhood Education; and
- Make Higher Education More Accessible and Affordable for Texans.

For more information, to schedule a presentation, or to request additional copies of the report, contact Don Baylor, Jr. at baylor@cppp.org or 512-320-0222, X108.



Moving Forward:

Common Sense Policies to Promote Prosperity for Working Texans

A

Addressing Working Families' Immediate Needs

B

Moving Working Families Towards Economic Security

C

Establishing a Strong Foundation for Future Prosperity

A

Addressing Working Families' Immediate Needs

1. Federal Tax Credits

EITC and Other Targeted Tax Credits Combat Poverty and Expand the Economy

The EITC lifts 440,000 Texans (including over 240,000 children) out of poverty a year.

Tax season presents one of the best opportunities to improve many working families' economic situation. In addition to the Earned Income Tax Credit (EITC)—the nation's most successful anti-poverty program—the Child Tax Credit and Child Care and Dependent Tax Credit can help working families become self-sufficient. In particular, EITC tax credits reduce child poverty by enabling working families to meet basic needs and lay a foundation for homeownership and economic success. The EITC lifts 440,000 Texans (including over 240,000 children) out of poverty every year. These refunds jump-start local tax revenue and provide a multi-billion dollar stimulus to the state economy each year.

As Texas' EITC Population Grows, Unclaimed Dollars Also Rise

Each year, over one billion dollars in tax credits goes unclaimed by Texas workers.

In Tax Year 2004, Texas families claimed over $6 billion in EITC and Child Tax Credit refunds *(Source: Administration for Children and Families; Internal Revenue Service, 2006; National Consumer Law Center Analysis of IRS Data, 2006)*. Yet, each year, over one billion dollars in tax credits goes unclaimed by Texas workers. These unclaimed dollars not only represent a missed opportunity for families, but a lost chance to maximize state and local tax revenue. The average EITC recipient spends 30-40% of the credit on taxable items, generating approximately $100 million in additional state sales tax revenue and millions of dollars in additional local sales tax revenue *(Source: Michigan Outreach Initiative, CPPP Analysis, 2006)*. When this money is unclaimed, Texas' economy loses out.

The average EITC recipient spends 30-40% of the credit on taxable items, generating approximately $100 million in additional state sales tax revenue and millions of dollars in additional local sales tax revenue.

Explanation of Major Federal Tax Credits for Working Families

Earned Income Tax Credit (EITC)—Working individuals and families who earn up to about $38,000 per year may be eligible to receive this federal income tax rebate. The largest benefits are directed towards lower-income taxpayers with children, who are eligible for a credit up to $4,400.

Child Tax Credit (CTC)—The Child Tax Credit is a federal tax credit for families who pay income tax and have one or more child under age 17. Eligible families can receive up to $1,000 for each qualifying child. In 2004, only 31.8% of EITC returns included an accompanying Child Tax Credit return, although 86% of Texas EITC returns had at least one qualifying child *(Source: National Consumer Law Center for IRS Data, 2006)*.

Child Care and Dependent Tax Credit (CCDTC)—This non-refundable federal tax credit is available to working families who pay for child care for dependents under age 13. This credit is also available to families who pay for care of a spouse or dependent of any age who is physically or mentally incapable of self-care.

Only 4.6% of Texas EITC filers submit and receive a Child Care and Dependent Tax Credit refund, although about 20% of EITC filers pay for child care *(Source: National Consumer Law Center Analysis of IRS Data, 2006; Brookings Institution, 2006).*

RECOMMENDATIONS

Public investment in EITC outreach significantly increases EITC claim rates. For example, for every $1 the city of San Antonio invested in outreach, EITC filers claimed $127 in returns, generating a total of $64.3 million in tax refunds from 2003 to 2005.

While EITC refunds have increased over the years, more state and local outreach is needed to maximize this annual windfall of federal revenue.

- Texas' Comptroller of Public Accounts should expand current EITC outreach efforts, including broader dissemination of EITC information at such key administrative sites as workforce, child support, and health and human service locations.
- Employers, economic development corporations, Chambers of Commerce, Councils of Government, and local workforce development boards should establish Volunteer Income Tax Assistance (VITA) sites to help people file their taxes.
- Texas should expand the use of TANF and Community Development Block Grant (CDBG) funds to support local outreach campaigns during tax season.

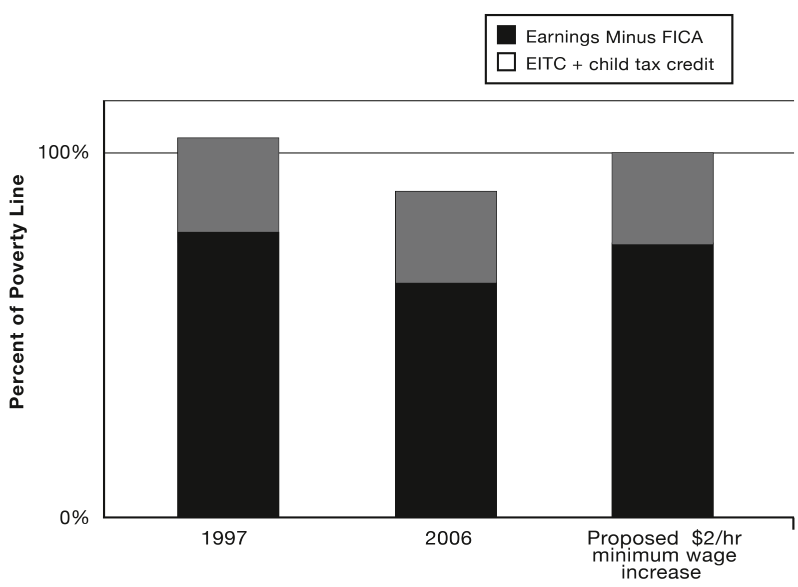
For every $1 the city of San Antonio invested in outreach, EITC filers claimed $127 in EITC returns, generating a total of $64.3 million in tax refunds from 2003 to 2005.

2. State Minimum Wage

$5.15 Doesn't Pay for Basic Needs

Low wages and the rising cost of living have made it harder for families to meet their basic needs. For example, a full-time minimum wage worker with two children would have to work 150 hours a week just to make ends meet in Houston or 128 hours a week to make ends meet in Odessa *(Source: CPPP Analysis, 2006)*.

Minimum Wage Workers and the Poverty Threshold



Source: Economic Policy Institute, 2006 Source: Author's Analysis

"The U.S. minimum wage of $5.15 an hour has not been raised in nearly a decade and we believe it is out of date with the times . . . We have seen an increase in spending on the 1st and 15th of each month and less spending at the end of the month, letting us know that our customers simply don't have the money to buy basic necessities between paychecks."

H. Lee Scott, Jr., CEO, Wal-Mart Stores, Inc.

In Texas, 2.3 million jobs (26% of all jobs) pay low wages. A low-wage job pays at or below $8.72 an hour, adjusted for each state by cost of living *(Source: Population Reference Bureau Analysis of 2005 Basic Monthly CPS)*. Nearly 90% of Texas' low-wage workers are ages 20 and older *(Source: Economic Policy Institute Analysis of Current Population Survey, 2004)*. Nationwide, minimum-wage workers earned an

A full-time minimum wage worker with two children would have to work 150 hours a week just to make ends meet in Houston or 128 hours a week to make ends meet in Odessa.

average of 68% of their total family income in 2002 *(Sources: Economic Policy Institute and Center for Economic and Policy Research, 2004).*

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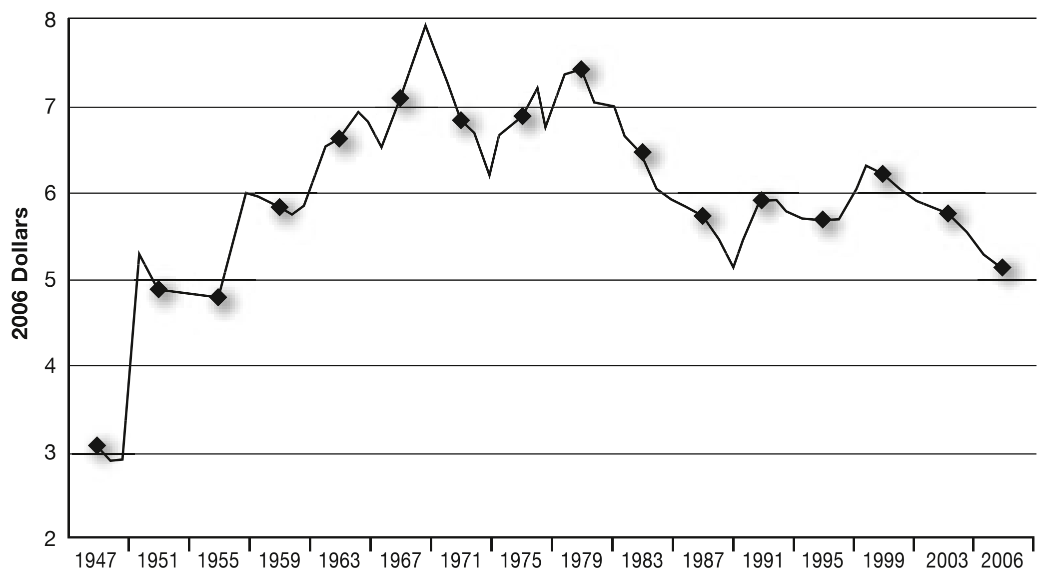
Stagnant Wages in Texas

Texas' minimum wage is linked to the federal minimum wage—$5.15 an hour. Not only has the federal minimum wage not been raised in almost nine years, it is at its lowest inflation-adjusted value in 50 years. Twenty-one states and Washington, D.C. have raised their minimum wages above the federal level to address the imbalance between low wages and higher costs of living *(Source: May 2004 Occupational Employment Statistics, BLS, CPPP Analysis, 2006)*. The new wages range from $6.15 an hour (in Delaware, Maryland, Minnesota, and New Jersey) to $7.63 an hour in Washington, as of June 2006. More than half of the U.S. workforce is now covered by these higher state minimum wage laws.

Real Value of the Minimum Wage
1947-2006



Source: Economic Policy Institute, 2006

Raising the Minimum Wage is a High-Growth Strategy

A minimum wage increase that keeps pace with inflation stimulates economic development, expands opportunity and, in tandem with the EITC, lifts thousands of families out of poverty. Because Texas' economy depends heavily on consumer spending and sales tax revenue, a minimum wage hike that spurs additional consumption would increase economic growth and produce new tax revenue. Additionally, minimum wage increases can reduce turnover and minimize training costs and absenteeism, while generating higher productivity. In fact, states that pay above the federal minimum wage have experienced faster job growth, larger payrolls, and greater small business development than "$5.15" states.

In states that pay above the federal minimum wage, total job growth was 30% greater than the combined job growth for "$5.15" states. In these states, retail employment grew by 10.2% (from January 1998 to January 2006), compared to 3.7% for federal minimum wage states *(Source: Fiscal Policy Institute, 2006)*.

Job Growth and the Minimum Wage: A Comparison between Federal ($5.15 an hour) States and Higher Minimum Wage States Jan. 1998 - Jan. 2006

Indicator	States > $5.15 (% growth)	States = $5.15 (% growth)
Small Businesses	5.40%	4.20%
Small Business Jobs	6.70%	5.30%
Total Jobs	9.70%	7.50%
Retail Employment	10.20%	3.70%

Source: Fiscal Policy Institute, 2006

RECOMMENDATIONS

- Raise the minimum wage to at least $6.15 an hour or align with the federal minimum wage, whichever is higher;
- Index the minimum wage to inflation; and
- Require that the Texas Workforce Commission prepare an annual legislative report on wage growth adjusted for inflation.

3. Asset Development

The ability of Texas' working families to move up the economic ladder and build wealth, or assets, is a key measure of Texas' financial security. The main forms of asset development (also known as asset building) include homeownership, retirement savings and investment, and small business development.

Asset development is an emerging, cross-policy activity that has only recently garnered attention from federal and state policymakers. Well-run asset-building programs have a proven track record of success in promoting self-sufficiency, encouraging saving, addressing emergencies, and accelerating asset purchases among working families. Asset building policy improves economic mobility and generates prosperity through a "ground-up" approach.

Specific products include:

- Individual Development Accounts (IDAs)—Restricted savings accounts that match deposits made by low-income workers. These funds can generally be used for homeownership, postsecondary education and training, small business development, and other activities that support work and economic mobility;
- Children's Savings Accounts and SEED (Savings for Education, Entrepreneurship, and Down payment) Accounts—Accounts started at birth that can later be used to pay for college, buy a home, or start a business. SEED accounts also integrate financial education;
- Education Savings Plans or 529 accounts—State sponsored investment

programs that give families a federal tax-free way to save and finance college tuition; and
- Down Payment Assistance Programs—Public or private programs that assist home buyers who qualify for a conventional mortgage but don't have the cash for the down payment and closing costs.

Asset Development Fuels Economic Prosperity for More Texans

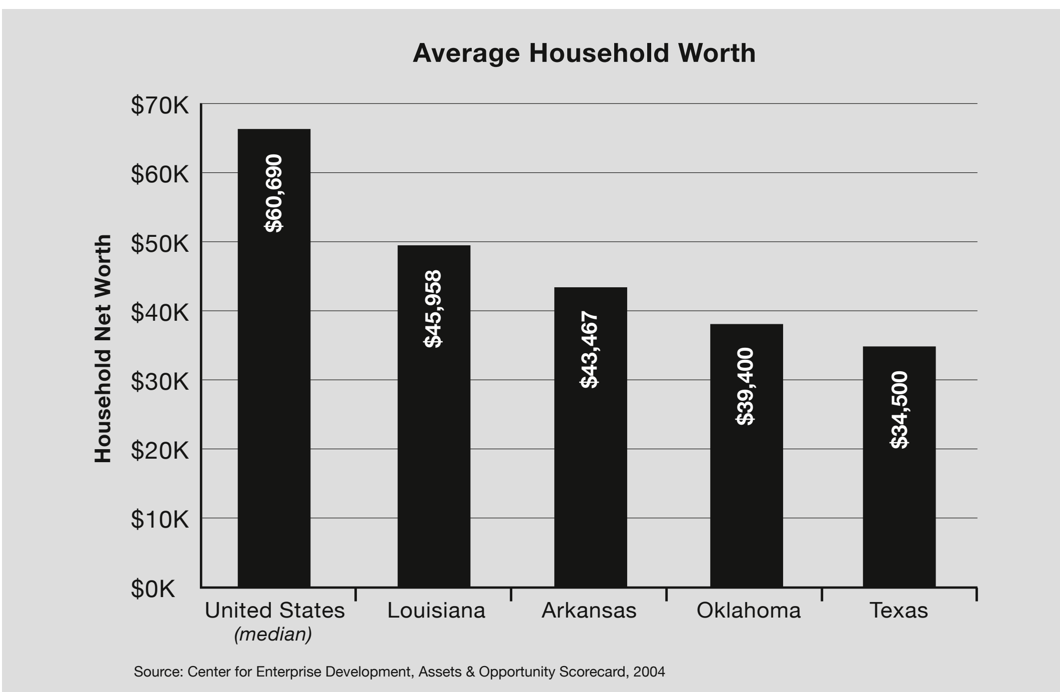
For every $1 invested in an IDA, approximately $5 is returned to the economy through new businesses, additional earnings, new or rehabilitated homes, reduced welfare expenditures, and greater educational attainment.

Innovative programs—such as the Individual Development Account (IDA) program—can clear a path to family economic success while expanding the state's tax base. Since 2001, Texas IDA programs have generated over 1,900 asset purchases and over $50 million in estimated value *(Source: CPPP Analysis of Data Submitted by the Texas Asset Building Coalition, 2006)*. For every $1 invested in an IDA, approximately $5 is returned to the economy through new businesses, additional earnings, new or rehabilitated homes, reduced welfare expenditures, and greater educational attainment *(Source: Center for Social Development, 2006)*.

Texas' asset development strategy has not yet produced desirable outcomes. Consider:

- Nearly 20% of Texas households (over 1.5 million households) have zero net worth *(Source: CFED Asset Development Report Card, 2006)*;
- The state ranks 43rd in asset poverty *(Source: CFED, Asset Development Report Card 2006)*;
- Texans are not adequately "banked" (meaning they do not hold mainstream banking accounts). Texas ranks 42nd in the percentage (49.3%) of residents with a savings account *(Source: CFED Assets and Opportunity Scorecard, 2004)*;
- Texans have the lowest average credit scores in the nation (Source: Experian National Score Index, 2006);
- Texas ranks 42nd in homeownership *(Source: U.S. Census Bureau, American Community Survey, 2004 Profiles)*; and
- Texas households have an average net worth of $34,500, ranking 48th nationally *(Source: CFED Assets and Opportunity Scorecard, 2004)*.

The following graph compares Texas' average household worth with its neighbors:



RECOMMENDATIONS

In order to truly invest in asset building, Texas needs to:

- Create and fund a Texas IDA program or another form of matched savings account to enable community-based organizations to expand their capacity to serve more participants and enable more working Texans to build assets;
- Hire a statewide asset-building coordinator to oversee asset-building activities across agencies and to increase the net worth of low- and moderate-income households. The focus of this position should be to:
  - Identify initiatives and outreach efforts to increase access to banking services
  - Examine the feasibility of child-based accounts designed to help pay for postsecondary education
  - Link tax preparation and EITC outreach efforts with IDA programs and other asset-building programs;
- Expand awareness of the Department of Housing and Urban Development's Family Self-Sufficiency Program to increase homeownership opportunities for public housing residents; and
- Develop tax-based incentives for employers to
  - Contribute to IDAs
  - Provide tuition reimbursement
  - Offer financial education in the workplace.

"A payday loan may sound like the solution to someone facing unexpected bills, but once you get sucked in it's difficult to escape and your debts snowball quickly. People need access to short-term emergency loans, but with fair rates."

Roy Cooper, North Carolina Attorney General

4. Predatory Lending

Many Texans struggle to gain access to fair credit, regardless of their income. Low- and moderate-income borrowers, however, have become primary targets for high cost loans. Other Texans at risk include military families, minorities, the elderly, and the financially unsophisticated. These borrowers use fewer mainstream banking products and pay higher costs for nearly all financial products and services.

In Texas, lax regulation, lack of financial education, and outdated legislation have led to a proliferation of expensive loans, such as payday lending, refund anticipation lending, and predatory mortgage lending. While these loans help pay for such essentials as rent and groceries, they drain money from the Texas economy and entrap borrowers in a cycle of debt and economic insecurity.

In Texas, lax regulation, lack of financial education, and outdated legislation have led to a proliferation of expensive loans, such as payday lending, refund anticipation lending, and predatory mortgage lending.

Payday Lending—Small cash advances, usually $1,000 or less. To get a loan, the borrower gives the lender a postdated personal check or authorization for automatic withdrawal from the borrower's bank account in exchange for a cash advance. In Texas, payday loan fees run at least $20 per $100 loaned, the equivalent of up to an 800% annual percentage rate (APR).

- In 2003, Texans took out over 1.8 million high-interest payday loans totaling over $612 million in principal balances *(Source: Office of Consumer Credit Commissioner, April 2005)*.
- With an APR exceeding 400%, the interest on a Texas payday loan is at least 20 times higher than the interest on an equivalent balance on a high-interest credit card *(Source: CPPP Analysis, 2006)*.
- The vast majority of payday loans are issued to repeat customers who can "roll over" their previous loan to finance the new loan.

Refund Anticipation Lending (RAL)—Short-term cash advances against a customer's anticipated income tax refund. RALs are offered at high interest rates, ranging from about 40% to over 700% APR. Customers receive their refunds only one week faster than if they filed free online and had their refunds directly deposited into their banking accounts.

- Over 40% of Texas EITC filers use RALs—siphoning away $84.4 million in unnecessary interest payments *(Source: National Consumer Law Center, January 2006)*.
- In Tax Year 2002, Texas had the 2nd highest RAL usage in the United States *(Source: Brookings Institution, 2004)*.

Predatory Mortgage Lending—Features of a predatory mortgage loan include unnecessary balloon payments, inflated interest rates, and excessive fees that set up the homeowner for default. Predatory lending drains wealth from families, undermines the benefits of homeownership, and often leads to foreclosure.

- Texas has a 6.9% home mortgage delinquency rate, tied for the 4th highest rate in the nation *(Source: Mortgage Bankers Association, 2004)*.
- In August 2005, Texas recorded one foreclosure for every 599 households—2.6 times the national average *(Source: Realtytrac.com, 2006)*.

Over 40% of Texas EITC filers use RALs—siphoning away $84.4 million in unnecessary interest payments.

Interest Rates Make a Lifetime of Difference: $100,000 Mortgage over a 15-Year Term

Interest Rate	Loan Interest
6.50%	$56,800
8.50%	$77,300
10.50%	$99,000

Source: CPPP Analysis, 2006

Texas has an obligation to regulate the abusive features of high-cost loans and to prohibit financial products that place working families in financial jeopardy.

New Laws Hold Promise for Expanding Access to Fair Credit and Fighting Abusive Lending

As of 2006, the federal Office of Thrift Supervision (OTS) and the Office of Comptroller Currency (OCC) have effectively prohibited their member banks from participating in interstate payday lending. Federal Deposit Insurance Corporation (FDIC) guidelines aimed at restricting the “rent-a-bank” model (a practice payday lenders use to avoid state usury laws) have forced some payday lenders to change their practices or close altogether. These directives do not affect banks chartered in Texas, but have compelled Texas-based payday lenders to adopt creative lending structures to evade state laws and regulation.

In addition, several states have enacted common-sense consumer protections, such as laws that reform the mortgage industry. New regulations have created a more competitive market for borrowers and responsible lenders, while reducing unnecessarily high costs associated with subprime mortgages (higher-interest loans to consumers with poor credit histories), short-term loans, and other financial services.

After reforms in New York and South Carolina, interest on subprime loans in those states fell by 68.8% and 41% respectively *(Source: Center for Responsible Lending, 2006).*

RECOMMENDATIONS

- Require financial counseling for first-time homebuyers prior to closing on a high-cost home loan;
- Revise the Credit Services Organization Act to exclude entities that offer high-interest payday loans, compelling all registered lenders to operate on a level playing field;
- Develop a mortgage database to determine whether mortgage terms and interest rates are related to an individual's credit score;
- Inform Texans of high fees associated with refund anticipation loans, payday loans, and high-cost mortgage loans;
- Encourage credit unions and other community development financial institutions to offer alternatives to high-cost payday loans;
- Foster public-private partnerships to expand access to prime lending products and services; and
- Continue intensive efforts to expand financial literacy with K-12 students, adult education/ESL students, health and human services clients, and workforce board clients.

B

Moving Working Families Towards Economic Security

Up to 20% of Texas households participate in programs that strictly limit asset accumulation.

5. Barriers to Savings

Texas Can Modernize Asset Restrictions Without Penalizing Savers

Texas administers several federally authorized public benefit programs, including the Children's Health Insurance Program (CHIP), Medicaid, Food Stamps, Food Stamps Employment and Training, and Temporary Assistance for Needy Families (TANF) cash assistance. These programs restrict eligibility on the basis of household income and liquid assets, such as bank accounts, investment accounts, and automobiles. For example, to become and remain eligible for Children's Medicaid, a typical family can have no more than $2,000 in their bank accounts. Up to 20% of Texas households participate in programs that strictly limit asset accumulation *(CPPP Analysis, 2006)*.

Program	Resource Limit	Vehicle Rule	EITC Treatment
Children's Medicaid	$2,000 ($3,000 if elderly or disabled household)	First car exempted; $4,650 of each additional car exempted; excess value counted towards resource limit	Applicants: Unspent EITC refunds counted as a resource beginning in the third month. Recipients: Unspent EITC refunds are counted beginning in the 12th month following receipt.
CHIP	$5,000	$15,000 of first car exempted; $4,650 of each additional car exempted	
Food Stamps	$5,000	$15,000 of first car exempted; $4,650 of each additional car exempted	
TANF	$1,000	$4,650 of each car exempted; excess value counted towards $1,000 limit	

Source: Texas Works Handbook, Section 1230
The resource limits apply to all liquid resources, including cash in checking and savings accounts.

Asset Limits Are Counterproductive in Addressing Poverty

Resource limits are an inefficient means of evaluating household need and determining program eligibility because they are arbitrary measures of a person's financial condition. These limits also discourage working families from building assets. If families save too much or their other assets increase, they become ineligible for public benefits. This is one reason why some families spend their EITC refunds quickly instead of saving or investing their tax credits. Hurricanes Katrina and Rita have illustrated the need for emergency cash reserves, especially for low-income households. Asset limits make it even harder for families to prepare for a disaster.

Texas is one of only three states that has an asset limit for CHIP, and one of only four states with an asset limit for Children's Medicaid.

Overall, Texas has significant discretion to modernize or eliminate asset restrictions for these major benefits programs. Other states have reformed their asset limits without significantly increasing enrollment or program costs. These states have recognized the counterproductive nature of the rules and taken steps to remove savings barriers.

Texas is one of only three states that has an asset limit for CHIP, and one of only four states with an asset limit for Children's Medicaid *(Source: Kaiser Commission on Medicaid and the Uninsured, October 2005)*.

The following states have reformed their asset limits:

- Ohio, Virginia, and Colorado have removed asset limits for adults and children in Medicaid; over 20 states have waived Medicaid asset limits entirely for adults;
- In 2006, Colorado raised TANF asset limits from $2,000 to $15,000, while excluding retirement, health, and education savings accounts; and
- In 2003, Virginia eliminated its asset test for the TANF program.

RECOMMENDATIONS

- To the extent possible, Texas should align all resource limits with those of the CHIP or Food Stamp Program, which are the most reasonable;
- Texas should exclude all restricted retirement accounts and educational savings accounts from asset limits;
- Texas should index asset limits to inflation; and
- The state should partner with financial institutions to develop and promote a restricted savings account exempt from program asset limits.

6. Economic Development Incentives

Texas supports the creation and retention of first-tier or primary jobs (non-retail and non-service jobs) through a local and regional approach in tandem with a statewide strategy.

In addition, local school districts, municipalities, and community college districts can grant property tax abatements or offer municipal sales tax abatements for eligible projects.

The following table represents how various public entities collaborate to offer and grant incentives for corporate projects. In 2006, the following local entities and the state of Texas offered Samsung Electronics over $230 million in cash and tax incentives to build a semiconductor plant in Central Texas.

Anatomy of a Deal

Funding Source	Value	Period	Subsidy
City of Austin	$62.9 million	20 years	Property Tax
Manor ISD	$115 million	10 years	Property Tax
Travis County	$44.7 million	20 years	Property Tax
Texas Enterprise Fund	$10.8 million	One-time	Cash
TOTAL	233.4 million		

Source: CPPP Analysis, 2006

The state directly offers a variety of programs which are administered by the Governor's Office of Economic Development and Tourism. Many of these tools are used to assist local economic development corporations (EDCs), including:

- **Texas Enterprise Fund—**The largest cash-based incentive program in the United States, it provides multimillion dollar cash grants to entities in exchange for a specific number of jobs in Texas. Workforce development, community development, and small business or microenterprise proposals have received less than 5% of Enterprise Fund grants, although these are key elements in broad-based economic development. The Enterprise Fund spends nearly $8,000 per job, in addition to local incentives;
- **Texas Enterprise Zone Program—**Provides tax and regulatory benefits for new or expanding businesses in economically distressed areas. State incentives include a refund of state sales and use taxes;
- **Texas Capital Fund Infrastructure Program—**Provides financial resources to communities that cannot issue private activity bonds. These incentives can be used for public infrastructure, business development, and primary job creation;
- **Texas Leverage Fund—**Serves as an economic development bank that issues loans to local economic development corporations to leverage their sales tax revenue to finance additional projects; and
- **State Sales Tax Exemptions—**Exempts goods and services used in manufacturing.

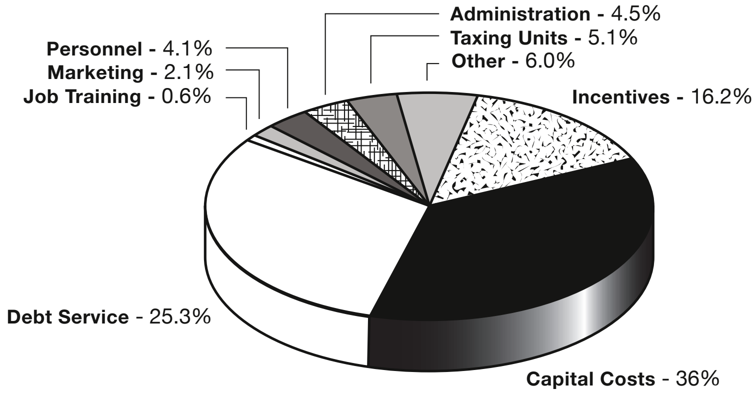
Current Incentive Packages Fail to Promote Worker Economic Security

Unlike other states, Texas has yet to require that taxpayer-subsidized jobs adhere to minimum job quality standards, including providing adequate wages, health insurance, and paid leave policies. For example, at least three Texas Enterprise Fund contracts have subsidized projects with a majority of jobs paying $11 an hour or less. Many Enterprise Fund agreements don't include legally binding wage or health insurance standards.

Localities can compete with other areas in attracting businesses and pursuing economic growth through EDCs, which provide cash and tax incentives. In 2004, Texas' 600 EDCs amassed over $570 million in total revenue and spent over $528 million. Sales tax revenue accounted for about two-thirds of total EDC revenue, while incentives accounted for about one-fourth of total EDC expenditures in 2004.

Since 1997, local EDCs have spent $15.8 million—less than 1% of total expenditures—on job training and over $445 million—16.2%—on incentives.

Expenditures of Economic Development Corporations
1997-2004



Source: Texas Comptroller of Public Accounts, 2006

In order to move more Texans into economic security and prosperity, all economic development incentives should require commitments towards worker advancement, skills development, and employee-based asset development initiatives. Economic development agreements must include provisions requiring high-road job quality indicators such as health care coverage, wage standards, and family and sick leave policies.

Recent Developments/Pending Action

- **Funding the Enterprise Fund:** In 2005, the Texas Legislature effectively reduced the Texas Enterprise Fund's funding by 40% (HB 2421). For the 2006-07 biennium, the Enterprise Fund will draw from two sources: a one-time $130 million appropriation and more than $40 million in designated unemployment insurance (UI) tax revenues. By placing the burden of subsidizing future competitors on current Texas employers—through UI taxes—in-state businesses are ironically subsidizing their future competitors. The UI levy is expected to generate $49-$60 million per year for the Enterprise Fund in the future.
- **First Step in Accountability:** In 2005, the Legislature also created new accountability measures for the Enterprise Fund (HB 1938). Among other provisions, the law establishes basic eligibility criteria for business recipients, mandates performance agreements, or "clawbacks," and requires a biennial report on employment and wages for Enterprise Fund projects. This legislation failed to disclose the role of local entities in providing incentives and requiring minimum standards for wages and health benefits.
- **Fund and Stream:** In August 2006, Nebraska-based Cabela's became the first entity to refund a cash grant to the Enterprise Fund for non-performance. In 2004, the Texas Enterprise Fund awarded $600,000 to Cabela's, Inc. in exchange for 600 jobs in two new stores in Fort Worth and Buda. The Buda outdoors and sporting goods outlet fell short of its hiring goal, and was required to repay the state of Texas over $28,000 and forfeit an additional $200,000 it could have earned upon meeting its hiring targets. The Cabela grants were unique because they subsidized a retail operation—generally considered an unworthy recipient of economic development resources.

RECOMMENDATIONS

- Use the Enterprise Fund to assist small business enterprises, for instance, by creating a small business or microenterprise "mini-fund";
- Improve public disclosure and accountability for the Texas Enterprise Fund and Economic Development Agreements when multiple economic incentives are utilized for a single project;
- Establish a minimum wage for Enterprise Fund grants; and
- Ensure that low-wage workers and host communities receive greater benefits from economic development projects through Community Benefits Agreements.

7. Job Training and Adult Education

The Texas workforce development system includes both federal funding and exclusively state-administered programs. In general, federal programs and funds support hard-to-employ individuals, while state programs support a broader cross-section of workers and employers needing trainees.

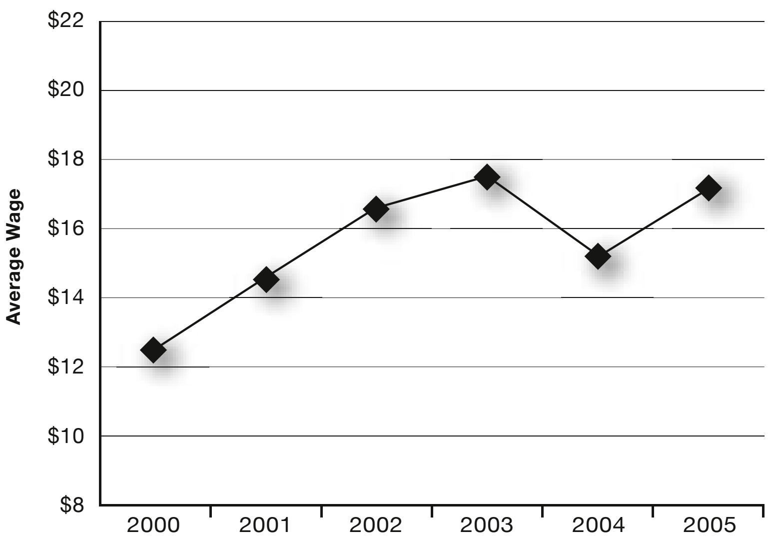
The Workforce Investment Act (WIA), a federal law, governs activities of the Texas Workforce Commission (TWC), the 28 workforce development board areas, and more than 270 one-stop centers, which offer job search, case management, and job training services. These services are available to most Texans seeking employment assistance. The Texas Workforce Investment Council, which consists of representatives from business, labor, education, and state agencies, oversees the state workforce system.

TWC also administers the TANF Choices program, an employment program designed to find jobs for individuals on cash assistance. TANF Choices serves about 124,000 customers annually. The Food Stamp Employment and Training Program (FSE&T) provides workforce services to about 23,000 clients a year.

Texas also has designed state-run workforce programs to fill training gaps and meet the needs of employers. Chief among these is the Skills Development Fund (SDF), a customized, employer-driven program that engages providers, community colleges, and employer consortia in training new and incumbent workers for specific jobs with in-demand skills. From 2002-2004, the SDF served over 44,000 trainees.

- Since 1996, the Skills Development Fund has led to over 58,000 jobs at a cost of approximately $900 per job.
- In 2005, the average SDF trainee earned $17.01 per hour, up 37% since 2000.

Skills Development Fund and Trainee Wages



Source: Texas Workforce Commission, July 2006; CPPP Analysis, 2006

TWC also operates the Self-Sufficiency Fund, a similar customized training program designed for the TANF population (up to 200% of poverty) and funded through the TANF block grant. From 2002-2004, the Self-Sufficiency Fund served about 2,500 trainees per year for upgraded and new jobs.

Texas' Skill Infrastructure Needs Stronger Foundation

Because of a lack of state investment and innovation, career-advancement opportunities are limited for working adults. As a result, the competitiveness of Texas employers is at risk.

Public resources in adult education and customized workforce training programs yield a high return on investment by preparing Texas' workforce to succeed in a dynamic and global marketplace. The Texas workforce system needs to invest greater resources in ensuring that working adults attain certificates and credentials to increase their earnings. More Texas workers require mid-level skills to maximize earnings and advance their careers, while Texas businesses need more workers with mid-level skills to compete globally. Texas therefore has the responsibility to channel more resources into programs that develop marketable skills. A well-funded and adaptable community college system could expand the pipeline of skilled adults into the labor force.

Texas spends $5.05 per capita on adult education and literacy (the least in the nation— the national average is $46.65).

Texas Lags on Worker Investment

Compared to peer states, Texas' low investments have produced subpar outcomes. Consider:

- Texas spends $5.05 per capita on adult education and literacy. Texas spends the least in the nation—the national average is $46.65 *(Source: U.S. Department of Education, 2003, and Population Reference Bureau, 2004)*;
- As recently as 2005, Louisiana invested $27.05 per worker on its primary customized training program. Today, Texas spends $2.22 per worker on its Skills Development Fund *(Source: CPPP analysis, 2006; Center for Law and Social Policy, 2006)*;
- 21.3% of Texans aged 25 and over do not have a high school diploma or equivalency, compared with 16% of the U.S. population of the same age *(Source: 2004 American Community Survey, U.S. Census Bureau)*; and
- The budget of the Self-Sufficiency Fund, a successful training program serving the TANF population, has been cut in half since 2003.

Recent Developments & Pending Action

Funding Change: In 2005, the Texas Legislature altered the funding mechanism for the Skills Development Fund and the Enterprise Fund (HB 2421). Previously funded through General Revenue, the Skills Development fund will receive a partial allocation from a 0.1% earmark from Unemployment Insurance (UI) revenues. This change is expected to produce an overall increase in SDF funding. Beginning with the 2008-09 biennium, the SDF will receive 25% of UI-designated revenues, while the Enterprise Fund is slated to receive 75% of UI employer contributions.

Amounts Set Aside From Unemployment Insurance Taxes

Fiscal Year	Training Stabilization Fund Revenue	Skills Development Fund	Texas Enterprise Fund
2006	$61.6 million	$0	$0
2007	$74.1 million	$20.3 million	$41.3 million
2008	$75.6 million	$24.4 million	$49.6 million
2009	$77.1 million	$18.9 million	$56.7 million
TOTAL	288.4 million	$60.6 million	$147.6 million

Source: Legislative Budget Board, 2005.
These figures represent projections and do not include future supplemental appropriations to either the Skills Development or the Texas Enterprise Fund.

RECOMMENDATIONS

- Re-adjust the UI-funding mechanism to ensure that the Skills Development Fund receives a majority of UI-designated revenues, per original legislative intent;
- Allocate more TANF funds to increase the Self-Sufficiency Fund to aid individuals leaving TANF cash assistance;
- Enhance worker mobility by creating occupational and wage ladders for high-demand occupations;
- Integrate adult basic skills, English language instruction, and certificate attainment into all customized training programs and workforce services;
- Track and report individual outcomes across workforce education services and into the labor market;
- Create more "bridge," or career pathway programs into in-demand occupations; and
- Ensure access to financial literacy and asset-building initiatives for trainees engaged in workforce services.

C

Establishing a Strong Foundation for Future Prosperity

8. Early Childhood Development

Texas faces a sizable challenge in maintaining access to affordable early childhood and education development programs for its large and rapidly growing child population. Programs such as child care, Head Start, and public pre-kindergarten can foster positive educational outcomes and improve labor market access and productivity, creating a high return on investment. Texas has the opportunity to build upon successful pilot and community-based initiatives to build a cutting-edge early childhood education and development system for Texas children, from birth to age five.

Quality Child Care in Short Supply

Child care is a valuable work support that enables parents to be more productive in

"In the future, any proposed economic development should have early childhood education at the top. . . Early childhood education programs are rarely portrayed as economic development initiatives and . . . that is a mistake."

*Arthur J. Rolnick,
Senior Vice President
and Director of Research,
Federal Reserve Bank
of Minneapolis*

Up to 25% of a two-child family's budget can be consumed by center-based child care costs.

the workforce and earn a higher income. However, for many Texans, quality care is unaffordable. Costs for subsidized child care in Texas increased nearly 55% between 1995 and 2005 to over $4,500 per year for 4 year olds. *(Source: Children's Defense Fund, 2006)*. In fact, up to 25% of a two-child family's budget can be consumed by center-based child care costs. The lack of quality and affordable care places economic and professional strains on working families.

Early Childhood Education Integral to Child and Economic Development

A stimulating environment—via early care and education—is essential to developing a child's brain and preparing the child to respond to social cues, master language, and achieve academic success. In addition, early childhood education produces increased high school graduation rates, higher college entrance and completion rates, better jobs, and higher income.

In Texas, child care generated a total economic impact of over 145,000 jobs and $2.3 billion in wages in 2003.

Investment in early child care produces an extraordinary return and should be a cornerstone of economic development policy. In Texas, child care generated a total economic impact of over 145,000 jobs and $2.3 billion in wages in 2003 (*Source: Texas Workforce Commission, Labor Market Information)*.

The Bush School of Government and Public Service conservatively estimates that every $1.00 invested in high quality pre-k programs yields at least $3.50 to Texas communities through:

- Reduced special education costs;
- Reduced criminal justice expenditures;
- Reduced child welfare costs; and
- Increased lifetime earnings for mothers.

Early Childhood Workforce in Need of Incentives and Professional Development

The child care industry is already one of the largest occupations in Texas and is expected to grow by another 40% by 2012 *(Source: Texas Labor Market and Career Information/TWC, 2006)*. There is a definite need for high quality early education and development. However, the child care workforce is hampered by inadequate professional development and low wages. Consider:

The Bush School of Government and Public Service conservatively estimates that every $1.00 invested in high quality pre-k programs yields $3.50 to Texas communities.

- Early childhood professionals face barriers in attaining credentials and pursuing higher education, especially without a system that provides incentives for professional development;
- In 2005, Texas preschool teachers' hourly wages were $10.92, compared to the national average of $12.09 *(Source: Occupational Employment Statistics)*; and
- In 2005, the average wage for child care workers in Texas was $7.26 per hour. The national average was $8.74 per hour *(Source: Bureau of Labor Statistics, Occupational Employment Statistics)*.

Without adequate certification requirements and professional incentives, child care workers leave the industry at an alarming rate, jeopardizing the quality of child care. To reverse this trend, Texas must take steps to recruit and retain child care workers while professionalizing the industry.

- Over the past several years, Texas has laid an initial groundwork for a cutting-edge early care and education model, but the state still ranks 49th in total state and federal child care spending per child (birth to age 4). The state spends $257.90—less than half the U.S. average of $525.65 *(Source: Administration*

of Children & Families; National Child Care Information Center). A significant investment gap still remains.
- For School Year 2004-05, 4.1% of 3 year olds were enrolled in state-funded pre-k programs, while 46% of 4 year olds were enrolled in Texas pre-k programs.

Recent Developments & Pending Action

Military Pre-K: In 2006, the legislature expanded public pre-k programs to children of active duty members of the military (HB 1). Previously, these programs were available only to 3 and 4 year olds with special needs, including homeless and non-English speaking children. Thousands of military children in Texas are now eligible for public pre-kindergarten programs.
TEEM Work: Operated by the State Center for Early Childhood Development at The University of Texas Health Science Center at Houston, the TEEM initiative is designed to increase school readiness for children ages 3 and 4 through local partnerships between child care, Head Start, and public pre-k. In 2005, the legislature expanded the TEEM demonstration project by appropriating $15 million to reach additional communities (SB 23). TEEM now exists in 29 communities and serves over 35,000 children.
Child Care Quality: In 2006, the Texas Workforce Commission modified rules relating to quality improvement activities. Local boards must focus their quality improvement efforts on the following activities:

– Collaborative reading initiatives;
– School readiness, early learning, and literacy; and
– Support for child care consumer education through 2-1-1 Texas, a statewide phone system.

Pre-K Expansion: The Texas Education Agency (TEA) is currently revising the pre-k expansion grant programs to promote school readiness through local partnerships.

RECOMMENDATIONS

- Expand access to integrated pre-k and affordable child care services;
- Revise performance measures and improve quality in subsidized child care centers;
- Institute an occupational wage and career ladder for early childhood education workforce in licensed and subsidized child care centers;
- Provide college credit to early childhood practitioners who participate in credential training programs;
- Provide financial grants and guaranteed loans to improve child care quality and to assist child care provider start ups; and
- Develop a compensation incentive and apprenticeship system for subsidized child care to improve recruitment and retention.

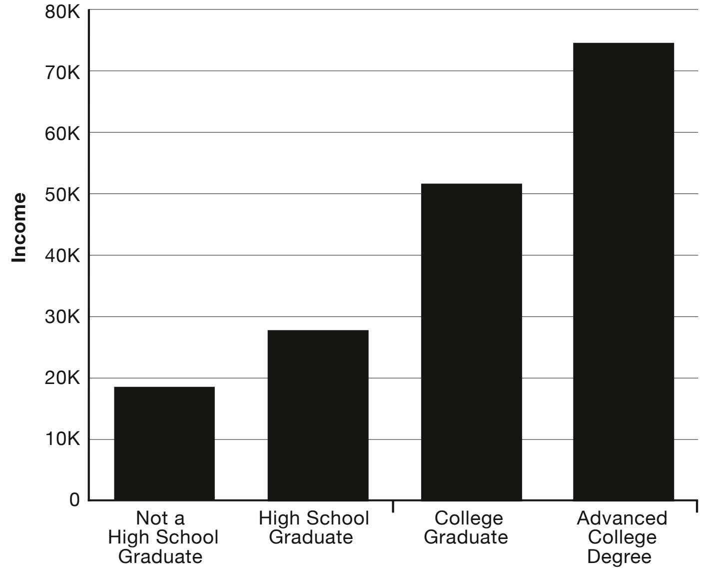
9. Higher Education

Expanding Access to Higher Education Key to Texas' Economic Future

A college education is a reliable predictor of future earnings and economic stability. Each level of educational attainment increases annual income dramatically.

For every $1 spent on higher education, $33 is returned to the economy.

Average Annual Income, Education Level



Source: Preparing for the Emerging Texas, Texas Higher Education Coordinating Board, 2004

Texas' future will depend on the strength of the state's postsecondary system. Expanding postsecondary access to all Texans—regardless of income—will be a critical component in enhancing state economic competitiveness.

For every $1 spent on higher education, $33 is returned to the economy, according to the Texas Association of Community Colleges.

The Role of Financial Aid

Financial aid programs are a major factor in increasing participation rates, especially among low-income, first-generation, and African-American and Hispanic students.

Texas students are eligible for various federal financial aid programs. The major federal need-based programs include:

- **Pell Grant—**Need-based grant of up to $6,000 per year;
- **Stafford and Perkins Loans—**Government-subsidized, low-interest loans; and
- **Parent Loans for Undergraduate Students (PLUS)—**Loans targeted at parents of aspiring students.

In addition to federal resources, the state has developed the following menu of need-based financial aid programs:

At a Glance: Texas' Need-Based Financial Aid Programs

TEXAS Grants—Need-based program limited to Texas residents meeting certain criteria and attending in-state public universities and colleges. TEXAS Grants primarily cover tuition expenses.

Texas Educational Opportunity Grants—Need-based grants for tuition and fees of Texas residents attending public two-year colleges.

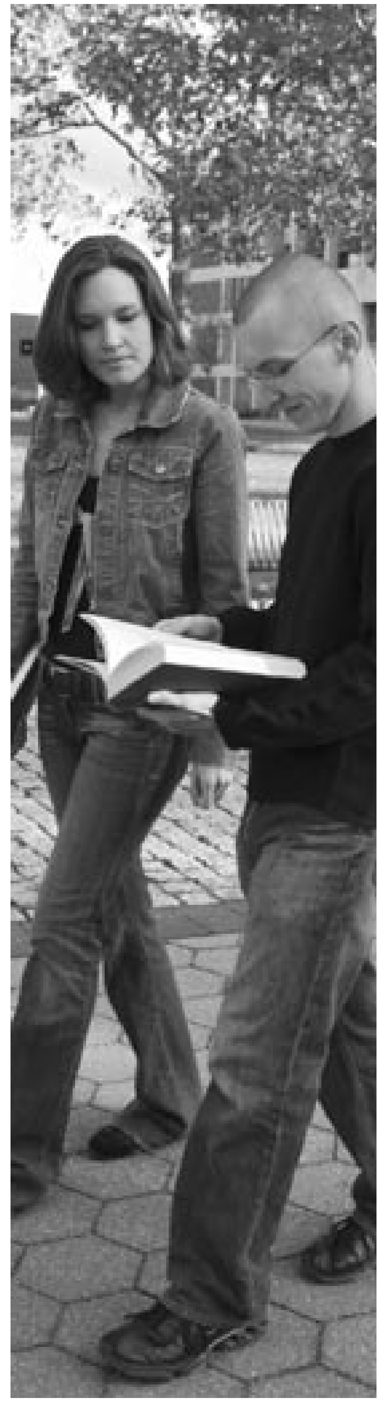
Tuition Equalization Grants (TEG)—Pays the difference between the costs of private college tuition and costs at an equivalent public institution.

B-On-Time Loan Program—Provides need-based zero-interest loans to eligible Texas residents. If students satisfy all requirements, the entire amount can be forgiven upon graduation.

Hinson-Hazelwood College Student Loan Program—Provides low-interest loans to eligible Texas students funded through bonds sold by the Higher Education Coordinating Board. The long-term future of this program is uncertain.

Type of Aid	Amount	Percent of Total
Federal Need-Based	$2.6 billion	77%
State	$312.4 million	9%
Private/Institutional	$463.7 million	14%

Source: Texas Higher Education Coordinating Board, 2004



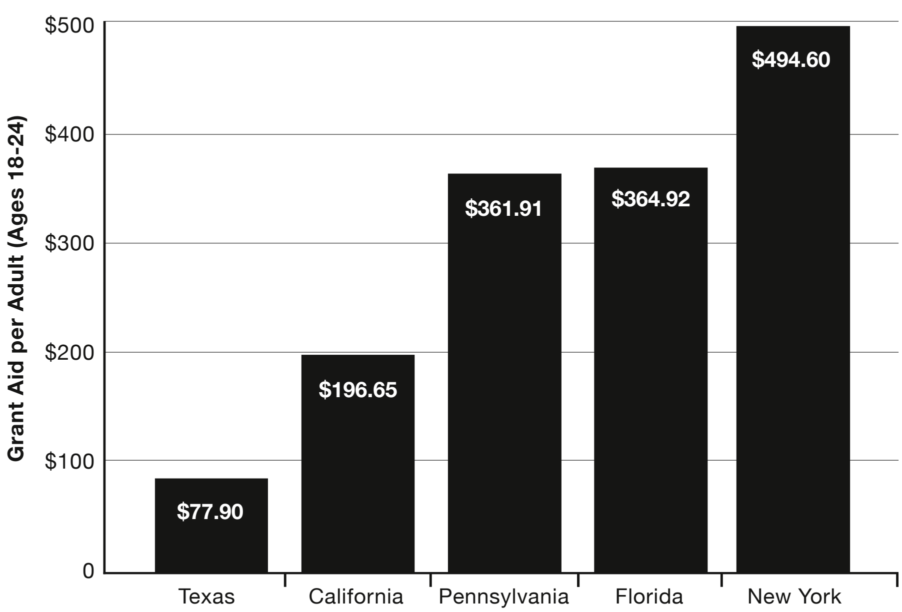
Without More State Support, College Access Will Diminish

Despite state programs that offer financial aid, too many Texans miss out on the opportunity to attend and finish college. Many fail to enroll from fear of committing to loan repayments. Others who graduate college with excessive student loan debt can be discouraged from entering valuable public service careers, such as education or social work. Additionally, high student loans reduce the borrower's consumption of goods and services and delay personal saving and investment. In order to increase college enrollment over the next decade, Texas will have to provide better support to students from low-income working families.

Other states have recognized the need to make strategic investments in need-based financial aid. As a result, Texas is falling behind in the quest to expand access to higher education to students and families with limited means.

The following graph compares financial aid investments of Texas with those of other states:

State Grant Aid per Adult (Ages 18-24)



Source: Texas Higher Education Coordinating Board, CPPP Analysis, 2006

Sixty-four percent of Texas families earning below 200% of the poverty line ($40,000 per year for a family of four) have no parent with any postsecondary education, compared to the U.S. average of 56% *(Source: American Community Survey, 2004)*.

64% of Texas families earning below 200% of the poverty line ($40,000 per year for a family of four) have no parent with any postsecondary education, compared to the U.S. average of 56%.

- By 2008, more than 200,000 students will meet TEXAS Grants eligibility standards. Satisfying this need would cost $1.1 billion, more than six times the 2006-07 annual appropriation *(Source: Texas Higher Education Coordinating Board, 2006)*.
- Seventy-five percent of needy students will not qualify for TEXAS Grants or B-On-Time Loans, since the restrictive criteria of these programs are not suited for the large number of college students who must work or must care for children *(Source: Texas Higher Education Coordinating Board, August 2004)*.
- In 1964, a student working 19 hours a week could pay public university expenses. Today a student would have to work 55 hours a week to meet those costs *(Source: Preparing for the Emerging Texas, Texas Higher Education Coordinating Board, August 2004).*

Because of inadequate state programs, Texas students rely more on loans and federal aid than other U.S. students. The average student loan debt for a Texas student is $8,127 for a two-year school and $13,392 for a four-year school *(Source: Texas Higher Education Coordinating Board, 2006).*

In 1964, a student working 19 hours a week could pay public university expenses. Today a student would have to work 55 hours a week to meet those costs.

Average Loan Debt for Texas Students

Type of Postsecondary Institution	Loan Debt
2-year college	$8,127
4-year college	$13,392

Source: Texas Higher Education Coordinating Board, 2006

Universal Access to Two-Year College Education a Wise Investment

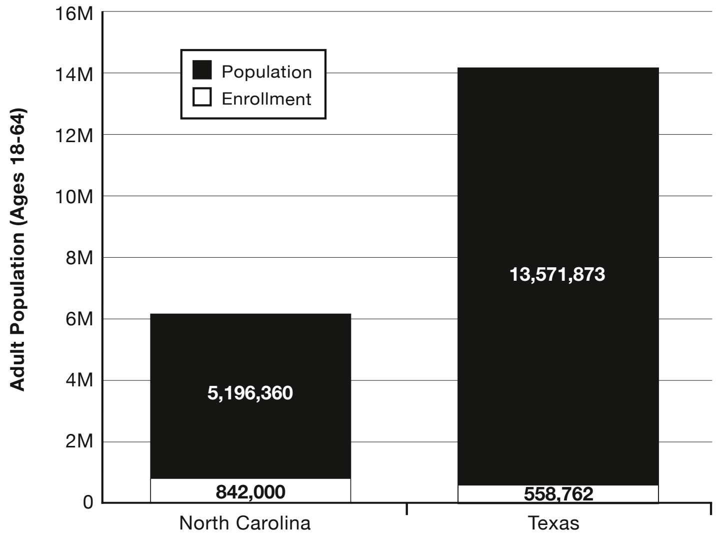
In Texas, over 558,000 students attend public two-year colleges, compared to approximately 485,000 who enroll in a four-year university. In fact, 60-70% of Texas college freshmen begin their higher education coursework at a community college *(Source: Texas Higher Education Coordinating Board, 2006)*.

Many states have recognized that a strong community college system is a major ingredient in a successful workforce development system and have invested accordingly. Yet in Texas, recent state budgets have neglected the growing needs of community colleges, shifting the responsibility for funding community colleges on to students and local taxpayers. Due to increased tuition charges, TEXAS Grants could cover 8,000 fewer students in 2005 – only 60,000, compared to 68,000 in 2004 *(Source: Texas Higher Education Coordinating Board, 2006).*

60-70% of Texas college freshmen begin their higher education coursework at a community college.

North Carolina provides an example of a vibrant community college system. Though is has fewer residents than Texas, North Carolina has a significantly higher community college enrollment.

North Carolina and Texas:
Comparison of Enrollment and Adult Population



Source: Population Reference Bureau Analysis, 2004; Texas Association of Community Colleges; North Carolina Community College System, CPPP Analysis, 2006

Just over 16% of adults in North Carolina ages 18-64 are enrolled in community colleges, compared to 4.3% of Texans in the same age bracket.

- Since 1994, the Texas community college formula appropriations have increased by 31%, while tuition and fees have increased 122.5% and property tax revenue has increased 139.4% *(Source: Texas Association of Community Colleges, 2005)*.

Best Practice

Georgia HOPE Grants: This flexible, need-based financial aid program is accessible to any Georgia resident without a bachelor's degree, regardless of high school graduation date, who seeks to attend a Georgia public technical college, community college, or take courses at a university. The grants pay tuition, books, and fees for technical diplomas and certificates and can be combined with federal Pell grants. The program is open to part-time students taking as few as three credits. HOPE Grants served 116,000 students in Fiscal Year 2004, with annual funding at $102 million. The average amount of student aid is approximately $900 per year.

Recent Developments & Pending Action

- **Tuition Deregulation:** In 2003, the Texas Legislature transferred tuition-setting authority from the Legislature to the board of regents at each public university system (HB 3015). As a result, tuition increased by 20-50% at the four largest university systems. The bill requires universities to set aside a percentage from the higher tuition and fees for assistance to students with financial need.
- **More Expensive Federal Student Loans:** In 2006, the U.S. Congress cut the federal student loan program by $12.7 billion over five years and increased the cost of all federal student loans. Stafford Loan borrowers face an average increase in interest payments of $2,000 a year; PLUS loans will cost an average of $3,000 more.
- **Texas Tomorrow Fund:** The Texas Tomorrow Fund was established in 1996 to allow parents to lock in the cost of tomorrow's college tuition and required fees at current prices. In 2003, the Legislature closed the program to new enrollment because of the tuition increases caused by deregulation.

RECOMMENDATIONS

- Increase formula appropriations for community colleges to minimize tuition and fee increases;
- Revive the Texas Tomorrow Fund;
- Expand Tomorrow's College Investment Plan, a tax-sheltered savings plan known as a 529 plan, and establish a state-sponsored match for low-income accountholders;
- Increase the number of need-based grants allocated to 2-year colleges;
- Establish a program similar to Georgia's HOPE Grant that would enable working adults to gain access to shorter-term postsecondary education and training linked to career advancement; and
- Revise need-based financial aid programs to accommodate part-time and "non-traditional" students.

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