

EXECUTIVE SUMMARY OF SUNSET STAFF REPORT

Texas Economic
Development and Tourism
Office
Office of State-Federal
Relations

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Full Report Here
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This report includes the Sunset reviews of both the Texas Economic Development and Tourism Office (EDT) and the Office of State-Federal Relations (OSFR). Both offices are trusted programs within the Office of the Governor, embedded within and receiving administrative support from the office. However, each trusted program receives its own legislative appropriations and has its own executive director and staff. Generally, EDT and OSFR operate effectively, but both have opportunities to better engage with partners and stakeholders and make other improvements.

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Texas Economic Development and Tourism Office

The term “economic development” can mean a variety of activities — promoting a location as a business and tourist destination, administering workforce skills enhancement programs, or offering businesses monetary incentives, to name a few. While economic incentives, especially government-sanctioned ones, often get the most attention, EDT's main focus is its marketing and promotional work.

Local and regional entities, such as chambers of commerce, engage in their own economic development and tourism promotion, but Sunset staff found the Texas economy benefits from a state-level economic development function. Housed within the governor's office, EDT coordinates with other state agencies, supports the efforts of local and regional entities, and helps connect communities with economic development information, resources, and opportunities. In calendar year 2021 alone, EDT helped generate nearly 21,000 announced new jobs and over \$21 billion in announced capital investment. As such, Sunset staff recommends continuing EDT for 12 years.

EDT's Economic Development Finance Division (the Bank) administers several programs that offer financial incentives and assistance, like grants and loans, to encourage business growth that helps create positive economic outcomes for the state. However, the office has not adequately addressed or communicated to state leadership the problems with certain Bank programs. For example, the Product Development and Small Business Incubator program,

EDT's bond-supported lending program, has underperformed, jeopardizing its long-term financial stability at a potential future cost to the state. Additionally, confusion between EDT and its lending partners has impeded access to EDT's Original Capital Access Program (OCAP), one of the few funded state-level lending programs specifically intended for small and medium-sized businesses. Issues with OCAP could signal potential challenges as EDT sets out to administer similar lending programs in the future, including the federal State Small Business Credit Initiative for which Texas could receive up to \$472 million in federal funding. Adopting clearer rules and developing a plan for administering and communicating about its lending programs would help ensure EDT is better-positioned to administer current and future lending programs as efficiently and effectively as possible. Communicating more proactively and regularly with the Legislature would provide a more complete understanding of these programs and their performance to allow for timely changes to make best use of state funds.

Finally, as the primary governmental entity responsible for promoting and marketing Texas to out-of-state travelers, EDT provides critical assistance to the tourism industry. However, opportunities exist to strengthen supports for communities establishing or growing their travel and tourism economies, as well as to increase efficiency by reallocating EDT resources toward more community-focused tourism development.

Office of State-Federal Relations

The Office of State-Federal Relations (OSFR) coordinates state and federal programs and informs Texas leaders about federal actions that could affect state policy. OSFR's Advisory Policy Board — comprised of the governor, lieutenant governor, and speaker of the House of Representatives or their designees — has authority to oversee OSFR's operations and direct the office's priorities and strategies. Sunset staff found Texas benefits from having a designated state liaison in Washington, D.C. and recommends continuing the office for 12 years. However, OSFR's statute has not kept pace with the office's actual activities and capabilities, and needs to be updated.

The following material highlights Sunset staff's key recommendations for the Texas Economic Development and Tourism Office and the Office of State-Federal Relations.

Sunset Staff Issues and Recommendations

ISSUE 1

The State Has a Continuing Need for the Texas Economic Development and Tourism Office.

With the national landscape for business and tourism becoming increasingly competitive, Texas benefits from having a centralized entity that offers a statewide approach to highlighting the state's key assets and unique benefits. As a trustee program within the governor's office, EDT is well-positioned to connect and coordinate with local and regional entities to ensure Texas remains economically competitive both nationally and internationally.

Key Recommendation

- Continue EDT for 12 years and remove the Sunset date of EDT's enabling statute.

ISSUE 2

EDT Has Not Adequately Addressed or Communicated Problems With Its Bank Programs.

EDT's Economic Development Finance Division (the Bank) administers 10 active financial assistance and incentive programs, including the Product Development and Small Business Incubator (PDSBI) program and Original Capital Access Program (OCAP). Sunset staff found the PDSBI program lacks adequate staffing and expertise, and EDT's passive administration and ineffective communication to the Legislature have resulted in an uncertain future for the program, risking state funds. In addition, breakdowns in communication with lending partners have impeded OCAP, with no new loans being made under the program since 2018. While EDT has reported issues with some of its Bank programs to the Legislature, more detailed and consistent reporting could help improve the effectiveness and success of these programs.

Key Recommendations

- Require EDT to adopt rules governing how it disburses funds for OCAP and its other access to capital programs.
- Require EDT to develop a plan for administering and communicating about its lending programs.
- Require the Annual Bank Report to include additional information on the status of each program to better inform the Legislature.
- EDT should report to the Legislature on how to adjust or terminate the PDSBI program while limiting state losses.

ISSUE 3

EDT Could Provide More Efficient and Effective Assistance to Communities for Tourism Expansion.

EDT's role promoting Texas as a premier travel destination for domestic and international tourists helps generate significant revenue for local communities and the state. However, the COVID-19 pandemic hit the tourism industry harder than most, drastically reducing travel spending across Texas and hurting a wide range of travel-related businesses. As the industry continues to recover, EDT has an opportunity to rework and strengthen supports for communities, particularly those in small rural areas, as local stakeholders seek to establish or grow their tourism footprint. In doing so, the office could continue attracting travelers to the state while also broadening the number and type of communities experiencing tourism's benefits.

Key Recommendations

- EDT should consider adjusting its community tourism assessment procedures to improve their efficiency and expand their impact.
- EDT should consider increasing accessible research and educational opportunities for communities attempting to boost their tourism economies.

- EDT should consider creating a Tourism Friendly Community Designation to foster additional economic development across Texas.

ISSUE 4

The State Has a Continuing Need for the Office of State-Federal Relations.

As the designated state liaison in Washington, D.C., OSFR coordinates with its partners, tracks policy proposals, and facilitates connections between the state and federal government. Housing OSFR within the Office of the Governor continues to be the most appropriate structure, and OSFR's shared oversight between the executive and legislative branches through its Advisory Policy Board provides balanced oversight when needed. While OSFR still provides valuable assistance, the office's statute does not align with its current activities. Further, the office could better maximize the impact of its weekly update to ensure its partners are informed about key federal and state policy priorities for Texas.

Key Recommendations

- Continue OSFR for 12 years and remove the Sunset date of the office's enabling statute.
- Repeal outdated and unnecessary statutory provisions relating to OSFR's federal funds management.
- Amend OSFR's annual reporting requirement to remove outdated provisions and require OSFR to post each annual report on its website.
- OSFR should consider opportunities for improving the distribution process for its weekly update.

Fiscal Implication Summary

Overall, these recommendations would not have a fiscal impact to the state and could be implemented with existing resources. While some recommendations would require staff time to complete, others should improve efficiencies in the long term.