
Texas Department of Economic Development

Staff Contact: Jennifer Jones

S.B. 275 Nelson (Solomons/Keffer, J.)

Summary

The Texas Department of Economic Development was created in 1997 when the 75th Legislature abolished the Texas Department of Commerce and transferred its functions to this new agency. The Department has three primary missions: 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 central source of economic development information. The Department's annual appropriation is about \$32.4 million and it operates with 127 staff positions.

Senate Bill 275 contains the Sunset Commission's recommendations to abolish the Department and transfer its primary functions to the Office of the Governor; and to improve the coordination of the State's tourism efforts. The Legislature added several other statutory modifications to S.B. 275, including transferring the functions of the Texas Aerospace Commission to the Governor's Office, and establishing an economic development bank for communities and businesses. Overall, S.B. 275 will result in an annual savings of more than \$1.6 million and a reduction of 27 staff positions. The list below summarizes the major provisions of S.B. 275, and a more detailed discussion follows.

Sunset Provisions

1. Abolish the Texas Department of Economic Development and Transfer Its Functions to the Texas Economic Development and Tourism Office Within the Office of the Governor.
2. Improve Coordination Among the State Agencies Involved in Tourism Activities.

Provisions Added by the Legislature

3. Transfer the Functions of the Texas Aerospace Commission to the Texas Economic Development and Tourism Office.
4. Create the Texas Economic Development Bank Within the Office.
5. Simplify the Administration and Operation of the Texas Enterprise Zone Program.
6. Require the Office to Identify Industry Clusters on a Regional and Statewide Basis, and to Assist the Clusters in Strengthening Their Competitiveness.
7. Require the Office to Coordinate State Efforts Regarding Advanced Technology Industries in the State.
8. Require the Office to Establish Incentive Grants for Fuel Ethanol and Biodiesel Producers.

9. Authorize Certain Cities and Counties to Use State and Local Taxes to Support Major Sporting Events.
10. Require the Office to Promote the Sports Industry and Related Industries in This State.

Sunset Provisions

1. Abolish the Texas Department of Economic Development and Transfer Its Functions to the Texas Economic Development and Tourism Office Within the Office of the Governor.

Senate Bill 275 establishes a new structure and focus for the State's economic development efforts. The bill abolishes the Texas Department of Economic Development and transfers its primary functions to the Texas Economic Development and Tourism Office (the Office) within the Office of the Governor, headed by an Executive Director appointed by the Governor. The legislation specifies that the primary functions of the Office 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.

The bill also continues the Office for the standard 12-year period and requires the current staff of the Department to re-apply for their positions at the Office.

2. Improve Coordination Among the State Agencies Involved in Tourism Activities.

Instead of reducing the number of state entities involved in tourism activities, the Legislature modified the Sunset provision to improve coordination among the tourism agencies. Senate Bill 275 designates the Texas Economic Development and Tourism Office as the primary state entity responsible for out-of-state tourism marketing and promotion efforts. The bill also requires the Office to enter into a memorandum of understanding (MOU) with the Texas Parks and Wildlife Department, Department of Transportation, Historical Commission, and Commission on the Arts to direct the efforts of these agencies in all matters related to tourism, including each agency's tourism priorities and activities. The MOU also authorizes the Office to direct the agencies to develop an annual strategic tourism plan, and to share costs related to administrative support of tourism activities.

Provisions Added by the Legislature

3. Transfer the Functions of the Texas Aerospace Commission to the Texas Economic Development and Tourism Office.

The Legislature added a provision to update and transfer the functions of the Texas Aerospace Commission to the Aerospace and Aviation Office within the Texas Economic Development and Tourism Office. The bill requires the Aerospace and Aviation Office to perform the following duties.

- Analyze the State's economic position in aerospace and aviation industries.
- Develop short and long-term business strategies as part of an industry-specific strategic plan to promote aerospace and aviation industry facilities in the state.
- Act as a liaison with other state and federal entities to support marketing the State's aerospace and aviation capabilities.
- Promote and develop spaceports in this state.
- Provide technical support and expertise regarding aerospace and aviation business matters.

Senate Bill 275 abolishes the seven-member policymaking body of the Texas Aerospace Commission, but requires the Governor to appoint a seven-member Aerospace and Aviation Advisory Committee. The Executive Director of the Texas Aerospace Commission becomes the Director of the Aerospace and Aviation Office. See page 13 of this report for more details on this transfer.

4. Create the Texas Economic Development Bank Within the Office.

The Legislature added this provision to create the Texas Economic Development Bank to ensure that communities and businesses have access to capital for economic development purposes. The bill creates the Economic Development Bank by combining several existing financial incentive programs, including the Capital Access Program and the Texas Leverage Fund. The bill requires the bank to provide competitive, cost-effective state incentives to expanding businesses relocating to or operating in this state and to assist these entities in accessing capital to fund their economic development efforts.

5. Simplify the Administration and Operation of the Texas Enterprise Zone Program.

The Legislature made several changes to the Texas Enterprise Zone program to simplify access to and operation of the program. The bill removes the zone application requirement and instead, authorizes areas to automatically qualify based on poverty levels. The bill also removes the seven-year zone designation time limit and authorizes the zone designation to remain in effect as long as an area qualifies, based on its poverty level. The bill requires the Comptroller to perform a single audit to review eligible expenditures and the number of jobs created.

The bill also authorizes the Office to designate multiple concurrent enterprise projects and establishes different levels of tax refunds based on the amount of capital investment made in the project, and the number of jobs created or retained. Finally, the bill makes the program self-funded by requiring 3 percent of any tax benefit received as a result of participating in the program to be transferred to the bank.

6. Require the Office to Identify Industry Clusters on a Regional and Statewide Basis, and to Assist the Clusters in Strengthening Their Competitiveness.

The Legislature added this provision that requires the Office to identify industry clusters and evaluate the effectiveness of providing services to them, including the potential return to the state from devoting resources to a targeted industry cluster.

7. Require the Office to Coordinate State Efforts Regarding Advanced Technology Industries in the State.

As part of the Office's focus on industry clusters, the Legislature also added this provision to require the Office to coordinate state efforts to attract, develop, or retain advanced technology industries in the state, including semiconductor, information and computer technology, biotechnology, and nanotechnology.

8. Require the Office to Establish Incentive Grants for Fuel Ethanol and Biodiesel Producers.

The Legislature added this provision to require the Office to establish a grant program for fuel ethanol and biodiesel producers as an incentive for the development of the renewable fuel industry in Texas. Through the legislation, producers are eligible to receive a 20 cent per gallon grant for each gallon of fuel produced. The bill establishes a fuel ethanol and biodiesel production account to fund the grants. The account consists of a 3.2 cent per gallon fee on producers and a general revenue match of 5.25 times the amount of fees collected.

9. Authorize Certain Cities and Counties to Use State and Local Taxes to Support Major Sporting Events.

The Legislature added this provision that allows certain cities and counties to capture and use the incremental portion of state and local taxes that are generated when a major sporting event occurs to help cover costs related to the event. These costs may include bidding for, preparing for, and conducting the event. Senate Bill 275 authorizes the Office of the Comptroller and the Texas Economic Development and Tourism Office to control the deposit and disbursement of these funds. The taxes include sales taxes, hotel occupancy taxes, and alcohol beverage taxes; and the incremental amount is determined by the Comptroller.

10. Require the Office to Promote the Sports Industry and Related Industries in This State.

The Legislature added this provision to require the Office to promote the sports industry and related industries in this state, if funds are appropriated for this purpose. The Office will promote Texas as a host for national and international amateur athletic competition, and other sports or fitness programs. Senate Bill 275 also authorizes the Governor to establish a Texas Sports Commission, composed of volunteers who are knowledgeable about or active in amateur sports.

Removed Provision

1. Exempt Tourism Advertising and Placement Expenditures From State HUB Subcontracting Requirements.

The Legislature did not adopt the Sunset recommendation exempting the Department's tourism advertising and placement services expenditures from state Historically Underutilized Business (HUB) subcontracting requirements.

Fiscal Implication Summary

Senate Bill 275 will result in an annual savings of more than \$1.5 million and a reduction of 25 staff positions. Abolishing the Texas Department of Economic Development and transferring its primary economic development functions to the Governor's Office will result in an annual savings of \$1,348,966 in administration costs and a reduction of 25 staff positions. Streamlining state economic development functions will result in an additional savings of \$176,200. Transferring the functions of the Texas Aerospace Commission will result in additional annual savings of \$127,689 and a reduction of two staff positions, as discussed on page 13 of this report.

Fiscal Year	Savings to the General Revenue Related Funds	Change in Staff Positions From 2003
2004	\$1,525,166	-25
2005	\$1,525,166	-25
2006	\$1,525,166	-25
2007	\$1,525,166	-25
2008	\$1,525,166	-25