

# Texas Department of Economic Development

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## Agency at a Glance

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The Texas Department of Economic Development helps develop and promote the Texas economy by:

- marketing Texas as a premier business location and tourist destination;
- providing financial, location, and export assistance to Texas businesses and communities; and
- serving as a source of economic development information.

## Key Facts

- **Funding.** The Department's budget for fiscal year 2002 totaled \$32.4 million. Almost 60 percent of the agency's revenue comes from the hotel/motel occupancy tax for tourism (\$19.2 million). The remaining 41 percent comes from state General Revenue (\$5.2 million), federal funds (\$3.6 million), and other sources of revenue (\$4.4 million).
- **Staffing.** The agency currently operates with 127 full-time equivalent employees – all in the agency's Austin headquarters, except for one employee in the agency's Mexico City office.
- **Tourism.** The agency advertises and markets Texas as a top tourist destination, both domestically and internationally. The Department received over 1.9 million consumer inquiries about travel in Texas in fiscal year 2002.
- **Market Texas Business.** The Department markets Texas as a premier business location and provides location and export assistance to Texas businesses and communities. Of the 391 businesses assisted in fiscal year 2002, 19 relocated or expanded to Texas. The agency organized 17 international trade events in fiscal year 2002 and generated 7,417 international trade leads.
- **Business Incentives.** The agency assists Texas businesses and communities in obtaining capital for business expansion and growth through a variety of programs, including the Capital Access Program and Texas Enterprise Zones. In fiscal year 2002, the agency's business incentives programs reported creating 3,638 jobs and retaining 3,150 jobs.
- **Economic Information Clearinghouse.** The Department's Clearinghouse provides businesses and communities with access to state and local economic and demographic data, as well as information on a broad range of economic development programs. In fiscal year 2002, the Clearinghouse reported nearly 1.4 million users on its four key Web sites.

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**Agency Head**

Jeff Mosley, Executive Director  
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**Recommendations**

1. Abolish the Texas Department of Economic Development and Transfer Its Functions to a Newly Created Office Within the Office of the Governor.
2. Reduce the Number of State Entities Involved in Tourism Activities from Eleven to Five.
3. Exempt Tourism Advertising and Placement Expenditures from State HUB Subcontracting Requirements.

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**Issue 1** | **The Lack of a Direct Link to the Governor's Office Limits Effective Coordination and Administration of the State's Economic Development Efforts.**

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**Key Findings**

- While the State has a continuing need to market and promote the state to ensure Texas remains competitive in today's economy, the Texas Department of Economic Development does not have the ability to effectively coordinate state economic development programs and services across agencies to meet the demands of prospective companies.
- Having a separate state agency to administer and coordinate state economic development functions results in unnecessary administrative cost.
- Other states' economic development functions are generally more directly linked with the Governor.

Although limited, the State's role in economic development is necessary to ensure the state remains economically competitive both nationally and internationally. Promoting and marketing the state helps define the state's overall benefits to companies considering locating in Texas and differentiates Texas from its competitors. However, repeated reorganizations have diluted the Texas Department of Economic Development's primary role of marketing and promoting the state. In addition, without an entity to facilitate access to all of the State's economic development programs and services among various state and local entities, the State cannot meet the demands of businesses in today's economy. As currently structured, the Department is unlikely to effectively fulfill this role of facilitator.

**Recommendation****Change in Statute****1.1 Abolish the Texas Department of Economic Development and transfer its primary economic development functions to the Office of the Governor.**

The Department would be abolished and its primary functions transferred to the newly-created Texas Economic Development Office within the Office of the Governor, headed by an Executive Director appointed by the Governor. The primary functions of the Office would include:

- marketing and promoting the state as a premier business location and tourist destination;
- facilitating the location, expansion, and retention of domestic and international business investment to the state;
- promoting and administering business and community economic development programs and services in the state, including business incentives programs;
- providing Texas businesses and communities assistance with exporting products and services to international markets; and
- serving as a central source of economic research and information.

This recommendation would establish a new structure and clear focus for the State's economic development efforts. Placing the State's key economic development activities within the Office of the Governor would better enable the state to develop and administer a coordinated economic development system to ensure Texas remains competitive. Additionally, this structure would help facilitate timely access to and coordinate the State's economic development information, programs, and services across agencies; and encourage more direct accountability of the State's economic development activities to the Governor.

The Office of the Governor and the Department would formulate a transition plan, including a reasonable timetable for the effective reconstitution of the Department's mission, strategies, performance measures, functions, and staff, as they relate to key economic development clusters in the state of Texas. The Governor would be authorized to have a final audit conducted of the Department's programs, finances, and management.

Abolishing the Department and transferring its primary economic development functions would result in an estimated annual savings of at least \$1.4 million and a reduction of 23 employees. These savings would result from abolishing the Department's Governing Board and reducing administrative costs by 50 percent, since the Governor's Office already provides administrative support to other programs. The Governor would also be authorized to determine and address the potential need for reorganization of the Department's programs, priorities, staff, and advisory committees. Additional administrative and programmatic savings could be realized once the State's economic development functions are transferred and reorganized.

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## **Issue 2 | Fragmentation of the State's Tourism Activities Results in Poor Coordination and Other Inefficiencies.**

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### **Key Finding**

- Eleven state entities play a role in promoting or assisting travel and tourism in Texas.

In 2002, the State spent more than \$38 million on tourism-related programs within 11 different state entities. The 11 state entities engaged in tourism activities do not always work together to maximize the State's investment in promoting and developing tourism. The Legislature has repeatedly mandated better coordination among the agencies involved in tourism; however, despite some improvements, the fragmentation of tourism efforts among these 11 entities continues, resulting in an inefficient use of state resources.

## Recommendation

### Change in Statute

#### **2.1 Reduce the number of state entities involved in tourism activities from eleven to five.**

Although 11 state entities conduct tourism activities, the State's primary tourism functions are carried out by the following five state agencies.

- Texas Department of Economic Development
- Texas Department of Transportation
- Texas Parks and Wildlife Department
- Texas Historical Commission
- Texas Commission on the Arts

This recommendation would consolidate the tourism staff and functions from the remaining six entities – the Texas Department of Agriculture; Texas A&M University; Office of Music, Film, Television and Multimedia; Texas General Land Office; Texas Department of Public Safety; and Texas State Preservation Board – into the five main tourism agencies listed above.

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## **Issue 3 | The Department's Tourism Mandate to Advertise Out-of-State Conflicts with State HUB Requirements.**

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The Department is required to advertise and promote the state as a tourist destination to non-Texans. To comply with this mandate, tourism advertising and marketing must be conducted outside of the state. This requires the purchase of advertising placements and marketing services from out-of-state vendors who cannot qualify as Historically Underutilized Business (HUB) vendors because, by statutory definition, HUB vendors must be Texas residents.

## Recommendation

### Change in Statute

#### **3.1 Exempt tourism advertising and placement services expenditures from state HUB subcontracting requirements.**

Exempting the Department's tourism advertising and placement services expenditures from HUB subcontracting requirements would allow the Department to comply with its statutory mandate to advertise the state as a tourist destination to non-Texans without violating the state's HUB requirements.

## Fiscal Implication Summary

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This report contains recommendations that would have annual savings of \$1.4 million and a reduction of 23 full-time equivalent employees (FTEs). These recommendations are discussed below, followed by a five-year summary chart.

- **Issue 1** – Abolishing the Department and transferring its primary economic development functions to the Governor’s Office should result in annual savings of at least \$1.4 million and a reduction of 23 FTEs. These initial savings would result from abolishing the Department’s Governing Board and reducing administration costs by 50 percent. Additional savings should be realized once the functions are transferred and reorganized.
- **Issue 2** – Reducing the number of state entities involved in tourism activities from 11 to five would result in a fiscal impact to the State. While savings may occur through administrative efficiencies, the amount of potential savings could not be estimated .

Fiscal Year	Savings to the General Revenue Fund	Change in FTEs from 2003
2004	\$1,400,000	-23
2005	\$1,400,000	-23
2006	\$1,400,000	-23
2007	\$1,400,000	-23
2008	\$1,400,000	-23