

# POLICYMAKER'S GUIDE TO CORPORATE WELFARE

## The Skills Development Fund

### The Issue

Developing new skills allows workers to competitively sell their man power in the workplace. It is also in a business's best interest to have a well-trained workforce to successfully compete in the marketplace. This is why many employers offer professional training to their employees.

Despite the existence of private, professional-training options, the Texas Workforce Commission (TWC) stepped in "to increase skill levels and wages of the Texas workforce." Since 1996, the Skills Development Fund (SDF) has financed the training of existing or newly hired employees of large (mainly) and small businesses.

The Skills Development program encourages individual businesses, business consortia, and trade unions with specific training needs to partner with a public community or technical college, the Texas A&M Engineering Service (TEEX), or a community-based organization in partnership with a public community or technical college or TEEX, to assess their training needs, build a fully customized training plan for existing or soon-to-be-hired employees, and apply for a grant. If the application is approved, the TWC authorizes a grant to the partner educational institution to fund the training program.

The Fund also supports three other initiatives: Skills for Small Business allows businesses with fewer than 100 employees to meet their training needs through a selection of courses in the same kind of educational institutions; Skills for Veterans aims to help post-9/11 veterans; a dual credit program supports courses offered for joint high school and college-level credit.

In 2015, the SDF received 54 applications for grants totaling nearly \$23 million. Forty-seven of them were funded, supporting 67 businesses, with an average award of \$450,315 to train a total of 3,664 newly hired employees and 9,431 employees in existing jobs. Micro employers (less than 21 employees) received 0.1 percent of the total amount of funds awarded, small employers (21 to 99 employees) received 3.5 percent, medium employers (100 to 499 employees) received 9 percent, and large employers (500 and more employees) received 87.4 percent of the funds awarded.

The SDF is funded by appropriations from the Texas Legislature, with \$58.8 million in appropriations from the General Revenue Fund for the 2016-2017 biennium. In 2005, the Employment and Training Investment Assessment (ETIA), a 0.10 percent tax on wages paid by employers and levied as part of the Unemployment Insurance Tax, was created to help fund the program up to the level appropriated by the Legislature. But transfers of ETIA revenues to fund the SDF occur only when the Unemployment Compensation Trust Fund is above 100 percent of its floor, which rarely happened.

### The Arguments

The Skills Development Fund is part of the state of Texas' economic development strategy. According to supporters of the

program, providing training opportunities to Texas workers empowers them to earn higher wages and supplies the state with a highly skilled labor, helping Texas retain and attract businesses. According to its annual report for FY 2015, the SDF helped 4,141 employers create 104,850 jobs since 1996, while increasing the average wage paid to trainees of the program from \$10.33 an hour in 1996, to \$27.10 in 2015.

This is hardly the Texas way to success though. The Texas Model won its spurs through a mix of limited government and free-market policies: low taxes, few regulations, and letting the market prevail—not allowing government to pick winners and losers with taxpayer money. The Skills Development Fund, however, supports the policy of transferring taxpayer money to financially support certain businesses. There are several problems inherent to such corporate welfare programs.

Such programs give preferential treatment to some businesses. In 2015, the SDF transferred in the form of training grants nearly \$23 million of taxpayer money to 67 businesses—nearly 90 percent of which were large businesses, choosing which businesses were more deserving than others of public money. Non-subsidized businesses are left with the unfair disadvantage of having to subsidize their competitors' training needs, sometimes leaving no room to fund their own.

Professional training is an investment. Businesses that decide to spend resources—time and money—in training programs do so because they expect a return on their investment. They alone can assess the pertinence of, and they should bear the responsibility and risks inherent to, such a choice. Taxpayers should not be forced to shoulder the cost of such an investment while some private businesses cash in on the rewards.

Lest we forget, before being redistributed, tax dollars have to be levied, leaving individual taxpayers, including workers, and businesses with less to spend, save, or invest as they see fit.

### Recommendations

- **Repeal the margin tax.** Eliminating this costly, inefficient tax will allow businesses to keep more of the money they generate to invest, including in training needs for their employees.
- **Repeal the Employment & Training Investment Assessment.** The ETIA is currently redirected to the Unemployment Compensation Trust Fund when the Fund is at or below 100 percent of its floor. But the rate of the replenishment tax, which is a flat tax paid by all employers to replenish part of the Unemployment Compensation Trust Fund, is reduced by the amount of the ETIA to offset the training assessment. Most years, the ETIA serves only as a pretense of businesses self-financing their training needs through the assessment. Getting rid of the ETIA will bring more transparency to taxpayers to understand how the Skills Development program is really funded.

- **Abolish the Skills Development Fund.** Government subsidies are prone to the waste of resources because they transfer taxpayer money to a few recipients, without the knowledge necessary to “pick winners.” They are inconsistent with a free-market system and a limited government, both of which are the conditions to a thriving Texas. ★

## **Resources**

[\*Skills Development Fund Annual Report – Fiscal Year 2015\*](#), Texas Workforce Commission (2016).

“[Skills Development Fund](#),” Texas Workforce Commission (accessed July 12, 2016).

“[Skills Development – Program Overview](#),” Texas Workforce Commission (accessed July 12, 2016).

“[Unemployment Insurance Tax Rates – Your 2016 Tax Rates](#),” Texas Workforce Commission (accessed July 12, 2016).

[\*Fiscal Size-up 2016-17 Biennium\*](#), Legislative Budget Board (May 2016).

