
# The Texas Enterprise Fund

## The Issue

Texas' low-tax, low-regulatory model continues to attract a highly skilled' labor force. According to the Texas Workforce Commission, the state added 166,900 new jobs in 2015, despite a weak energy sector and bottom-level oil prices. Nevertheless, there remains a faction in government who worry that Texas will be unable to compete with its sister states unless the government takes a more proactive approach and offers an incentive package for businesses willing to relocate.

The Texas Enterprise Fund is one such program. Established in 2003, the Texas Enterprise Fund provides cash grants to business projects that promise a significant amount of high-income job creation. Dubbed at the time of its enactment as Texas' "deal closer," the grants only apply when "a single Texas site is competing with another viable out-of-state option." The overarching goal is to ensure that Texas does not lose its competitive edge, should another state offer an incentive package of its own.

Texans frequently jibe that "everything is bigger" in their state. This expression, although a slight exaggeration in and of itself, has some truth to it, especially with respect to corporate subsidies. The Texas state government touts on its website that the Texas Enterprise Fund is the largest deal closing program in the nation, allocating an aggregate $595,526,696 as of June 2016. The awards vary in size. Maverick Arms received a $75,000 grant in 2014, while Texas Instruments secured $50,000,000 back in 2003. The state employs an analytical model uniformly to each applicant, which takes into account the number of jobs to be created, the project's expected timeframe, and average wages to be conferred before determining an appropriate amount. The state assures that, through this formula, Texans will see a full return on its investment, without exception.

Because of the amount of money involved, the Texas Enterprise Fund has multiple mechanisms in place in an attempt to safeguard taxpayer funds. The analytical model is one, but there are other standards and prerequisites that projects must meet. For example, applicants must have significant local support from the prospective Texas community. This is demonstrated in the form of local economic incentive offers. Applicants must show that they are a well-established and financially sound enterprise, operating in a mature industry that could potentially locate to another state or country. In addition, to narrow the net further, the final decision is left to the governor, lieutenant governor, and speaker of the Texas House. All three must unanimously approve of a project before it secures funding.

The final mechanism is not a precondition. Instead, it is the power the state retains after the project was approved and the money allocated. The contract signed by the company and the state creates a legal obligation for the company to fulfill its job target. Non-compliance entitles the state to claim damages as laid out in the agreement. This procedure is referred to as "clawback" and is designed to indemnify the taxpayer against a bad investment, while still rewarding the company for what verified job creation it managed to stir.

## The Arguments

In light of the "clawback" process and its other safeguards, the Texas Enterprise Fund is often cited by its supporters as an exemplar for others to follow—a corporate incentives program done right. They agree that the Texas Model has made the state an attractive site to do business but argue that other states could bridge the gap by offering a monetary inducement. The Texas Enterprise Fund, they assert, allows Texas to level the playing field in a targeted and controlled manner with little risk to the taxpayer. As evidence, supporters cite the number of jobs created: 77,269, according to a 2015 report by the Office of Economic Development and Tourism.

On a surface level assessment, the case in favor of the Texas Enterprise Fund seems to hit all the right notes. That melody, however, quickly turns discordant once all the talking points are pulled back. For example, in September 2014, the State Auditor's Office released a report that raised numerous questions as to the Texas Enterprise Fund's management and the standards used to determine awards. The report noted that many early recipients never submitted a formal application, but obtained sizeable grants nonetheless. *The Texas Tribune* reported that the unrequested amount tipped upwards of $170 million.

Although time would allegedly smooth over these early examples of mismanagement, the Texas Enterprise Fund suffered from an inadequate control structure throughout its existence. The 2014 audit observed that because of insufficient documentation and monitoring, "it was not always possible to determine whether award decisions were supported, or to determine the number of jobs that . . . the Texas Enterprise Fund created."

Likewise, the state only tentatively employed its "clawback" authority. Administrators, the report noted, had collected $14.5 million in "clawback" penalties between 2004 and 2012. The report, however, observed that the weak verification process "impair[ed] the Office's ability to consistently identify recipients' noncompliance with job-creation requirements." It suggested that an untold number of other companies could be in non-compliance and identified multiple instances where administrators altered the bargain so as to reduce a company's penalties.

Critics correctly argue that the procedural changes recommended by the State Auditor's Office would not be enough to overcome the inefficiencies incumbent to the program. By its very nature, the Texas Enterprise Fund must pick winners and losers. It must decide who deserves public investment and who does not. Established companies will always have a step up in navigating that process. In addition, the size of the offered grants means that many companies will apply in the hopes of striking it rich despite knowing that they do not quite meet the standard.

Texas assumes this risk under the idea that when the board is rigged, Texas must follow suit if it is to compete with other states. But when there is no upper limit, when each subsidy justifies the next, shouldn't lawmakers take a step back? The interstate subsidy race represents an ever spiraling stairway to more government intervention in the market. The solution is to step off and focus on the mechanism proven to create the most amount of growth without extra cost to the taxpayer: the Texas Model.

## Recommendations

Eliminate the Texas Enterprise Fund.

## Resources


*Spotlight: The Texas Enterprise Fund* by Bill Peacock and Cody Ross, the Texas Public Policy Foundation (Dec. 2015).

*An Audit Report on the Texas Enterprise Fund at the Office of the Governor*, Report No. 15-003, State Auditor's Office (Sept. 2014).

*Texas Enterprise Fund: 2015 Legislative Report*, Office of Economic and Development (Dec. 2014).





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