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BillAnalysis

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Corporate Welfare and the Texas Event Trust Funds: SB 105

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Corporate Welfare in Texas

Corporate welfare, also known as economic development, is widely used throughout Texas and the nation. From local tax abatements to the Export-Import Bank, governments provide billions of dollars each year in benefits to businesses in an attempt to improve the outcomes of the marketplace. In Texas alone, tax abatements, renewable energy subsidies, development incentives, and direct payments total more than $3 billion annually.

Table 1: Largest Recipients of Corporate Welfare in Texas

Top 10 Parent Companies	Total Subsidy $	Number of Subsidies
Berkshire Hathaway	$802,720,000	31
Texas Instruments	$604,877,226	26
NRG Energy	$417,691,655	35
Samsung	$317,000,000	18
Amazon.com	$269,000,000	4
Motiva Enterprises	$257,400,000	7
FedEx	$250,000,000	9
E.ON	$192,188,686	20
Toyota	$188,300,000	10
Summit Power	$183,221,842	2

Source: Good Jobs First

Texas is a national leader in relying on the free market to increase prosperity. It does this by relying on the Texas Model of economic development—lower taxes and spending, less regulation, fewer frivolous lawsuits, and reduced reliance on the federal government—more than the collectivist approach where government planners decide what is best for the economy.

The results of the Texas Model speak for themselves. Texas ranks fifth lowest among the states in overall spending ($4,098 per capita versus $5,711 for the average state) and below average in economic development spending yet leads the nation in just about every economic category. And Texas isn't alone. States that cut taxes and return surpluses to taxpayers have much stronger economic growth than states that use government spending to grow an economy.

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Table 2: Economic Performance v. Spending Comparison—12 Largest States

State	Economic Performance	Per capita Spending	Eco Devo Spending Rank	Adjusted Poverty Rank
Texas	1	$4,098	18	17
North Carolina	8	$4,417	21	28
Georgia	17	$4,258	28	45
Florida	18	$3,724	13	49
Virginia	19	$5,483	31	12
Top 20 Avg		$4,396	22	30
Bottom 25 Avg		$5,934	13	36
New York	26	$7,091	3	46
California	31	$6,452	22	50
Pennsylvania	38	$5,688	15	24
Illinois	46	$5,397	14	30
New Jersey	47	$6,095	6	37
Ohio	49	$5,389	20	36
Michigan	50	$5,429	12	31

Source: Economic Performance Rankings: Rich States Poor States; Per Capita Spending: Ballotpedia; Economic Spending: W.E. Upjohn Institute for Employment Research; Poverty Rank: Texas Public Policy Foundation

Focusing on the Real Competition

One argument that is often made in favor of state economic development programs is that we have to do it because everyone else is doing it. But that is actually not the case. Several states that are Texas' key economic development competitors actually spend less per capita than Texas on economic development, while the economies of many of those who do spend more perform far worse than the Texas economy:

- **The Pretenders**
  - ***Louisiana:*** Ranks 4th in economic development spending; 33rd in economic performance
  - ***New Mexico:*** Ranks 1st in economic development spending; 36th in economic performance
  - ***California:*** Ranks 31st in spending per capita; 50th in adjusted poverty rate
  - ***New York:*** Ranks 3rd in economic development spending; 26th in economic performance
- **The Contenders**
  - ***Florida:*** Eliminated Enterprise Florida; ranks 50th in per capita spending; 18th in economic performance
  - ***North Carolina:*** Ranks 43rd in per capita spending; 21st (out of 32) in economic development spending; 8th in economic performance
  - ***Washington:*** Ranks 34th in per capita spending; 32nd (out of 32) in economic development spending; 2nd in economic performance

The Event Trust Funds

The Event Trust Funds aim to help local governments attract certain events to the state of Texas, with the premise that they can have a positive economic impact and increase tax revenues. Revenues from some taxes—general sales and use, hotel occupancy, motor vehicle rental, and alcoholic beverages—estimated to be generated in excess of what would be levied absent these events are used to subsidize the organization of these events.

In 1999, the 76th Texas Legislature created two funds to help the state attract the Olympic and Pan-American Games, the first of several trust funds dedicated to subsidizing event organization in the Lone Star State. The Major Events Trust Fund (METF), the Motor Sports Racing Trust Fund, and the Events Trust Fund (ETF) were all created by subsequent legislatures in the 2000s. In 2015, the 84th Legislature renamed the METF the Major Events Reimbursement Program (MERP), and moved the administration of the funds from the Comptroller of Public Accounts to the Office of the Governor's Economic Development and Tourism Division.

Among several requirements for eligibility, events and their site selection organizations have to be listed in statutes to receive funds from the MERP, while participation in the ETF requires an event to be held not more than once a year in Texas or an adjoining state. In both cases, the selection of the site must go through a competitive process in which Texas competes with other states.

Once a site has been selected, the endorsing municipality or county submits an application with an economic impact study estimating the number of out-of-state visitors, and their spending, to be generated by the event. The study and additional research are used by the economic development and tourism division to estimate the amount of incremental tax revenues that the event will generate during "economic impact windows" (30 days for the ETF and one year for the MERP), and hence the amount of disbursement available.

An event must generate an estimated amount of incremental tax revenues of at least $1 million. Local governments must contribute to the funds to participate; the state matches each dollar that counties or municipalities contribute with $6.25. Recipients are also required to certify the number of out-of-state visitors after the event has ended. The certification is used to adjust the calculation of incremental tax revenues and the eventual disbursement.

Allowable expenses (reimbursed up to 100 percent if sufficient tax receipts are deposited in the trust funds) include costs to prepare and conduct the event and principal or interest on notes used to build or improve facilities to host the event.

The Arguments

Supporters of the programs argue that hosting certain events will attract out-of-state visitors who not only will attend the local events but will spend time and money locally and stimulate the economy. According to economic impact studies that support this vision, out-of-state visitors create direct, indirect, and induced positive effects on the economy. In turn, growth in the economy means growth in tax revenues.

This serves to justify taxing visitors and using the revenues to subsidize certain events that might not have taken place in Texas without government support.

There are several problems with this vision, some of them detailed in two official reports: a 2014 report to the 83rd Legislature on the event trust funds by the Texas Comptroller of Public Accounts, and an audit report on the METF by the State Auditor's Office.

The first problem lies in economic impact calculation. Both reports question the accuracy of such calculation, because the data required—the actual number of out-of-state visitors, the length of their stay, and their expenditures—is not easily available. According to the state auditor's report, "the Comptroller's Office lacks assurance that the attendance information is valid," notably because the office did not review or approve the methodology used to reach the attendance number certified.

The calculation of incremental tax revenues is also problematic. It does not take into account possible negative effects, such as the crowding out effect—some local economic activity is reduced due to the event—nor does it take into account the expenses associated with administering the program, estimated to be more than 8,000 hours of staff time annually. The State Auditor's Office found out that the economic modeling system used for the calculation in some cases took into account more taxes than the categories allowed in statutes, probably leading to inflated payments to support some events.

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The Comptroller's report questioned whether ETF funds were a sine qua non condition in some cases, since some events took place in Texas before the fund was created—and hence happened without subsidies. The report adds that "many cities and counties choose to not participate in the ETF, and those cities should not be placed at an intrastate disadvantage in recruiting and retaining events."

Finally, the goal behind the Event Trust Funds, even if well-intentioned, points to a misunderstanding of how economies work. A bill analysis for HB 26—which changed the name of the Major Events Trust Fund to the Major Event Reimbursement Fund—explained that "the purpose of the funds is to attract visitors from out of state who will increase state and local tax revenue by spending money at local businesses and restaurants. By hosting major events and using the programs to encourage organizations to look to Texas for possible locations to hold their events, we stand to continue our growth in revenue." Economies do not prosper through central planning. In fact, central planning is far less efficient than the market in allocating resources based on consumer preference and thereby enhancing economic growth. By subsidizing some events over others with little knowledge of how successful these events will be, the funds actually contribute to reduced economic growth.

Recommendation: Repeal Texas' Event Trust Funds

Private event organizers are no different from other private businesses: any venture undertaken needs to ultimately bring more revenues than it costs. Events will go where they are most profitable; the state of Texas can only help in this area by limiting its taxes and regulations to a minimum. ✯

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