



SUNSET ADVISORY COMMISSION

Texas Department of
Economic
Development



Staff Report
November 2002

TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT

SUNSET STAFF REPORT

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SUMMARY



Summary

Sunset Staff Report

Texas Department of Economic Development

The Texas Department of Economic Development underwent Sunset review in 2001. Sunset staff concluded that although most economic development in Texas occurs locally, the State needs to maintain a limited role in economic development. However, Sunset staff also concluded that the Department had yet to succeed as an effectively run state agency and cited numerous management and oversight concerns, as well as poor coordination of the State's tourism efforts. These management and oversight problems also contributed to the State Auditor's finding of gross fiscal mismanagement of the Smart Jobs Program.

Based on these findings, the Sunset Commission recommended continuing the Department for a two-year "probationary" period, transferring the Smart Jobs Program to the Texas Workforce Commission, and creating a Tourism Coordinating Council. However, during the 77th Legislative Session, agreement regarding the ongoing need for and functions of the agency could not be reached. The Sunset bill did not pass, but the Legislature continued the Department for two years and placed the agency under Sunset review again for 2003. The Legislature did not continue the Smart Jobs Program, which expired on December 31, 2001.

The current Sunset review considered the numerous discussions regarding the necessary functions and appropriate structure of the State's economic development agency from the previous legislative session, as well as the interim work of the Governor's Task Force

for Economic Growth, Senate Committee on Business and Commerce, and House Economic Development Committee. Sunset staff also re-examined the management and oversight issues previously identified and found that the Department has made improvements in these areas. However, Sunset staff concluded that without a stronger link to the Governor's Office, the agency's ability to effectively market the state and coordinate state economic development programs and services is limited. Sunset staff also concluded that tourism coordination efforts could be improved across the 11 different state entities involved in tourism in Texas.

Without a stronger link to the Governor's Office, the agency's ability to market and coordinate state economic development efforts is limited.

For more information, contact Jennifer Jones, (512) 463-1300. Sunset staff reports are available online at www.sunset.state.tx.us.

The recommendations in this report are designed to address these problems. However, in presenting this report, Sunset staff acknowledges that much public deliberation by the Sunset Commission, the Legislature, and others is needed to determine the best way to restructure economic development at the state level. Regardless of the final outcome, Sunset staff believes focusing the agency on its primary mission of marketing and promoting the state, and linking it more directly with the Governor's Office would ensure a more integrated and effective state economic development effort.

A summary follows of the Sunset staff recommendations on the Texas Department of Economic Development.

Issues / Recommendations _____

Issue 1 Texas Needs to Focus Its Economic Development Efforts on Marketing and Promotion, With A Stronger Link to the Governor's Office.

Key Recommendations

- Restructure the Texas Department of Economic Development as an Office directly linked to the Office of the Governor, focused on marketing and promoting the state.
- Transfer the Department's business incentives programs to the Comptroller of Public Accounts.

Issue 2 Tourism Efforts Across Multiple State Entities Lack a Comprehensive Strategy and Clear Accountability to the Legislature.

Key Recommendations

- Establish the State Agency Tourism Council in statute, and require a plan to coordinate tourism efforts among its members.
- Require the Council to report biennially to the Legislature on the impact of tourism efforts across agencies and the results of the Council's strategies to increase coordination.

Fiscal Implication Summary _____

This report contains two recommendations that would have a fiscal impact resulting in an estimated savings of \$795,000 and a reduction of 14 FTEs. These recommendations are discussed below, followed by a five-year summary chart.

- **Issue 1** - Restructuring the Department as an Office within the Governor's Office should save approximately \$594,000 and eliminate nine FTEs. These savings would result from reducing administration costs and abolishing the Department's Governing Board. Transferring the Department's business incentives programs to the Comptroller of Public Accounts would result in administrative savings totaling approximately \$201,000 and a reduction of five FTEs.

Fiscal Year	Savings to General Revenue	Change in FTEs from FY 2002
2004	\$795,000	-14
2005	\$795,000	-14
2006	\$795,000	-14
2007	\$795,000	-14
2008	\$795,000	-14

ISSUES / RECOMMENDATIONS

Issue 1

Texas Needs to Focus Its Economic Development Efforts on Marketing and Promotion, With A Stronger Link to the Governor's Office.

Summary

Key Recommendations

- Restructure the Texas Department of Economic Development as an Office directly linked to the Office of the Governor, focused on marketing and promoting the state.
- Transfer the Department's business incentives programs to the Comptroller of Public Accounts.

Key Findings

- The State has a continuing need to market and promote the state to ensure Texas remains competitive in today's economy.
- The Department does not have the ability to effectively coordinate state economic development programs and services across agencies to meet the demands of prospective companies.
- Directly administering and overseeing business incentive programs diverts the Department from its primary marketing and promotion focus.
- Other states' economic development functions are generally more directly linked with the Governor.

Conclusion

Although limited, the State's role in economic development is necessary to ensure the state remains economically competitive both nationally and internationally. The Sunset review evaluated the numerous attempts to restructure the State's economic development agency and its various functions and activities. The review concluded that repeated reorganizations have diluted the agency's primary role of promoting and marketing the state. Marketing helps define the state's overall benefits to companies considering locating in Texas and differentiates Texas from its competitors. However, Sunset staff concluded that marketing and promotion functions could be better administered with a direct link to the Governor's Office.

The review also considered the State's fragmented economic development system and concluded that, without an entity to facilitate access to all of its economic development programs and services, the State cannot meet the demands of businesses in today's economy. However, as currently structured, the Department is unlikely to effectively fulfill the role of facilitator. Establishing a direct link with the Governor's Office would better position the agency to be able to facilitate access to and coordinate the various economic development functions, currently scattered among several state and local entities, to help ensure a more integrated state economic development system.

Support

In Texas, several entities perform economic development activities.

- The Texas Department of Economic Development (the Department) is the primary economic development agency for the state. The Department is governed by a nine-member Board and operates with an annual budget of approximately \$32 million and 127 employees.

The Department helps promote economic development in the state through its marketing, location assistance, clearinghouse, and business incentives programs. The Department markets Texas both as a business location and tourist destination. It also provides location assistance through its lead generation and dissemination activities, as well as export assistance through its international business functions. The Department's Clearinghouse serves as a primary source of economic development information for the state. Finally, the agency administers a variety of business incentives programs that assist Texas businesses and communities in obtaining capital for business expansion and growth.

- Several other state agencies are also involved in or contribute to economic development in the state. Agencies such as the Texas Workforce Commission, Texas Department of Agriculture, Texas Department of Transportation, and Comptroller of Public Accounts provide specific economic development-related services. These services include providing specific economic information; promoting certain industries, like agriculture; administering business incentive programs; and even promoting and developing tourism for the state.

In addition to specific economic development programs and services, these agencies, and others, also contribute to the state's overall business environment. This environment helps make the state more attractive to companies, as well as to the employees who must relocate here. Key components of the business environment include the state's educational system, healthcare and regulatory environments, and physical infrastructure. All of these components, as well as the specific economic development services, are important and must be included in any efforts to attract and compete for new businesses.

- Overall, the State's direct role in economic development in Texas is limited. Local governments and the private sector carry out most economic development efforts in the state. In 1989, the Legislature authorized eligible cities to impose a local sales and use tax dedicated

The Department markets Texas as a business location and tourist destination.

to helping finance community economic development projects. As of July 2002, more than 494 cities had adopted economic development sales taxes. The dollars generated by the sales tax are primarily used for job creation and retention activities at the local level.

The State has a continuing need to market and promote the state to ensure Texas remains competitive in today's economy.

- The Sunset review evaluated the State's various economic development functions and concluded that promoting and marketing the state as a business location and tourism destination is necessary to ensure Texas remains competitive both nationally and internationally for investment and jobs. A coordinated, statewide economic development and marketing effort helps define the state's overall benefits to customers and creates a brand identity to differentiate the state from its competitors.¹ Tourism promotion helps increase tourism and hotel tax revenues, and creates jobs, while marketing Texas as a business location results in business leads that could create jobs and boost economic development throughout the entire state.²

Several reports on state economic development activities, as well as numerous economic development professionals, have repeatedly cited the need to market the state as both a business location and tourism destination. In fact, during both Sunset reviews of the Department, the primary need identified for the State's economic development entity was to promote and market the state for business and tourism.³

- The Department has recognized the need for a competitive marketing campaign to market Texas as a business location; however, a stable funding source for this effort does not currently exist. Instead, the Department funded its first business marketing campaign through the sale of surplus property. The \$100,000 marketing campaign generated 352 inquiries from companies interested in locating in Texas and 12 actual prospects.

The Department does not have the ability to effectively coordinate state economic development programs and services across agencies to meet the demands of prospective companies.

- While state agencies coordinate some of their economic development efforts, no single entity is responsible for coordinating the State's economic development system overall. When companies are interested in doing business in Texas, they typically have to deal

Texas needs a coordinated, statewide marketing effort to remain economically competitive.

Businesses interested in moving to Texas must deal with several different state agencies.

individually with several different agencies that each administer their own specific economic development programs and services. With so many different agencies involved, companies may not know the full range of information, services, and incentives that are available, or where to go to get them. Also, the clarity, consistency, and accuracy of the information and assistance cannot be ensured.

For example, a manufacturing company looking to locate in Texas may go to the Texas Department of Economic Development for information about specific cities or counties, then to the Comptroller for information about state taxes, and to the Texas Workforce Commission for workforce and job training information and funding. A manufacturing company associated with a particular industry, might also work with other state agencies like the Texas Department of Agriculture or Texas Aerospace Commission, each of which is responsible for promoting a distinct industry.

- Although considered the State's principal economic development agency, the Department lacks clear authority to effectively coordinate and facilitate access to all of the State's economic development programs and services. Without this authority, the Department cannot quickly pull all the necessary agencies and their services together to develop a single, unified state response when a prospective company asks what Texas has to offer if it locates here.

Instead, economic information, services, and incentives must be negotiated and coordinated among the many different agencies. This difficult and time consuming process may not be the most effective way to present what specific programs, services, and incentives the state has to offer, as well as quality of life issues, such as the state's education and healthcare systems, to ensure the State remains competitive in attracting new business.

State agencies respond more quickly to new business prospects when the Governor's Office is directly involved.

- Unlike many other states, in Texas, the Governor's role in developing a response to, and an incentive package for, prospective companies is informal and involvement usually occurs on an ad hoc basis. When the Governor is more formally involved or directly requests assistance, agencies are typically more responsive to providing information and services. As such, a total package of economic development information, services, and incentives can be developed quickly to ensure the state remains in the competition for a prospective company's business.

Directly administering and overseeing business incentive programs diverts the Department from its primary marketing and promotion focus.

- Repeated reorganizations have left the Department with many programs and additional statutory responsibilities ancillary to its primary marketing and promotion functions. In addition to marketing and promoting the state, the Department is also responsible for directly administering and overseeing several business incentive programs that provide or facilitate loans, grants, and tax incentives to encourage economic development. These programs include the Texas Leverage Fund, Industrial Revenue Bond Program, Texas Small Business Development Corporation, Capital Access Program, Linked Deposit Program, Texas Enterprise Zone Program, and Defense Economic Readjustment Zone Program. Each program is described in more detail in the Agency Information Section of this report.
- The duties and skills necessary to directly administer and provide effective oversight of grant and funding programs are very different from marketing or promotion, and have not always proven a good fit with the agency. As noted in reports by the State Auditor's Office, recent Sunset reviews, and the Department's own internal audit reports, the Department has not always carried out these administrative responsibilities effectively.⁴

Directly administering grant and funding programs have not always proven a good fit with the agency.

Other states' economic development functions are generally more directly linked with the Governor.

- In research of other states, Sunset staff found that state economic development agencies and their functions are generally more directly linked and accountable to the Governor. In several states, cabinet-level Secretaries, appointed by the Governor, oversee state economic development agencies. In other states, economic development activities are administered by public-private partnerships. These partnerships are typically governed by a board of directors, with the Governor serving as or appointing the Chair.
- In Texas, other statewide marketing and promotion efforts are already administered through the Governor's Office. Both the Texas Film Commission, which promotes the development of the film, television, and multimedia industries in the state, and the Texas Music Office, which promotes the development of the music industry, are housed as trustee programs in the Governor's Office.

Recommendation

Change in Statute

1.1 Restructure the Texas Department of Economic Development as an Office directly linked to the Office of the Governor, focused on marketing and promoting the state.

This recommendation would continue the Department, renamed the Texas Economic Development Office, and statutorily direct it to focus specifically on marketing and promoting the state as a business location and tourism destination. The Office would be continued for 12 years until 2015, and operate as a trusteed program within the Governor's Office. The Texas Economic Development Office would administer the Department's current tourism, corporate expansion and recruitment, international business, and clearinghouse functions.

As part of this recommendation, the Department's nine-member governing Board should be abolished. An Executive Director, appointed by the Governor and confirmed by the Senate, would administer and oversee the Office's economic development operations. The Executive Director would be directly accountable to the Governor, and the Governor would be responsible for overseeing the administration of the Office and providing direction for its economic development activities. The Governor would appoint a board of directors for the Texas Economic Development Corporation and the Small Business Industrial Development Corporation, and serve as an ex officio member. The Executive Director of the Texas Economic Development Office would also serve ex officio on the board of directors.

As the State's principal economic development agency, the Office would be charged with facilitating access to and coordinating the numerous economic development programs and services across agencies. Other state agencies with economic development programs and services would be required to cooperate with the Office and provide information about and access to their economic development information, programs, and services.

1.2 Transfer the Texas Department of Economic Development's business incentives programs to the Comptroller of Public Accounts.

This recommendation would transfer the administration and oversight of the Department's current business incentives programs to the Comptroller of Public Accounts. These programs include the Texas Leverage Fund, Industrial Revenue Bond Program, Texas Small Business Development Corporation, Capital Access Program, Linked Deposit Program, Texas Enterprise Zone Program, and Defense Economic Readjustment Zone Program. Transferring these programs would allow the Department to focus on its primary role of marketing and promoting the state instead of directly administering and overseeing grant and loan programs. As the State's principal economic development entity, the Office would, however, continue to provide information about and facilitate access to these programs.

The Comptroller's Office already provides economic development assistance to local governments and businesses including information on grants, starting a business, coping with regulations, expanding markets, as well as data on local economies. The Comptroller also works with counties, cities, and other local entities that collect state taxes and offers workshops on the collection and use of local economic development sales taxes.

Management Action

1.3 The Office and the Comptroller of Public Accounts should formulate a transition plan for the transfer of the business incentives programs.

The transition plan should be developed as soon as legislation affecting the transfer is passed and authorized by the Governor. The plan should include:

- a timetable with specific steps and deadlines needed to carry-out the transfer in compliance with the effective date of the transfer provision;
- a method for transfer of all program records, including personnel records, to the Comptroller of Public Accounts;
- assurance that the Office will continue to make businesses and other interested parties aware of the programs and refer future inquiries about them to the Comptroller;
- identification and development of specific program coordination actions by the Comptroller and the Office; and
- specify other steps necessary to complete the transfer of the programs.

This recommendation would help ensure that the transfer of the business incentives programs is in accordance with state law and has minimal effect on the programs' functions. The intent of this recommendation is that the transfer of these programs would occur as soon as possible after the effective date of the legislation, but no later than January 1, 2004.

Impact

These recommendations would establish a new structure and clear focus for the State's economic development agency. Placing the state's key economic development activities in the Governor's Office would better enable the state to develop and administer a unified marketing effort and coordinated economic development system to help ensure Texas remains competitive. 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. Transferring the responsibility for administering and overseeing business incentives programs would create a more streamlined economic development agency focused solely on promoting and marketing the state.

Fiscal Implication

These recommendations would result in an estimated savings to the State of \$795,000 and a reduction of 14 FTEs. Restructuring the Department should result in an estimated savings of \$594,000 and a reduction of nine FTEs. These savings would result from abolishing the Department's Governing Board and reducing administrative costs by 25 percent. After these reductions, approximately \$30 million and 100 FTEs would transfer to the Governor's Office for administration of the marketing, tourism, corporate expansion and recruitment, international business, and clearinghouse functions.

Transferring the administration of the Department's business incentives programs to the Comptroller of Public Accounts should result in administrative savings of approximately \$201,000 and a reduction of five FTEs. After these reductions, an estimated \$773,400 and 11 FTEs would transfer to the Comptroller of Public Accounts for the administration of the business incentives programs.

Fiscal Year	Savings to General Revenue	Change in FTEs from FY 2002
2004	\$795,000	-14
2005	\$795,000	-14
2006	\$795,000	-14
2007	\$795,000	-14
2008	\$795,000	-14

¹ Texas Strategic Economic Development Planning Commission, *The Texas Strategic Economic Development Plan 1998-2008*, (Austin, Texas, October 1998). p. 32.

² Texas Department of Economic Development, *Self-Evaluation Report Revised Edition*, submitted to the Sunset Advisory Commission (August 2002). p. 139 and 143.

³ Interviews with Texas Economic Development Council members (South Padre Island, Texas, January, 2000 and San Antonio, Texas, September 2002); and Interviews with economic development stakeholders (Laredo, Texas, November 1999; and Dallas, Arlington, Longview, and Tyler, Texas, January 2000).

⁴ Office of the State Auditor, State of Texas, *An Audit Report on the Department of Economic Development*, Report no. 00-008 (Austin, Texas, January 2000), Key Points Page; and Sunset Advisory Commission, *Texas Department of Economic Development Staff Report*, (Austin, Texas 2000).

Issue 2

Tourism Efforts Across Multiple State Entities Lack a Comprehensive Strategy and Clear Accountability to the Legislature.

Summary

Key Recommendations

- Establish the State Agency Tourism Council in statute, and require a plan to coordinate tourism efforts among its members.
- Require the Council to report biennially to the Legislature on the impact of tourism efforts across agencies and the results of the Council's strategies to increase coordination.

Key Findings

- Eleven state entities play a role in promoting or assisting travel and tourism in Texas.
- No comprehensive plan exists to coordinate tourism efforts across the 11 state entities that promote or assist tourism in Texas.
- The Legislature, and others, have no means to comprehensively evaluate tourism efforts across the numerous state entities involved in tourism activities.

Conclusion

Sunset staff reviewed the tourism functions of the Texas Department of Economic Development and the coordination between the Department and the other state agencies involved in tourism. Sunset staff concluded that the 11 different state entities engaged in tourism do not always work together to maximize the State's investment in promoting and developing tourism. The State spent more than \$38 million on tourism-related programs in 2002. The Legislature has repeatedly mandated the key agencies involved in tourism to coordinate their efforts, and despite some improvements, nothing exists to allow the Legislature to evaluate the degree to which these agencies work together to ensure the effective use of the State's investment in tourism.

Although agencies have improved coordination in the last two years, nothing ensures that this trend will continue. In addition, tourism coordination efforts are fragmented between a State Agency Tourism Council, which includes all 11 state entities, and a memorandum of understanding that provides a better framework for coordination, but only includes five of the 11 agencies. Establishing the State Agency Tourism Council in statute, with clear statutory goals and reporting requirements, would better ensure accountability to the Legislature and coordination that maximizes efficiency of tourism efforts across all 11 state entities.

Support

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

- Altogether, the State through 11 entities, spent more than \$38 million on tourism-related activities in FY 2002. The Department takes the lead in promoting Texas as a premier tourist destination. In fiscal year 2002, the agency spent more than \$19 million on tourism and travel promotion. The Department advertises outside the state, both in the U.S. and internationally, through television commercials, print ads, and radio. The Department also markets Texas through trade shows and interaction with the media, conducts travel research, and assists communities in developing tourist attractions.
- The Texas Department of Transportation (TxDOT) operates the 12 travel information centers throughout the state and produces several tourism publications, including the *Texas Highways Magazine* and the *Texas State Travel Guide*. TxDOT also operates a toll-free number for travel counseling and ordering the travel guide.
- Seven other state entities encourage travel to Texas by promoting specific sectors of the State's tourism industry, such as Texas parks, historic sites, or the arts. These agencies include the Texas Parks and Wildlife Department (TPWD); Texas Historical Commission (THC); Texas Commission on the Arts (TCA); General Land Office; Department of Agriculture; Texas A&M University; and the Office of Music, Film, Television and Multimedia.
- Two agencies, the Department of Public Safety and the State Preservation Board, play a more limited role in state tourism. The Department of Public Safety ensures visitor safety and provides road side assistance to visitors. The State Preservation Board provides tours of and maintains the State Capitol, and operates the Bob Bullock Texas State History Museum.
- All 11 entities voluntarily participate in a State Agency Tourism Council. Staff from each agency form the Council and meet informally to discuss their respective agencies' efforts in terms of marketing, advertising, and developing tourism. The chart, *State Tourism in Texas*, outlines the tourism functions and budgets of each of these agencies.
- Five of the 11 agencies (the Department, TxDOT, TPWD, THC and TCA) attempt to coordinate their tourism efforts through a memorandum of understanding (MOU), as mandated in rider by the 76th Legislature. Adopted in late November of 2000, the goals of the MOU include producing an annual tourism marketing

Texas state agencies spent more than \$38 million on tourism in FY 2002.

State Tourism in Texas		
Agency	Tourism Functions	FY 2002 Tourism Budget
Texas Department of Economic Development	<ul style="list-style-type: none"> ● Advertise and market Texas through television, print ads, and trade shows ● Operate toll-free number to order the <i>Texas Travel Guide</i> ● Tourism research ● Assist communities to develop tourism industry 	\$19 Million
Texas Department of Transportation	<ul style="list-style-type: none"> ● Produce travel information and literature such as the <i>Texas Travel Guide</i>, accomodating guide, and Texas Highway Map ● Operate 12 travel information centers ● Operate toll-free number for travel information and to order the <i>Texas Travel Guide</i> ● Produce <i>Texas Highways</i> Magazine 	\$15.9 Million
Texas Parks and Wildlife Department	<ul style="list-style-type: none"> ● Market and advertise state parks and historical sites ● Produce brochures on state parks ● Operate 36 visitors centers in state parks ● Assist communities to develop tourism industry ● Produce <i>Texas Parks and Wildlife</i> Magazine 	\$2.7 Million
Texas Historical Commission	<ul style="list-style-type: none"> ● Preservation and promotion of Texas historical sites ● Assist communities to develop tourism industry ● Produce brochures on Texas trails 	\$650,000*
Texas Commission on the Arts	<ul style="list-style-type: none"> ● Provide grants to communities and businesses to advance the arts industries ● Assist communities to develop tourism industry 	\$56,000
Texas Department of Agriculture	<ul style="list-style-type: none"> ● Encourage consumers to buy tourim related Texas products ● Encourages tourism to Texas vineyards ● Promotes nature tourism 	\$2,150
Texas A&M University	<ul style="list-style-type: none"> ● Provide tourism hospitality training, technical assistance and workshops ● Promotes nature tourism 	N/A
Office of Music, Film, Television and Multimedia	<ul style="list-style-type: none"> ● Market the State as a location for film and video shooting, and assist Texas music businesses 	N/A
Texas General Land Office	<ul style="list-style-type: none"> ● Promote tourism indirectly through active land management 	N/A
Texas Department of Public Safety	<ul style="list-style-type: none"> ● Assist with visitor safety and provide roadsie assistance to visitors 	N/A
Texas State Preservation Board	<ul style="list-style-type: none"> ● Provides tour of the Texas State Captiol and operates the Bob Bullock Texas State History Museum 	N/A
* \$150,000 is a set aside from the Department's portion of the Hotel Tax, and \$500,000 is set aside from TxDOT.		

overview that describes the combined tourism marketing efforts of each agency; achieving a coordinated tourism marketing effort; coordinating participation in domestic and international travel trade shows and initiatives; coordinating the use of technology as a means of marketing and developing Texas as a tourist destination, and coordinating research work plans and projects.¹

No comprehensive plan exists to coordinate tourism across the 11 state entities that promote or assist tourism in Texas.

- In 2000, the Sunset review of the Department documented repeated legislative mandates requiring the tourism agencies to coordinate their tourism functions, and the agencies' failure to comply with these mandates in a timely manner.²
- The MOU adopted by five of the key tourism agencies in November of 2000 provides a good base, but does not include all of the state entities involved in tourism. Therefore, these other entities continue to operate outside of these efforts, cannot take advantage of coordinated research, and do not appear in the annual tourism marketing overview.

The Legislature, and others, have no means to comprehensively evaluate tourism efforts across the numerous state entities involved in tourism activities.

- The Legislature budgeted more than \$38.3 million for tourism-related programs in 2002, but has no means for evaluating the overall impact of this investment across agencies. Of the 11 agencies, only the Department and TCA have tourism-related key performance measures. In 2001, members of the Legislature expressed concern that the Department could not provide a complete picture of all of the State's tourism efforts and the return on investment (ROI) across agencies.
- The 11 agencies evaluate their tourism-related functions individually, not as a coordinated, statewide tourism effort. This evaluation typically includes a calculation of ROI for each agency's tourism related activities. However, each agency calculates ROI differently, so an overall return on investment could not be obtained by combining these measures across agencies.

Eleven agencies evaluate their tourism-related functions individually, not as a coordinated, statewide tourism effort.

For example, the Department contracts with Texas A&M University to calculate ROI through a survey designed to evaluate the impact of the Department's advertising on visitors' travel and spending. Texas A&M staff use the survey to determine the percentage of travelers that were influenced by the Department's advertising and apply this percentage to the amount of dollars spent by out of state visitors. Other agencies compare total visitor dollars spent in their specific area, such as in parks or museums, to agency funds spent

on advertising and marketing without trying to determine whether the agencies' advertising or marketing actually influenced visitor spending.

In addition, the agencies have no statutory requirements to document and report to the Legislature the strategies and outcomes of working together across agencies on tourism. Without statutory goals and reporting requirements, issues such as calculating ROI and developing a unified strategic plan for the State's tourism-related activities are left unresolved.

Recommendation

Change in Statute

2.1 Establish the State Agency Tourism Council in statute.

Establishing the Council in statute would ensure participation by all of the entities that play a role in promoting or assisting travel and tourism in Texas, and serve as a vehicle for greater coordination across agencies. The Council would be composed of representatives from all 11 entities involved in tourism-related functions – the Department of Economic Development; Department of Transportation; Parks and Wildlife Department; Historical Commission; Commission on the Arts; Texas A&M University; Office of Music, Film and Television; General Land Office; Department of Agriculture; Department of Public Safety; and State Preservation Board. The Department's representative would serve as Chair and TxDOT's representative would serve as Vice Chair. The Council should meet at least quarterly. Member agencies would provide support to the Council on a pro rata basis, as determined necessary by the Council.

2.2 Require the Council to develop a comprehensive plan to coordinate the State's tourism efforts among its members.

The plan should detail the specific travel and tourism promotion objectives and responsibilities of each entity. The plan should also include strategies for coordinating marketing efforts, trade show activities, community assessments, travel research, the sharing of resources and technology, and ways to avoid duplication. Each entity would be required to provide information about their programs, services, and budgets; and input from their respective agency interest groups. The plan should also address each entity's role in implementing the strategy. To coincide with the entities' other planning efforts, the comprehensive tourism plan should be adopted no later than January 1, 2004.

2.3 Require the Council to report biennially to the Legislature on the impact of tourism efforts across agencies and the results of the Council's strategies to increase coordination.

The Council should report periodically on how its plan has resulted in better coordination. This report should also include the agencies' tourism-related performance, such as return on investment, the number of traveler inquiries answered, the number of travelers assisted, and the number of tourism-related publications produced and delivered. The report should address the methodology used by each agency to calculate ROI. The report should be provided to the Governor and the Legislature in December of each even number year, just prior to the start of the legislative session.

Impact

Statutory establishment of the State Agency Tourism Council would ensure greater accountability to the Legislature for the State's significant investment in tourism and that agencies better coordinate their tourism functions. Establishing statutory guidelines for the Council to develop a coordination plan would provide a clear direction for these efforts and a way to measure and report on the results. Greater coordination between the state agencies involved in tourism would minimize duplication between agencies, provide better customer service, and provide a more consistent marketing effort.

Fiscal Implication

This recommendation would have no significant fiscal impact to the State. The existing resources of the member agencies would support the State Agency Tourism Council. Improved coordination between these agencies should result in savings through greater efficiency, which could not be estimated for this report, but could be used to increase tourism efforts by the member agencies.

¹ Memorandum of Understanding Between the Texas Department of Economic Development, the Texas Department of Transportation, Texas Parks and Wildlife Department, the Texas Commission on the Arts, and the Texas Historical Commission, November 2000.

² Texas Sunset Advisory Commission, *Texas Department of Economic Development Staff Report*, (Austin, Texas, 2000), p. 30.

ACROSS-THE-BOARD RECOMMENDATIONS

Texas Department of Economic Development	
Recommendations	Across-the-Board Provisions
	A. GENERAL
Not Applicable	1. Require at least one-third public membership on state agency policymaking bodies.
Update	2. Require specific provisions relating to conflicts of interest.
Not Applicable	3. Require that appointment to the policymaking body be made without regard to the appointee's race, color, disability, sex, religion, age, or national origin.
Not Applicable	4. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Not Applicable	5. Specify grounds for removal of a member of the policymaking body.
Update	6. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Not Applicable	7. Require training for members of policymaking bodies.
Not Applicable	8. Require the agency's policymaking body to develop and implement policies that clearly separate the functions of the policymaking body and the agency staff.
Not Applicable	9. Provide for public testimony at meetings of the policymaking body.
Update	10. Require information to be maintained on complaints.
Already in Statute	11. Require development of an equal employment opportunity policy.
Apply	12. Require information and training on the State Employee Incentive Program.

AGENCY INFORMATION

Agency Information

Agency at a Glance

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 FTEs - all in the agency's Austin headquarters, except for one FTE in the agency's Mexico City office.
- **Tourism.** The agency advertises and markets Texas as a top tourist destination, both domestically and internationally (\$19.2 million in fiscal year 2002). The Department received over 1.9 million consumer inquires 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 FY 2002, the agency's business incentives programs reported creating 3,638 jobs and retaining 3,150 jobs.

*On the Internet
Information about the
Department is available
at www.txed.state.tx.us*

The agency reported nearly 1.4 million users on its Web sites in FY 2002.

- **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 FY 2002, the Clearinghouse reported nearly 1.4 million users on its four key Web sites.

History of the State's Role in Economic Development

- 1959** State economic development role, including business recruitment and trade promotion, first authorized as part of the Texas Industrial Commission.
- 1963** Texas Tourist Development Agency created and funded to market Texas as a travel destination to people outside the state.
- 1987** Texas Department of Commerce (TDOC) created to centralize Texas economic development efforts through the merger of economic development, trade, tourism, and job training functions from eight separate agencies.
- Separate non-profit corporation created to solicit private donations to support TDOC's international and business development programs.
- 1989** TDOC's international trade role expanded - in addition to Mexico City, foreign offices set up in Taiwan, Japan, Germany, and Korea.
- 1991** TDOC's links to the Governor's Office strengthened. Executive Director made a direct gubernatorial appointee, with responsibility for running the agency. TDOC's Governing Board converted into a policy board.
- 1993** Smart Jobs Program established at TDOC to provide grants to Texas businesses for customized training to promote high-skill, high wage jobs.
- 1995** Administration of the Job Training Partnership Act transferred from TDOC to the newly-created Texas Workforce Commission, significantly reducing TDOC's budget and staffing.
- State funding for all foreign offices except the Mexico City office eliminated.
- 1997** TDOC abolished and its functions transferred to the newly-created Texas Department of Economic Development in an attempt to redefine and target the role of the State's economic development agency.

Direct link to Governor's Office changed with establishment of a more traditional governing board to oversee the agency and an Executive Director hired by the Board, not appointed by the Governor.

- 2001** The agency underwent Sunset review; however, the Legislature did not pass the agency's Sunset bill. Rather, the Legislature continued the agency for another two years until 2003. The Legislature did not continue the Smart Jobs program, which expired December 31, 2001, and transferred the Department's Office of Rural Affairs and the Texas Capital Fund to the Texas Department of Agriculture.

Organization

Governing Body

A nine-member Board governs the Texas Department of Economic Development. The Governor appoints the members, with the advice and consent of the Senate, to staggered six-year terms, and designates one member to serve as Chair. Four of the members serve in specific slots required by statute. The chart, *Texas Department of Economic Development Governing Board*, lists the current Board members, their terms, positions on the Board, and place of residence.

Texas Department of Economic Development Governing Board			
Name	Term	Position	Residence
Macedonia "Massey" Villareal, Chair	08/17/01 - 02/01/07	Public Member	Houston
Marion Szurek, Vice Chair	04/12/99 - 02/01/05	Tourism Designee	San Angelo
Limas Jefferson, Secretary	04/12/99 - 02/01/05	Public Member	Houston
Hector Delgado	08/17/01 - 02/01/07	Public Member	El Paso
Mark Langdale	09/16/97 - 02/01/03	International Trade Designee	Dallas
George T. Richardson	08/20/98 - 02/02/03	Rural County Designee	Littlefield
Rance G. Sweeten	09/16/97 - 02/01/03	Economic Development Practioner	McAllen
Thomas L. Whaley, Sr.	08/17/01 - 02/01/07	Public Member	Marshall
Martha Wong	04/12/99 - 02/01/05	Public Member	Houston

The Board directs the activities of the Department by establishing policies and rules governing its programs. The Board reviews the Department's budget and prepares an annual report of the Department's activities. The Governing Board hires the Executive Director and the Internal Auditor, and must approve the agency's internal audit plan.

In addition, the Department's Board serves as the Board of Directors for two non-profit corporations: the Texas Economic Development Corporation and the Texas Small Business Industrial Development Corporation. The Texas Economic Development Corporation raises private funds in support of agency programs and activities. The Texas Small Business Industrial Development Corporation provides capital for businesses and municipalities.

The Board uses six subcommittees to oversee various functions of the agency. Five advisory committees also assist the Board and Department staff. A brief description of these subcommittees and advisory committees can be found in Appendix A.

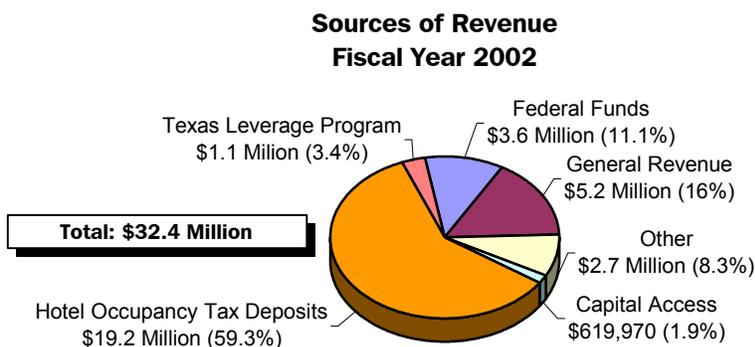
Staff

The Department is budgeted for 144 FTEs, but currently operates with 127 FTEs. These employees all work in the agency's headquarters in Austin, except for one employee in the agency's Mexico City office. The *Texas Department of Economic Development Organization Chart* depicts the agency's organizational structure. Appendix B provides a comparison of the agency's workforce composition to the minority civilian labor force.

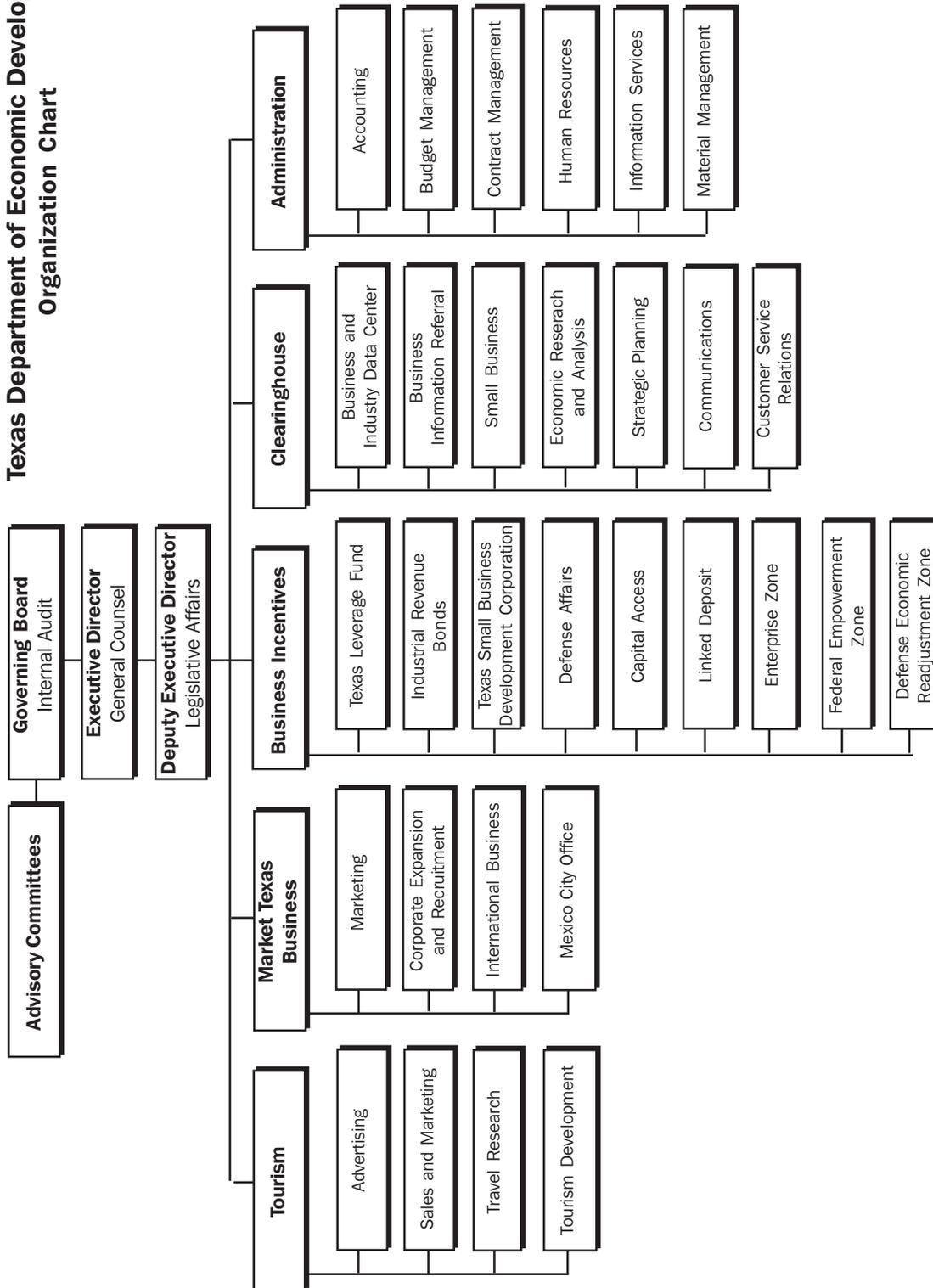
Hotel tax revenues make up almost 60 percent of the agency's funding.

Funding

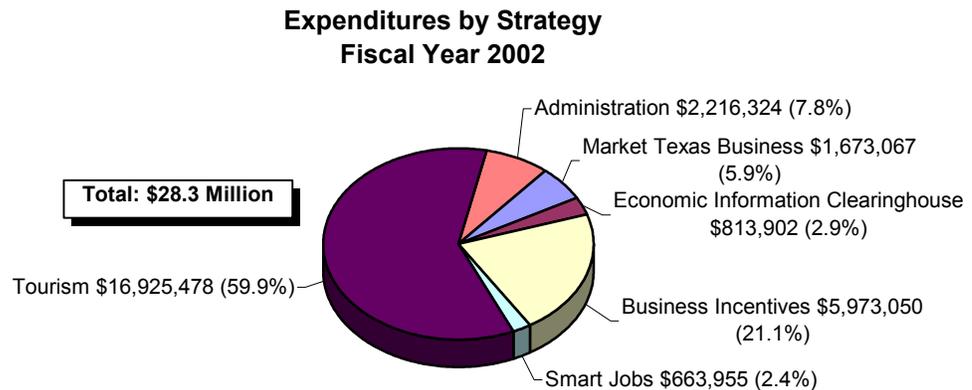
The agency received funding totaling \$32.4 million in fiscal year 2002. The Hotel Occupancy Tax Deposits comprised almost 60 percent of the agency's funding. The chart, *Sources of Revenue*, provides additional funding detail.



**Texas Department of Economic Development
Organization Chart**



The agency's expenditures totaled \$28.3 million in fiscal year 2002. Tourism received the most funding, followed by Business Incentives. Additional detail can be seen in the chart, *Expenditures by Strategy*.



The Department's use of Historically Underutilized Businesses (HUBs) in purchasing goods and services can be seen in Appendix C. The agency exceeded state goals in the professional services and commodities category in fiscal year 2002, but fell short in the other services category.

Agency Operations

The following material highlights the Department's key activities.

The Department promotes travel to Texas through television and radio commercials, print ads, and the Internet.

Market Texas Tourism

Market Texas Tourism, the Department's largest program, promotes Texas as a premier travel destination with a researched based program. The Department advertises and markets Texas outside the state, both in the U.S. and internationally through television and radio commercials, print ads, and the Internet. The Department contracts with an outside advertising agency, McCann-Erickson Southwest, for the majority of its advertising activities. The agency also contracts with public relations firms in London, Munich, Toronto, New York, and Dallas to promote travel to Texas. In addition to these marketing and advertising activities, the agency maintains a Texas travel Web site that received 1.3 million inquiries in 2002.

Agency staff work closely with convention and visitors bureaus, chambers of commerce, airlines, travel industry associations, and other private travel-related businesses. Tourism staff attend travel trade shows, conduct Texas familiarization tours, and work with the media to generate publicity about Texas. The agency also researches travel patterns and works with Texas communities to develop local tourist attractions.

Market Texas Business

The Department markets Texas as a premier location for companies to do business; promotes corporate expansion; and fosters international trade, with particular emphasis on Texas' links to Mexico. These activities are described below.

Marketing In March 2002, the Department initiated its first campaign to market Texas as a business location. The Department contracted with Tate-Austin for \$100,000 to market and promote the state through print, broadcast, and online media placements; and a mail campaign informing companies, economic developers, and site relocation specialists about the advantages of doing business in Texas. The marketing campaign generated 352 inquiries from companies interested in locating in Texas and 12 actual prospects.

Corporate Expansion and Recruitment Corporate Expansion and Recruitment helps attract new industry to Texas and assists existing businesses wanting to expand. The Department responds to inquiries about doing business in Texas and electronically disseminates leads to a broad network of Texas communities and organizations. Staff also help identify potential site locations and can coordinate site visits with community representatives throughout the state. In fiscal year 2002, the agency reported assisting 391 businesses, 19 of which relocated to or expanded in Texas.

*Of the 391 businesses
assisted by the
Department in FY 02,
19 relocated to or
expanded in Texas.*

International Business The Office of International Business helps Texas companies export their products and services to foreign markets through technical assistance, information, and trade leads. The Office also coordinates the representation of Texas exporters at international trade shows, missions, and other promotional venues. In fiscal year 2002, the Office of International Business reported organizing 17 international trade events and assisting 160 companies.

Mexico City Office The Mexico City Office, the agency's only foreign office, handles requests for assistance from Texas companies seeking to do business in Mexico, and from Mexican firms interested in Texas trade. The Office processes trade leads, coordinates trade shows, and acts as a general information and referral service on doing business in Texas and Mexico. In fiscal year 2002, the Office generated 1,211 trade leads and organized five international trade events in which 67 companies participated.

Business Incentives

The Department operates seven financial assistance programs designed to assist economically distressed communities and to aid small and medium sized business start ups and expansions. These programs include tax abatements, bond projects, direct loans, grants, and guaranteed loan programs. In most cases, the Department acts either

as a facilitator in leveraging funds for eligible projects, or as the authority granting approval to eligible projects. In the case of the Texas Leverage Fund program, the Department acts as the actual lender. The Department's Business Incentives Division administers these programs. The chart, *Texas Department of Economic Development Business Incentives*, highlights the number of jobs created and retained by each program in fiscal year 2002.

Texas Department of Economic Development Business Incentives - Fiscal Year 2002				
Program	Amount of Awards	Number of Awards	Reported Number of Jobs Created	Reported Number of Jobs Retained
Industrial Revenue Bond Program	\$94.9 Million	9	145	1,875
Texas Small Business Development Corporation	\$25 Million	0	NA	NA
Texas Leverage Fund	\$20.9 Million	6	173	95
Defense Economic Adjustment Assistance Grants	\$20.4 Million	16	3,633	NA
Capital Access Programs	\$17.2 Million	421	615	1,575
Linked Deposit Program	\$417,067	2	13	2
Texas Enterprise Zone Program	NA	22	3,638	940
Defense Economic Readjustment Zones	NA	4	2,580	NA

Industrial Revenue Bond Program The Department processes both tax exempt and taxable Industrial Revenue Bonds on behalf of local industrial development corporations wishing to finance land and depreciable property for manufacturing facilities. The maximum tax exempt bond amount is \$10 million. Eligible projects include the acquisition of an existing facility, acquisition of land, or new construction. The Department charges one-tenth of 1 percent as a handling fee for processing the bond applications. In fiscal year 2002, the Department approved nine bond projects for \$94.9 million.

Texas Small Business Development Corporation The Texas Small Business Development Corporation provides capital to businesses and communities for public and private projects statewide. Loan funds were originally raised in 1986 through the sale of \$100 million of revenue bonds. Items eligible for financing through the Corporation include land, buildings, machinery, and equipment. A maximum of 25 percent of the funds can be lent to private businesses. The Department's Governing Board serves as the ex officio Governing Board of the

Corporation and determines which projects will receive funding. The Department has loaned approximately \$25 million to eligible applicants, with \$75 million remaining in a reserve account.

Texas Leverage Fund The Department provides Texas Leverage Fund loans to communities that collect a local economic development sales tax. These communities use their unobligated economic development sales tax revenue as security on the loan and to repay the loan. Eligible projects include the acquisition of land, buildings, machinery and industrial equipment; and financing sports, entertainment, and public park projects. In fiscal year 2002, the Department made six loans valued altogether at \$20.9 million.

Defense Affairs The Office of Defense Affairs serves the 45 defense-dependent communities in Texas and the defense-related businesses in those communities. Key activities include serving as a clearinghouse for defense economic adjustment information and assisting defense-dependent communities experiencing a defense-related closure or realignment. The Department also assists these communities in the retaining and recruiting of defense-related businesses through the issuance of state funded Defense Economic Adjustment Assistance Grants. As of September, 2002, the Department had awarded \$20.4 million in grants to nine communities, creating and estimated 3,633 jobs at an average cost of \$4,980 per job. The Office also supports the Texas Strategic Military Planning Commission, which advises the Governor on the effect of the military on the economy of the state.

The Office of Defense Affairs assists the State's 45 defense-dependent communities.

Capital Access Program The Capital Access Program encourages lending institutions to make loans or extend credit to "near bankable" businesses that do not qualify for conventional loans by establishing a reserve fund to cover the costs of any potential default. The borrower and the lender each contribute 2 percent of the loan value to the reserve account. The State contributes 4 to 8 percent of the value of the loan (up to \$35,000) to the reserve account. In instances where the loan is for enterprise zone projects or is a child/daycare/group-home facility, the state will contribute up to 8 percent. In fiscal year 2002, the Department facilitated 421 loans with a combined value of \$17.2 million.

Linked Deposit Program The Linked Deposit Program provides low-interest loans to assist four groups: historically-underutilized businesses, child care providers, non-profit corporations, and small businesses located in enterprise zones. The lender offers a lower interest rate in return for a less-than-market interest rate on state funds deposited with the lender. Lenders made two such loans, totaling \$417,067 in FY 2002.

The Department estimates creating 3,638 jobs through the Texas Enterprise Zone Program in FY 2002.

Texas Enterprise Zone Program Through this program, the Department can authorize tax abatements on state sales, use, and franchise taxes for businesses that agree to locate and invest in economically-distressed areas within a city or county, create or retain jobs, and fill at least 25 percent of the jobs with residents of the zone. To be economically distressed, an area must have higher than 1.5 times the state unemployment rate and at least a 12 percent population loss for the most recent six years; and have one of the following - high poverty rates, high tax averages, or increased juvenile criminal activity. In fiscal year 2002, the Department approved 41 zones and 22 projects, and estimates that 3,638 jobs were created and 940 jobs were retained.

Defense Economic Readjustment Zone Program Similar to the Texas Enterprise Zone Program, the Legislature created the Defense Economic Readjustment Zone Program to assist communities adversely affected by military base closings and realignments. Under this program, the Department can authorize tax abatements on state sales, use, and franchise taxes for businesses that agree to: locate and invest in areas adversely affected by defense re-alignment; create or retain jobs; and fill at least 25 percent of those jobs with residents of the zone. Currently, the Department has designated five locations as Defense Economic Readjustment Zones (McGregor, Lubbock, Beeville, and two in San Antonio), and approved four projects with a total of \$108.9 million in private capital investment.

Economic Information Clearinghouse

The Economic Information Clearinghouse implements four statutory mandates relating to information dissemination and technical assistance. The public can access the services of the Clearinghouse through the Internet, local and toll-free telephone lines, or by mail. The key services are described below.

The Department's Clearinghouse provides access to state economic and demographic information.

Business and Industry Data Center The Department's Business and Industry Data Center offers a one-stop source for all types of demographic and economic data in Texas. State law requires the agency to share and exchange data with other agencies and organizations to facilitate easier access by the public. The Department disseminates the data through its Web site, which provides links to economic data, statistics, and research from various state and federal sources and through a network of affiliates, which include state agencies, universities, trade associations, and small business development centers.

Business Information and Referral The agency's Web site also provides a searchable electronic database or clearinghouse of state, federal, and international economic development programs and services. For businesses beginning operations, expanding, or relocating in Texas, the agency offers a one-stop shop for applying for a variety of required

state permits. The agency provides information and a comprehensive application for permits required for doing business in Texas, and helps applicants in obtaining permits from 291 different state regulatory agencies.

Small Business Assistance The Department's Office of Small Business Assistance helps small and historically underutilized businesses by linking them to agency programs; disseminating information through the Internet, monthly newsletters, and brochures; and by participating in seminars, trade shows, forums, and conferences.

Economic Research and Analysis The Department's Office of Economic Research and Analysis conducts special projects, such as examining issues affecting the state's business climate, developing economic development related products and publications, and preparing economic impact analyses.

Texas Economic Development Corporation

The Legislature created the Texas Economic Development Corporation in 1987 as a non-profit entity to support the Department's world trade and domestic business development functions. In 1991, the Legislature expanded the Corporation's authority to support all of the agency's purposes. The Department's Governing Board serves as the Corporation's Board of Directors. The Corporation contracts with the Department for staff and administrative support.

The Corporation collects donations to support Department programs and activities. These funds are held in an account outside the State Treasury. Corporation funds have been used for a variety of purposes such as dinners or receptions at agency sponsored seminars and trade events, gifts for foreign dignitaries, and to supplement the costs of foreign offices and foreign travel. As of August 31, 2002, the Corporation's funds totaled about \$41,000.

The Department offers a one-stop shop for permits from 291 different state regulatory agencies.

The Corporation collects donations to support the Department's programs and activities.

APPENDICES

Appendix A

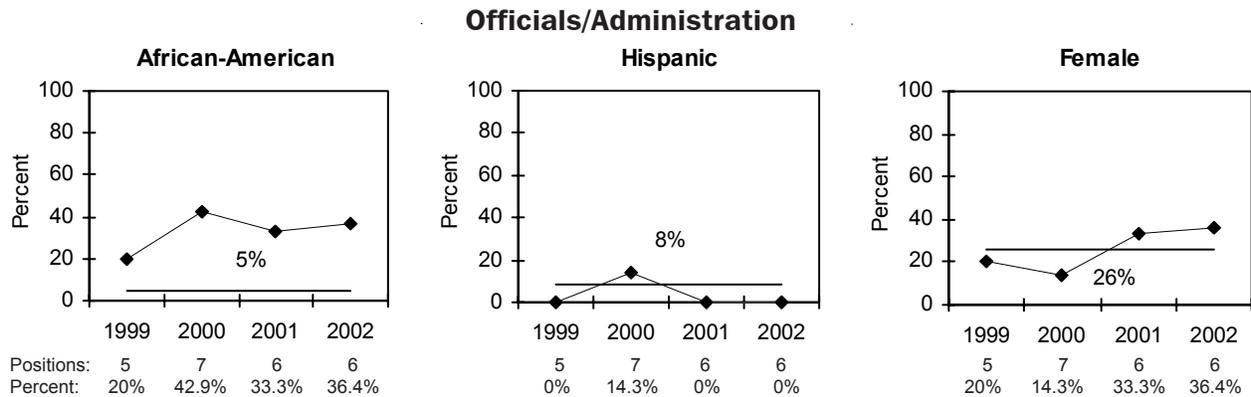
Texas Department of Economic Development Subcommittees and Advisory Committees		
Name	Purpose	Structure
Governing Board Subcommittees		
Audit Subcommittee	Oversees the agency internal audit function, which includes reviewing the annual audit plan and ensuring that issues identified in internal and external audit reports are resolved by agency management.	3 Board members: recommended by Chair and approved by Board vote.
Community Development Subcommittee	Oversees agency programs and services that contribute to community economic development.	3 Board members: recommended by Chair and approved by Board vote.
International Subcommittee	Oversees the agency's international business marketing efforts.	3 Board members: recommended by Chair and approved by Board vote.
Small and Historically Underutilized Businesses Subcommittee	Oversees programs and services impacting small and historically underutilized businesses.	3 Board members: recommended by Chair and approved by Board vote.
Sunset Review Subcommittee	Oversees the agency's Sunset Review process.	3 Board members: recommended by Chair and approved by Board vote.
Tourism Subcommittee	Oversees the agency's tourism function.	3 Board members: recommended by Chair and approved by Board vote.
Advisory Committees		
Market Texas Advisory Committee	Focuses on strengthening domestic and international marketing, enhancing research efforts, building on business finance and training programs, and addressing community development issues.	16 total members: 15 public members; 1 Governing Board member, ex-officio, non-voting. Members are approved by the Board.
Small Business Advisory Committee	Advises the agency's Governing Board on how to increase awareness of agency programs, with an emphasis on helping small businesses.	8 total members: 7 members nominated by the organizations they represent; 1 Governing Board member, ex-officio, non-voting. Members are approved by the Board.
State of Texas-Mexico Office Advisory Committee	Advises the State of Texas-Mexico Office director and staff on upcoming events and issues in Mexico that will be beneficial to Texas businesses doing business in Mexico or those seeking to do so.	8 total members: 7 public members; 1 Governing Board member, ex-officio, non-voting. Members are approved by the Board.
Texas Border Trade Advisory Committee	Maintains awareness of the issues and concerns of the Texas-Mexico border communities and assists the agency and Governing Board in formulating its policies regarding the North American Free Trade Agreement and economic development in this region.	20 total members: 18 members represent border communities, nominated via community meetings or by Governing Board members; members can nominate replacements; 2 Governing Board members, ex-officio, non-voting. Members are approved by the Board.
Tourism Advisory Committee	Generates and maintains awareness of the tourism industry of the state and assists the agency's tourism division in formulating its marketing and advertising programs.	24 total members: 18 members from each of the seven tourism regions of the state; 6 ex-officio members representing state travel associations, including 1 Governing Board member. Members are approved by the Board.

Appendix B

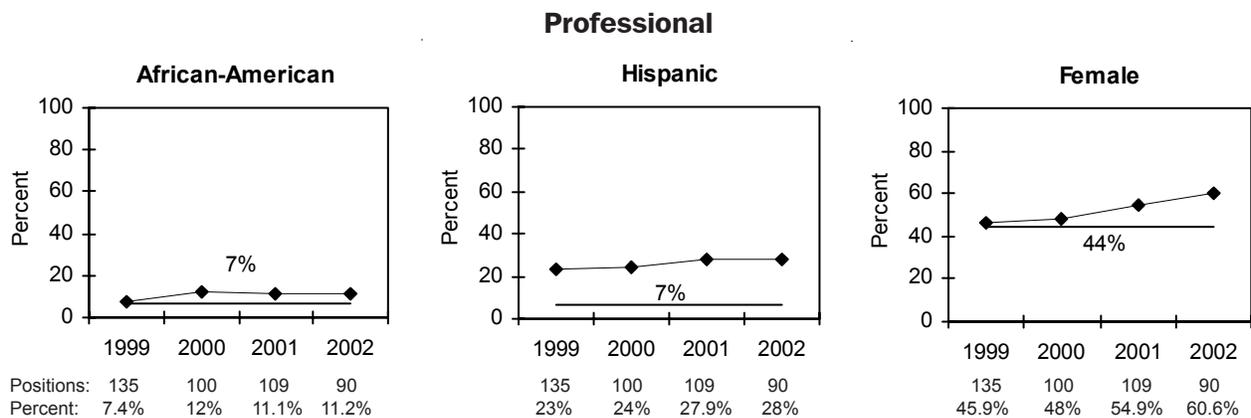
Equal Employment Opportunity Statistics

1999 to 2002

In accordance with the requirements of the Sunset Act, the following material shows trend information for the agency's employment of minorities and females in all applicable categories of the labor force.¹ The agency maintains and reports this information under guidelines established by the Texas Commission on Human Rights.² In the charts, the flat lines represent the percentages of the statewide civilian labor force that African-Americans, Hispanics, and Females comprise in each job category. These percentages provide a yardstick for measuring agencies' performance in employing persons in each of these groups. The dashed lines represent the agency's actual employment percentages in each job category from 1999 to 2002. The agency did not employ persons in the job categories of protective services, skilled craft, or service/maintenance.



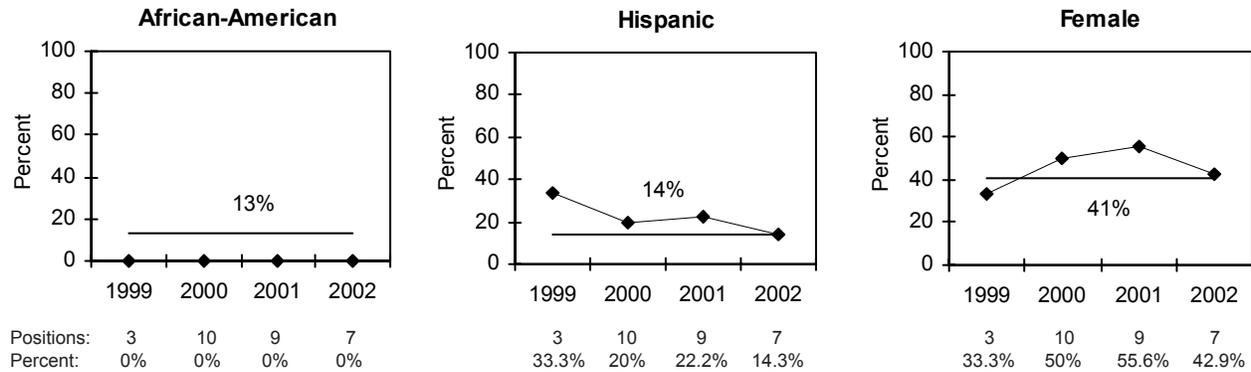
The agency exceeded the state's civilian labor force guidelines for African-Americans in the officials/administration category. The agency exceeded these guidelines for Female employment in 2001 and 2002, but did not meet these guidelines for Hispanics, except for in 2000.



The agency exceeded expectations for employment in the professional category.

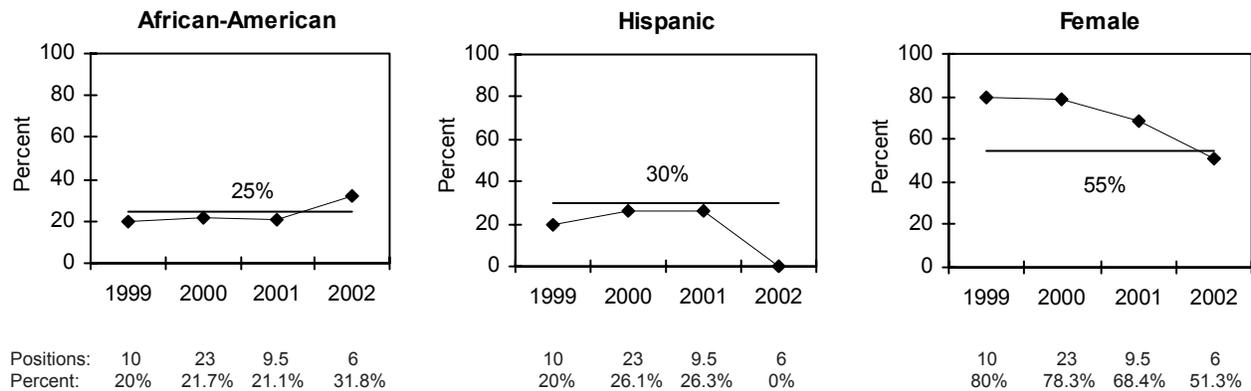
Appendix B

Technical



The agency has generally met or exceeded the standard for Hispanics and Females in this category, but continued to be below the standard in employment of African-Americans.

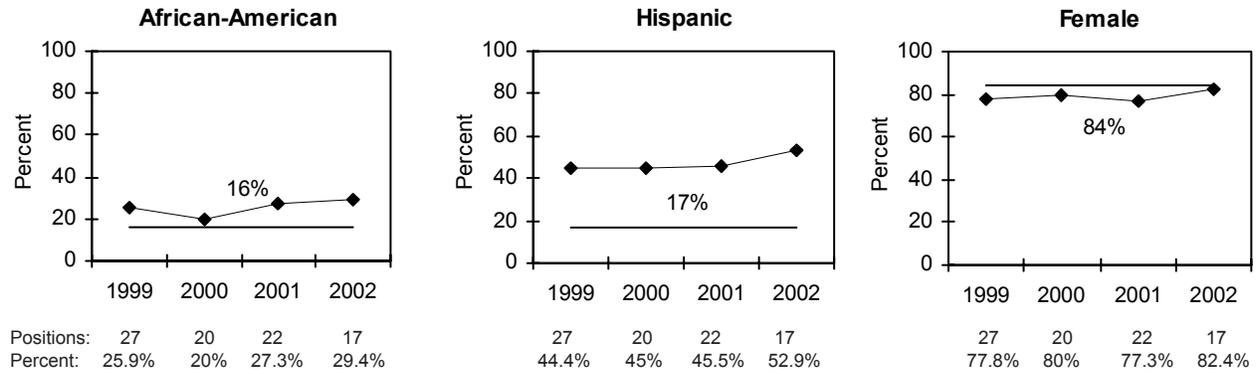
Paraprofessional



Until recently, the agency exceeded the civilian labor force standard for Females in this category, but continued to be below the standard for Hispanics. In 2002, the agency exceeded the civilian labor force standard for African-Americans.

Appendix B

Administrative Support



The agency exceeded the civilian labor force standard for African-Americans and Hispanics in this category. However, the agency ranks just below the standard for females in this category.

¹ Texas Government Code, ch. 325, sec. 325.011(9)(A).

² Texas Labor Code, ch. 21, sec. 21.501.

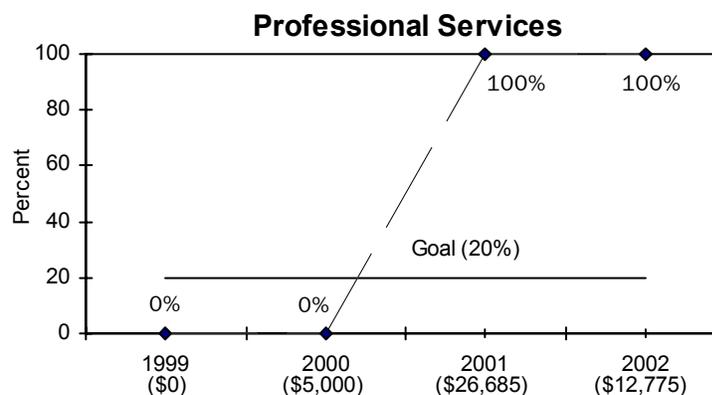
Appendix C

Historically Underutilized Businesses Statistics

1999 to 2002

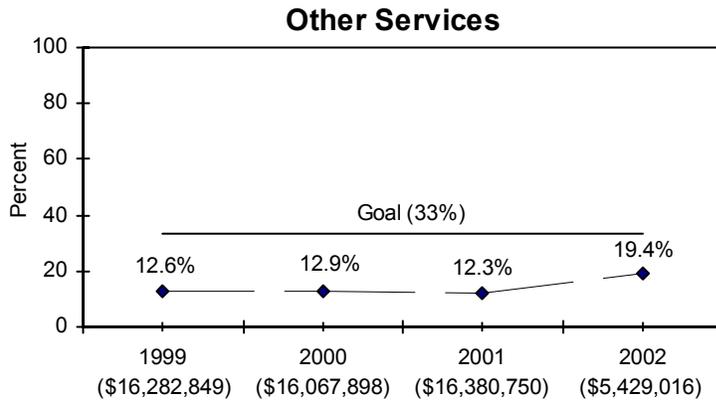
The Legislature has encouraged state agencies to increase their use of Historically Underutilized Businesses (HUBs) to promote full and equal opportunities for all businesses in state procurement. The Legislature also requires the Sunset Commission to consider agencies' compliance with laws and rules regarding HUB use in its reviews.¹ The review of the Texas Department of Economic Development revealed that the agency generally complies with state requirements concerning HUB purchasing. However, the statutory requirement to advertise and market tourism to non-Texans prevented the Department from meeting the state requirement to award 33 percent of the value of its subcontracts to HUB vendors. Advertising and marketing tourism to non-Texans requires the agency to expend funds outside of the state, limiting its ability to subcontract with HUB businesses that, by definition, must be Texas resident vendors.

The following material shows trend information for the Texas Department of Economic Development's use of HUBs in purchasing goods and services. The agency maintains and reports this information under guidelines in the Texas Building and Procurement Commission's statute.² In the charts, the flat lines represent the goal for HUB purchasing in each category, as established by the Texas Building and Procurement Commission. The dashed lines represent the percentage of spending with HUBs in each purchasing category from 1999 to 2002. Finally, the number in parentheses under each year shows the total amount the agency spent in each purchasing category. The agency has not met the state goals for Other Services. However, the agency surpassed the goals in the Professional Services and Commodities purchasing categories.

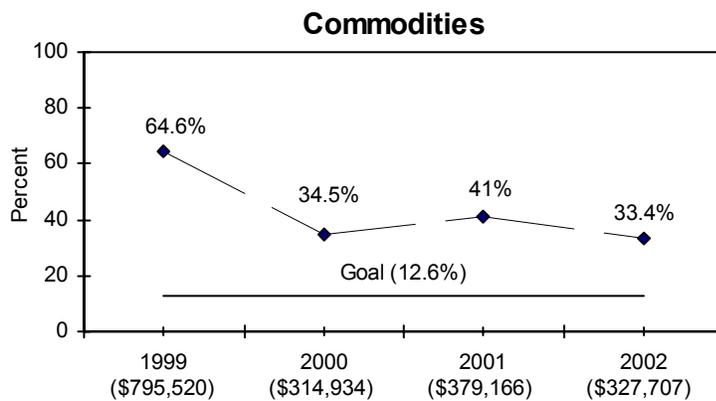


The agency greatly exceeded the state goal for HUB purchasing in the professional services category for the past two fiscal years.

Appendix C



The agency fell below the state goal in this category from 1999 to 2002.



The agency exceeded the state goal for HUB purchasing in the commodities category from 1999 to 2002.

¹ Texas Government Code, ch. 325, sec. 325.011(9)(B) (Vernon 1999).

² Texas Government Code, ch. 2161.

**SUNSET REVIEW OF THE
TEXAS DEPARTMENT OF ECONOMIC DEVELOPMENT**

Report Prepared By:

Jennifer Jones - Project Manager

**Joe Cheavens
Barbara Hunley
Marisela Maddox**

Ginny McKay - Project Supervisor

JOEY LONGLEY
DIRECTOR

Sunset Advisory Commission
P.O. Box 13066
Austin, TX 78711
Robert E. Johnson Bldg., 6th Floor
1501 N. Congress Ave.
Austin, TX 78701
www.sunset.state.tx.us
(512) 463-1300
FAX (512) 463-0705