



GOVERNOR GREG ABBOTT

November 30, 2022

Ms. Jennifer Jones  
Executive Director  
Sunset Advisory Commission  
P.O. Box 13066  
Austin, Texas 78711-3066

Dear Ms. Jones,

On behalf of the two Trusteed Programs under Sunset Review: the Texas Economic Development and Tourism Office (EDT) and the Office of State-Federal Relations (OSFR), we are pleased to present the response to the Texas Sunset Advisory Commission Staff Report.

Both Offices would like to express their deep appreciation for the time and dedication that the Sunset staff spent to better understand these trusteed programs to complete these reviews. This included traveling to events; attending seminars, conferences, and speeches; and meeting and interviewing diverse stakeholder groups.

Our written response will discuss each of the Trusteed Programs separately.

**Texas Economic Development & Tourism Office (EDT)**

As noted in the report, economic development in the State of Texas is complex and the Texas economy benefits from a state-level economic development function. We appreciate the opportunity to educate the Sunset staff on our operations, programs and how our Office works with diverse stakeholders and local partners to ensure that the state's economy continues to grow and thrive, providing economic opportunities for all Texans.

The divisions under review (Business & Community Development, Economic Development Finance, and Travel Texas) provide critical services to Texas communities, businesses, and entrepreneurs. We look forward to implementing the identified efficiencies which will help us to better serve the State of Texas most effectively.

**ISSUE 1: The State Has a Continuing Need for the Texas Economic Development and Tourism Office**

The national landscape for economic development and tourism is increasingly competitive as states and countries across the world compete for quality jobs and investment from domestic and international companies, as well as tourist dollars. The services provided by EDT are critically important for Texas to maintain its national economic leadership and global reputation as a premier business location and tourist destination.

## **Sunset Staff Recommendations – Change in Statute**

### ***1.1 Continue EDT for 12 Years and remove the Sunset date of EDT’s enabling statute.***

We agree with the Sunset staff’s recommendation.

### ***1.2 Authorize EDT to create advisory committees in rule.***

We agree with Sunset staff’s recommendation. As there are several key industry sectors which are important to the state’s economy, EDT would likely establish advisory committees for these key industry groups.

### ***1.3 Remove the Aerospace and Aviation Advisory Committee from statute.***

We defer to the Legislature on this recommendation. Aerospace and Aviation is an important industry sector for the state’s economy and EDT has benefitted from the committee’s guidance since the Office of Aerospace and Aviation was eliminated and moved into the Economic Development and Tourism Office in 2003. If removed from statute, EDT anticipates continuing to operate the Aerospace and Aviation Advisory Committee as an industry sector advisory committee as identified in recommendation 1.2.

### ***1.4 Continue the Small Business Advisory Task Force and exempt it from automatic abolishment.***

We agree with the Sunset staff’s recommendation. Small business is the backbone of the Texas economy, and the Task Force plays an important role in providing feedback.

### ***1.5 Consolidate four of EDT’s reporting requirements and abolish one.***

We agree with Sunset staff’s recommendation.

## **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, designed to assist communities in their economic development efforts and companies that are considering relocation or expansion to Texas. These programs include the Texas Enterprise Fund, Events Trust Funds, Governor’s University Research Initiative (GURI), Texas Enterprise Zone Program, Product Development and Small Business Incubator (PDSBI) Program, Original Capital Access Program (OCAP), Texas Travel Industry Recovery Grant Program, Industrial Revenue Bonds, Spaceport Trust Fund, and Economic Development & Diversification In-state Tuition for Employees. Incentives, grants, and loans awarded from these programs total approximately \$130 million per year.

We respectfully disagree with Sunset staff’s statement that we have not addressed or communicated problems with Bank programs. EDT has a history of identifying concerns with respect to Bank

programs and working with the Legislature on solutions which may require legislative action. One example is the Texas Leverage Fund which resulted in sponsored bills in those sessions which would have addressed these concerns. While these bills were not passed, SB 1465 (87R), did establish the Texas Small and Rural Community Success Fund as a replacement to the Texas Leverage Fund. The challenge related to PDSBI is a recent issue which stems from two entities paying off their loans within the last eighteen months; one of which was an early payoff. Prior to this, the Program was operating as designed.

Sunset staff identified issues with two particular programs: the PDSBI program and OCAP. From 2016 to 2020, the Bank has experienced an annual staff turnover rate of 40%, which is more than double the state's turnover rate for this same period at 18.9%<sup>1</sup>. In 2020, EDT management established a new organizational structure for the Office, bringing back the Director position for the Bank, and deploying additional resources to support Bank program such as marketing. These actions have created additional stability and efficiencies. From 2020 to 2022, employee turnover has been reduced to 29%.

## **Sunset Staff's Recommendations – Change in Statute**

### ***2.1 Require EDT to adopt rules governing how it disburses funds for OCAP and its other access to capital programs.***

We respectfully disagree with Sunset staff's recommendation, in part. As previously mentioned to Sunset staff, the creation of a new Capital Access Program by the legislature in the 87th Legislative Session through HB 3271 (87R), means the Original Capital Access Program (OCAP) is no longer needed and will be winding down. This wind-down is one reason no new loans have been issued and all efforts since 2020 have been focused on finalizing outstanding claims by the two participating Community Development Finance Institutions (CDFIs). Additionally, the legislature changed the name to the "Original" Capital Access Program to differentiate it from the new program, in the 87th Legislative Session. We suggest the OCAP program be abolished, thereby nullifying the need for updated rules.

The OOG agrees that rules governing the dispersal of funds for other access to capital programs is necessary. In fact, the OOG is in the process of crafting rules as part of its coordinated efforts to spin up two new access to capital programs. Through the Texas Small Business Credit Initiative (TSBCI), which was authorized by HB 3271 (87R) and which will be funded through U.S. Department of the Treasury's State Small Business Credit Initiative, the OOG will administer up to \$472 million to help provide capital to small businesses. EDT anticipates proposing administrative rules for these new programs – the TSBCI Capital Access Program and the TSBCI Loan Guarantee Program – this winter, and will include rules related to the dispersal of funds. EDT anticipates launching the new programs in mid to late Spring 2023.

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<sup>1</sup> [SAO - An Annual Report on Classified Employee Turnover for Fiscal Year 2020](#)

EDT also recommends that the current balance in OCAP of \$3.7 million be utilized for the defeasance of the Product Development and Small Business Incubator (PDSBI) bonds. EDT will utilize existing statutory authority for this transfer, found under [Government Code §481.415](#).

***2.2 Require EDT to develop a plan for administering and communicating about its lending programs.***

We are neutral regarding Sunset staff's recommendation. EDT's Marketing team currently administers a robust [website](#) for all incentive programs under the Bank and oversees the development of website content and marketing collateral for the promotion of these programs. In addition, EDT has an existing marketing and communication strategy which includes outreach to stakeholders and community partners letting them know about economic development programs, including a regular update to the professional economic developer community in partnership with the Texas Economic Development Council. EDT will continue to research and implement effective communication strategies surrounding its lending programs to better communicate to both potential users of the programs, Texas communities and the Legislature.

***2.3 Require the Annual Bank Report to include additional information on the status of each program to better inform the Legislature.***

We are neutral regarding Sunset staff's recommendation. EDT is willing to add additional information to Annual Bank Report as directed and informed statute. However, EDT will comply with all relevant confidentiality provisions relating to customer information.

**Sunset Staff's Recommendations – Management Action**

***2.4 EDT should report to the Legislature on how to adjust or terminate the PDSBI program while limiting state losses.***

We agree with Sunset staff's recommendation. In past reports by the Economic Incentive Oversight Board (EIOB), the EIOB noted that there were issues with the PDSBI program and that it was not operating as the Legislature intended. In 2005 EDT issued bonds raising \$25 million for the Product Development Fund and \$20 million for the Small Business Incubator Fund, all of which must be paid back by 2045. However, the PDSBI statute also requires that the Economic Development Bank be the lender of last resort, which is a conflicting direction due to a potential lack of credit-worthiness on the part of the lendee. As stated in the report, only 13 loans have been made, because the pool of target companies is relatively small, including the statutory requirement that financing is necessary because full financing is unavailable in traditional capital markets or credit has been offered on terms that would preclude the success of the project.

There has not been communication with the Legislature on issues with the PDSBI Program because the identified concern is a recent one. At the time of the EIOB review, there were three PDSBI loans outstanding. One of those loans was paid off far-sooner than projected, which resulted in a challenge for the PDSBI Program, but a great success story for the state. Fujifilm Diosynth Biotechnologies received a loan of \$18.5 million with a 20-year term and repaid it in seven years. Since repaying the

loan, Fujifilm Diosynth has gone on to expand significantly in Bryan/College Station as a Contract Development and Manufacturing Organization (CDMO); their latest expansion was an investment of \$300 million creating 150 new jobs. The company -- the anchor tenant in the Brazos Valley Bio Corridor business park -- develops and manufactures recombinant biopharmaceuticals and viral gene therapies and employs 900 FTEs. In addition, their expansion has been a catalyst to attract more life science-related companies to the region.

Because of the conflicting directions for the PDSBI program, we would suggest further study to provide a recommendation to the Legislature on how to adjust or terminate the program to minimize state losses.

### **Issue 3: EDT Could Provide More Efficient and Effective Assistance to Communities for Tourism Expansion**

EDT is the only State entity responsible for tourism promotion to non-Texans. The program's mission is to enhance and extend local economic development efforts by marketing Texas as a premier travel destination in out-of-state domestic and international markets, thereby generating non-Texan travel to the state and ultimately creating revenues and jobs. These functions are critically important for Texas to maintain and grow market share for tourism in an increasingly competitive travel market.

While we understand the beneficial nature of providing assistance to Texas communities, it is only one of the many duties Travel Texas performs. The majority of staff resources are required to effectively fulfill the primary mission of marketing and promoting Texas to out-of-state domestic and international markets. The ability of Travel Texas to enhance or expand assistance to individual communities for tourism development is limited without additional staff to effectively manage such initiatives.

#### **Sunset Staff Recommendations – Change in Statute**

##### ***3.1 Require EDT and its MOU partners to produce the state's strategic tourism plan biennially, and update statutory submission deadlines.***

We agree with the Sunset Staff's recommendation. Moving the strategic tourism plan from an annual to biennial report should eventually free up some staff time, however there may be more work required in the short-term to establish new procedures with MOU partners. The proposed timeframe for delivering the first biennial strategic tourism plan, by December 1, 2024, is reasonable and achievable.

#### **Sunset Staff Recommendations – Management Action**

##### ***3.2 EDT should consider adjusting its community tourism assessment procedures to improve their efficiency and expand their impact.***

We agree with Sunset staff's recommendation and understands the beneficial nature of tourism assessments to Texas communities. EDT is always open to improving the community tourism assessment procedures and currently collaborates with state agency partners and stakeholders to assess

the program. However, Travel Texas staff will need additional resources to implement many of the potential updates suggested.

***3.3 EDT should consider increasing accessible research and educational opportunities for communities attempting to boost their tourism economies.***

We agree with Sunset staff's recommendation and has no issues with increasing training for communities to better utilize Travel Texas research. Many of the items suggested are already utilized in some format and Travel Texas can look for ways to expand and enhance this outreach. However, research must continue to primarily inform tourism promotion efforts and guide development of an effective and efficient marketing plan to increase travel to the state by domestic and international visitors, as directed in statute.

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

We are neutral regarding Sunset staff's recommendation as the development of a Tourism Friendly Community designation was already underway when the pandemic hit in 2020. Travel Texas staff have already consulted with two divisions within EDT, the Texas Music Office and the Texas Film Commission, on program requirements. Notably, both the Texas Music Office and the Texas Film Commission each have one FTE dedicated to their respective "Friendly Community" designation programs, so Travel Texas will need additional staff resources to be able to implement this program effectively.

We do not agree with Sunset staff that these recommendations have no fiscal impact, as the primary purpose of Travel Texas is marketing and promotion and not community development. Travel Texas will need to add additional staff to implement these recommendations.

**Office of State-Federal Relations (OSFR)**

As noted in the report, the Office of State-Federal Relations is the State's designated liaison in Washington, DC to represent the state government before federal partners and coordinate state and federal governmental functions. We agree that Texas benefits from having a state government presence in Washington, DC and the state has a continuing need for OSFR.

We appreciate the opportunity to educate the Sunset Advisory Commission on OSFR's work and appreciate the productive dialogue and constructive feedback as we work to best serve Texans. The OOG appreciates the Sunset Advisory Commission's commitment to amending OSFR's statute to modernize its functions and better enable it to serve its purpose. We look forward to implementing the recommendations put forward to better serve our constituents and governmental partners.

**Issue 4: The State Has a Continuing Need for the Office of State-Federal Relations**

**Sunset Staff Recommendations – Change in Statute**

***4.1 Continue OSFR for 12 years and remove the Sunset date of the office's enabling statute.***

We agree with Sunset staff's recommendation.

***4.2 Repeal outdated and unnecessary statutory provisions relating to OSFR's federal funds management.***

We agree with Sunset staff's recommendation.

***4.3 Amend OSFR's annual reporting requirement to remove outdated provisions and require OSFR to post each annual report on its website.***

We agree with Sunset staff's recommendation.

**Sunset Staff Recommendations – Management Action**

***4.4 OSFR should consider opportunities for improving the distribution process for its weekly update.***

We agree with the need to maximize the impact and usefulness of OSFR's weekly updates to the Advisory Policy Board and other partners and will explore ways to improve its distribution process.

Thank you for the opportunity to provide comments on the Sunset staff report. We look forward to working with the Sunset Commission and the legislature to carry out the recommendations identified in the review process.

Sincerely,



Jordan Hale  
Deputy Chief of Staff  
Office of Governor Greg Abbott

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