

# **Sunset Advisory Commission**



**Texas Department of Economic  
Development**



**Staff Report**

**2000**

## SUNSET ADVISORY COMMISSION

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In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 10-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them. This report is the Commission staff's recommendations, which serves as the starting point for the Commission's deliberations.

**TEXAS DEPARTMENT OF ECONOMIC  
DEVELOPMENT**

**SUNSET STAFF REPORT**

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# **SUMMARY**

# Summary

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## Overview

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The Sunset staff review of the Texas Department of Economic Development concluded that while the Department has begun taking steps in the right direction, the lack of proper oversight and management controls continues to prevent the Department from being an effective state agency. Given the fact that most economic development in Texas occurs at the local level, Sunset found a limited need for involvement at the state level. However, the Department currently lacks a clear focus and direction for this limited role.

Two of the Department's key programs, Smart Jobs and Tourism, could be better administered if transferred to other state agencies.

- Smart Jobs - The Department's ongoing management and oversight problems led to the State Auditor's Office (SAO) finding of gross fiscal mismanagement in the Smart Jobs Program in January 2000. Since then, the Department has been working to address many of the problems identified in the SAO report. However, many of these problems have been occurring since 1997 and have not yet been fully addressed.
- Tourism - Currently, both TDED and the Texas Department of Transportation (TxDOT) are responsible for tourism promotion in Texas. Having this function split across two different agencies prevents the State from having a coordinated tourism effort and fails to maximize state resources dedicated for this function.

Transferring these two key programs would allow TDED to focus on its remaining core economic development activities - providing financial, location, and export assistance to Texas businesses and communities; and serving as a central source of economic development information.

Due to the agency's poor track record and limited implementation of needed changes to date, the Sunset review determined that the agency should only be continued for a two-year probationary period. If certain specified criteria are met by the year 2003, the Legislature could then re-authorize the agency for the more traditional 12-year period. A summary of the key recommendations and findings for each of the issues identified in this report is outlined below.

## **Issues / Recommendations**

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### **Issue 1 The Department Has Yet to Succeed as an Effectively Run State Agency.**

#### **Key Recommendations**

- Continue the Department for a two-year “probationary” period, and require the Sunset Commission to evaluate the agency and its efforts, to ensure that needed changes have been implemented before the legislative session in 2003.
- Restructure the Governing Board as a five-member public Board.

#### **Key Findings**

- The Board and Executive Management have not developed and implemented a clear focus and direction for the agency.
- The Board does not have the necessary information and has not taken an active enough role in overseeing the Department.
- The Department has no system for gathering the critical information necessary to effectively oversee agency operations.
- The Department has not effectively corrected problems raised in previous audits.
- Initial corrective steps recently taken by the Department do not provide enough assurance that the problems will be corrected.
- While most economic development in Texas happens at the local level, the State needs to maintain a limited role in economic development.

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### **Issue 2 Administration of the Smart Jobs Program Raises Doubts as to TDED’s Ability to Manage This Important Job Training Program.**

#### **Key Recommendations**

- Transfer authority to administer the Smart Jobs Program from TDED to the Texas Workforce Commission.
- Require the Smart Jobs Program to include more clearly defined contract provisions and monitoring practices.

#### **Key Findings**

- In January 2000, the State Auditor’s Office cited TDED for gross fiscal mismanagement of the Smart Jobs Program.
- TDED’s administration could have jeopardized the State’s Unemployment Insurance Compensation Fund balance.
- TDED was aware of problems in the Smart Jobs Program as early as 1997, but did not ensure that corrective action was taken.

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### **Issue 3 Fragmentation of the State's Tourism Functions Results in Duplication, Poor Customer Service, and an Inconsistent Marketing Effort.**

#### **Key Recommendations**

- Transfer TDED's tourism functions to the Texas Department of Transportation.
- Create a Tourism Coordinating Council in statute to coordinate tourism function of all agencies involved in tourism-related activities.

#### **Key Findings**

- Splitting tourism between TDED and TxDOT is duplicative, resulting in an inefficient use of State resources and poor customer service.
- The State lacks a consistent and unified tourism marketing effort across the 11 different state entities involved in tourism.
- The Legislature has repeatedly mandated the key agencies involved in tourism to coordinate their efforts, but the agencies have failed to comply in an effective manner.
- TxDOT offers the best opportunities for successfully integrating the State's most critical tourism functions.

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### **Issue 4 The Department Is Not Meeting the Tourism Development Needs of Texas Communities.**

#### **Key Recommendations**

- Require the Tourism Division to direct more of its resources towards meeting tourism development needs.
- Require the Tourism Division to implement a matching funds program to make state tourism development funds available to communities.

#### **Key Findings**

- The Department has reduced resources and services for tourism development programs, even though a clear need for these services exists.
- Other states use matching funds programs to increase tourism development services to communities.

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### **Issue 5 The Department Does Not Provide Travel Information on Its Website in Spanish.**

#### **Key Recommendations**

- Require the Department to provide travel information on the TravelTex.com website in Spanish.

### **Key Findings**

- Texas is failing to reach a large portion of international travelers by not providing tourism information in Spanish on its website.
- Other states, and other state agencies in Texas, have recognized the value of providing website information in Spanish on their websites.

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## **Issue 6 The Structure and Use of the Department's Advisory Committees Is Inappropriate and, in Some Cases, Unnecessary.**

### **Key Recommendations**

- Require the Department's advisory committees to meet standard structure and operating criteria.
- Abolish the Texas Strategic Military Planning Commission.

### **Key Findings**

- Having Board members serve on agency advisory committees is inappropriate.
- Using advisory committees to develop and direct agency policy and operations limits public participation and potentially violates the Open Meetings Act.
- The Texas Strategic Planning Commission has completed its work and is no longer needed as a Governor-appointed advisory committee to the Department.

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## **Issue 7 The Department's Methods of Collecting and Using Private Funds Are Duplicative and Do Not Ensure Accountability.**

### **Key Recommendations**

- Require the Department's Governing Board to adopt, by rule, policies and procedures for the use of Department funds held outside of the Treasury.
- Abolish the Texas Economic Development Corporation.

### **Key Findings**

- The Department does not have adequate controls in place to ensure accountability over the use of private funds and the use of staff time in acquiring private funds.
- Lack of controls over activities and funds held outside of the Treasury can create the appearance of impropriety.
- Since the Department can directly raise and expend private funds on its own, a separate state-sanctioned corporation to perform the same functions is unnecessary.

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## **Issue 8 The State's Intermittent Economic Development Planning Fails to Effectively Identify and Address Statewide Needs.**

### **Key Recommendations**

- Re-authorize the Texas Strategic Economic Development Planning Commission.
- Require the Commission to submit an economic development plan to the Legislature every two years.

### **Key Findings**

- Texas has taken an intermittent approach to long-range economic development planning. As a result, the State has no ongoing means to identify and address economic development problems.
- Successful implementation of the States strategic economic development plan is limited without an ongoing entity to ensure accountability.
- The current state economic development planning effort does not adequately include local economic development planning.

### **Fiscal Implication Summary**

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This report contains several recommendations that will have a fiscal impact to the State. They are discussed below, followed by a five-year summary chart.

- Issue 1 Reducing the size of the Board would result in an administrative savings of approximately \$17,300 per year.
- Issue 2 Transferring the Smart Jobs Program to the Texas Workforce Commission would result in a savings of approximately \$96,000 per year from administrative efficiencies, including the reduction of 2.5 FTEs.
- Issue 7 Abolishing the Texas Economic Development Corporation would save \$13,535 annually in administration costs.
- Issue 8 Re-establishing the Texas Strategic Economic Development Planning Commission would cost approximately \$75,000 per year for administrative support, but the cost should be offset from the enhanced economic benefit to the State.

<b>Fiscal Year</b>	<b>Savings to the General Revenue Fund</b>	<b>Change in FTEs From FY 2000</b>
2002	\$51,835	-2.5
2003	\$51,835	-2.5
2004	\$51,835	-2.5
2005	\$51,835	-2.5
2006	\$51,835	-2.5



## **ISSUES / RECOMMENDATIONS**

# Issue 1

## The Department Has Yet to Succeed as an Effectively Run State Agency.

### Summary

#### Key Recommendations

- Continue the Department for a two-year “probationary” period, and require the Sunset Commission to evaluate the agency and its efforts, to ensure that needed changes have been implemented before the legislative session in 2003.
- Restructure the Governing Board as a five-member public Board.

#### Key Findings

- The Board and Executive Management have not developed and implemented a clear focus and direction for the agency.
- The Board does not have the necessary information and has not taken an active enough role in overseeing the Department.
- The Department has no system for gathering the critical information necessary to effectively oversee agency operations.
- The Department has not effectively corrected problems raised in previous audits.
- Initial corrective steps recently taken by the Department do not provide enough assurance that the problems will be corrected.
- While most economic development in Texas happens at the local level, the State needs to maintain a limited role in economic development.

#### Conclusion

The Board and Executive Management have yet to adequately manage the agency. The Department does not have a clear direction or focus, and instead has taken an ad-hoc approach to carrying out its statutory duties. In addition, the Board has not set clear policies or taken an active enough role in overseeing the Department. Finally, the Department cannot provide the basic management information necessary to effectively oversee the agency.

Although the agency has a relatively new Executive Director, many of these problems have been occurring since the agency was restructured in 1997. The Sunset review concluded that even though initial corrective steps have recently been taken, they do not provide enough assurance that the problems identified will be corrected. Both the Board and Executive Management have not corrected ongoing problems, most significantly contracting and oversight problems, which ultimately resulted in the State Auditor’s finding of gross fiscal mismanagement in the Smart Jobs Program.

The Sunset review identified a number of actions the Board and Executive Management should take to provide proper oversight of the Department and its functions. These actions provide a framework to ensure the overall effectiveness of the Department. However, Sunset staff concluded that a re-evaluation would be necessary to ensure the recommended changes are implemented effectively. The review also concluded that a five-member public Board, without specific representation requirements, would provide better oversight of the Department. The public members would be focused on their responsibility to effectively oversee and ensure accountability of the Department and its activities.

## Support

### **Current Situation: The Texas Department of Economic Development is the State's economic development entity.**

- The Legislature created the Texas Department of Economic Development (TDED) in 1997 to take the place of the former Texas Department of Commerce (TDOC) as the State's economic development entity. The Department works to support economic development in the state by funding job training; promoting Texas as a tourist destination; providing financial, location, and export assistance to Texas businesses and communities; and serving as a source of economic development information.
- The Department operated with a budget of approximately \$97 million and 178 FTEs in FY 1999. The majority of the agency's revenue comes from the Smart Jobs Fund and the hotel/motel occupancy tax for tourism.

<b>Texas Department of Economic Development Governing Board</b>			
<b>Name</b>	<b>Term</b>	<b>Position</b>	<b>Residence</b>
Mark Langdale, Chair	9/16/97 - 2/01/03	International Trade Experience	Dallas
Tucker S. Birdwell, Vice Chair	9/16/97 - 2/01/01	Economic Development Practioner	Abilene
Javier Garza	9/16/97 - 2/01/01	Public Member	Laredo
Patricia Z. Holland-Branch	9/16/97 - 2/01/01	Public Member	El Paso
Limas Jefferson	4/12/99 - 2/01/05	Public Member	Seabrook
George T. Richardson	8/20/98 - 2/01/03	Resident of county with a population less than 30,000	Littlefield
Marion Szurek	4/12/99 - 2/01/05	Tourism Experience	San Angelo
Rance G. Sweeten	9/16/97 - 2/01/03	Public Member	McAllen
Martha J. Wong	4/12/99 - 2/01/05	Public Member	Houston

- The Department is governed by a nine-member public board. However, four of the members serve in specific slots required by statute. The chart, *TDED Governing Board*, lists the current Board members and their positions on the Board.

**Problem: The Board and Executive Management have not developed and implemented a clear focus and direction for the agency.**

- The TDED Governing Board members, including some former TDOC Board members, were appointed in 1997 and given responsibility for developing a new focus and direction for the restructured agency. However, the Department's first Strategic Plan for 1998-2003 was developed almost entirely by staff with little to no input from Board members. The draft was substantively complete before receiving any input from the Board members, who received a draft copy just nine days before it had to be approved.<sup>1</sup>
- Although the Strategic Plan for 1998-2003 was adopted by the Board, both Board members and Department staff have indicated they are not operating according to that plan.<sup>2</sup> Department staff cannot articulate any agency-wide focus or goal or how their particular programs fit into an overall agency mission.<sup>3</sup>
- The agency cannot determine whether its actions or efforts are effective or focused on the Department's stated objectives. The Department has no action plan to detail how staff should implement the goals and strategies set forth in the Strategic Plan.<sup>4</sup> Without an action plan, the individual programs of the agency are not tied to a stated purpose or goal for the Department as a whole.
- Instead of following an action plan, each Division develops its own objectives and means to achieve them, without regard to the overall purpose of the Department. This has created a "silo" mentality within the agency. Having each Division operate individually creates a fragmented effort, making it difficult to achieve common objectives. This also increases the possibilities for duplication across different programs, or omission of important activities.
- The lack of a clear plan also results in the agency taking an ad-hoc approach to carrying out its statutory duties, an approach that is both ineffective and costly. Without specific goals or strategies, as new projects and ideas are brought forward, the Board and Executive Management have no way to evaluate if they are consistent with the Department's focus or work to achieve overall agency goals. As a result, the Department has continually been seen as trying to do too many things, rather than identifying key activities and focusing on them.

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Both the Board and staff indicate they do not operate according to their current Strategic Plan.

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The Department's ad-hoc approach results in a wide array of projects with no clear focus.

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One example is the Department's US-Mexico Policy Specialist position, created as support for the Board's Texas Border Trade Advisory Committee. The Board did so with limited public discussion as to how this position would be funded, or how it would work to address an overall agency goal. This function is not included in the Department's appropriation. The Board opted to create an entirely new function, which has required its own budget and staffing, and taken resources away from other statutory duties of the Department.

**Problem: The Board does not have the necessary information and has not taken an active enough role in overseeing the Department.**

- The full Board does not receive regular updates on the Department's financial status or budget. Board minutes indicate that one of the few discussions about the Department's overall budget was at the Board's first meeting on October 3, 1997. The Department's budget was presented and the only comments were that the State had chosen to spend less on economic development than most other states and even some cities.<sup>5</sup>
- Board members do not routinely receive the information necessary to effectively evaluate the performance of the Department's programs. Board members receive general updates on most of the Department's programs, but the members have limited means to evaluate their effectiveness, even though the Board is ultimately responsible for their performance.

Review of the Board minutes indicated that program updates tell what the programs have accomplished and future goals, with little mention of any problems, and generally only provide a "snapshot" look at the programs. No performance or trend information is provided.

- Interviews with Department staff indicated that the Board has adopted program rule changes without a full understanding of how the changes will affect the respective programs.<sup>6</sup> In some instances, the rule changes significantly modified the program.

For example, Board members requested a work session on the Smart Jobs Program to gain a better understanding of the Program and how it operates, *a month after* they unanimously adopted significant rule changes to the Program, including changes to address SAO's finding of gross fiscal mismanagement, not setting funding priorities, and a lack of contract guidelines.<sup>7</sup>

- The Board does not have subcommittees to help the members develop the necessary understanding of basic agency operations to ensure accountability. Most other state agency boards have subcommittees to help board members develop expertise around agency operations and key agency functions like planning, audit/finance, and rulemaking. TDED has only one subcommittee, the internal audit subcommittee. Without this basic subcommittee structure, the Board is unable to make informed decisions about or ensure accountability of the Department and its programs.

**Problem: The Department has no system for gathering the critical information necessary to effectively oversee agency operations.**

- The Department's information system is decentralized and fragmented, resulting in a lack of reliable information on which to evaluate agency performance, budgeting, and outcomes. The Department cannot provide timely and meaningful information about the agency's operations as a whole nor can management effectively evaluate whether the actions being taken are having the desired outcome. Often, reports on individual division budgets or activities are incomplete or non-existent; and in many instances, critical information must be created manually by searching through agency records.
- Although the Department expends more than \$72 million through contracts, the Department has no centralized or automated contracting system. Without such a system, Executive Management cannot track or provide an overall assessment of the Department's contracting activities.

For example, having a central contracting system in place could have helped alert management earlier to problems with the Smart Jobs Program. Before the SAO audit, the Smart Jobs Program was not tracking and reporting on basic components of the contracts: current status, amounts paid out, or amounts committed. In addition, the agency's internal accounting system could not track or report on individual contract expenditures.

- The Department has no system for tracking or controlling travel expenditures across divisions, even though the Department spends more than \$350,000 on travel each year. The information the Department collects is based on travel requests, not actual expenditures.<sup>8</sup> This information does not provide an accurate look at the agency's overall travel budget, limiting management's ability to manage and control travel expenses.

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TDED cannot provide reliable information about the agency's operations.

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**Problem: The Department has not effectively corrected problems raised in previous audits.**

- Internal audits from 1997 cited several deficiencies in the Smart Jobs Program related to contract management. Management responses to these audits indicated that policies and procedures had been changed to implement internal audit recommendations. However, a 1998 follow-up internal audit scheduled to ensure that the recommended changes had actually been implemented was never done. Instead, the Chair of the Internal Audit Committee directed the internal auditor to work on the re-engineering effort of the Smart Jobs Program, which was focused on speeding up the application process, not contract management problems. In 1999, another Smart Jobs internal audit revealed problems with the Program's training, policies and procedures, and application process.

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No follow-up occurs to ensure that identified problems are corrected.

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Although all of these earlier audits identified problems with the Smart Jobs Program, recommendations to correct them were never implemented, only to be raised again by the SAO audit as contributing factors to the finding of gross fiscal mismanagement of the Smart Jobs Program this year.

- In another instance, a 1991 special audit of TDOC recommended that the agency needed a more responsive purchasing department and that "a more formal purchase manual should be drafted."<sup>9</sup> While the agency claims that a manual was developed, a 1997 internal audit again cited the need for an agency-wide purchasing manual. The Department did not fully address these problems until fiscal year 2000, following indications by SAO staff that they intended to cite the agency for the deficiency.
- In 1991, the special audit also recommended that better internal controls be established for keeping complimentary airline tickets.<sup>10</sup> However, both a 1999 internal audit and the 2000 SAO audit revealed that policies that were developed to safeguard complimentary airline tickets were never implemented agencywide.<sup>11</sup> Evidence suggests that the lack of these safeguards allowed a former employee to maintain sole custody of 26 donated airline tickets and possibly use one for personal travel.<sup>12</sup> In response to the 2000 SAO audit, the Department has developed formal policies and procedures regarding the safeguarding of complimentary airline tickets.

**Problem: Initial corrective steps recently taken by the Department do not provide enough assurance that problems will be corrected.**

- The Board and Executive Management have taken initial steps to address some of the recently identified management control problems.

The Department has reinstated a Deputy Director position to help ensure agency-wide accountability, and implemented monthly Executive Management meetings to encourage coordination among the various divisions. Also, a half-day work session with the Board has been conducted as part of the current strategic planning process, to ensure their involvement in the process. The Board has begun receiving agency-wide financial and performance data at Board meetings, and the Department has plans to create a centralized automated contracting system. In response to the SAO audit, the Department has formulated a Smart Jobs Corrective Action Plan to address the auditor's recommendations. Although these are steps in the right direction, their success is still to be seen.

- While the agency has a relatively new Executive Director, and several new Board members, accountability is still in question. Five of the current Board members were appointed in 1997, and many of the problems discussed in this issue have been recurring since that time. Sunset staff found that the current Board and Executive Management have had ample opportunity to become aware of many of these problems, but only recently began addressing them. The lack of any real action until very recently led the staff to question whether the problems will eventually be corrected. Consequently, ongoing oversight is necessary.

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Ongoing oversight is needed to ensure that long-standing problems are corrected.

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**Need for Agency's Functions: While most economic development in Texas happens at the local level, the State needs to maintain a limited role in economic development.**

- The State has a limited role in economic development. The majority of Texas economic development efforts and initiatives are done by local governments and the private sector. Since 1989, cities have had the option to levy an economic development sales tax to promote local economic development. In FY 1997, approximately \$232 million was collected for economic development through these taxes. In 1998, over 380 cities in Texas had levied an economic development sales tax.<sup>13</sup> The proceeds from the sales tax are used for business attraction, incentives to businesses, land and building purchase, and upgrade; infrastructural upgrade and placement related to commercial areas; and training and education.<sup>14</sup>
- Certain key economic development functions benefit the State as a whole and need to be performed on a statewide basis. These functions include providing financial, location, and export assistance to Texas businesses and communities; and serving as a central source of economic development information. In addition, although promoting the State as a premier travel destination and funding job training for Texas businesses are essential statewide functions,

they would be more appropriately placed at other state agencies, as discussed in detail in the following sections of this report.

## Recommendation

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### Change in Statute

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#### **1.1 Continue the Department for a two-year “probationary” period, and require the Sunset Commission to re-evaluate the agency and its efforts, to ensure that needed changes have been implemented before the legislative session in 2003.**

The following criteria should be used to decide whether TDED has successfully implemented the proper management and oversight controls of the State’s economic development efforts.

- Effective development and implementation of a Strategic Plan and action plan that:
  - ensure a clear focus and direction for the agency, including a proper needs assessment that incorporates input from local economic development entities;
  - focus activities based on the policy directives of the Board;
  - detail the methodology of how the Department plans to implement the strategies in the Strategic Plan; and
  - explain how individual division actions contribute to the Department’s desired results.
- Establishment of subcommittees relating to the key administrative and programmatic functions of the Department to allow Board members to develop the expertise necessary to make informed decisions about and ensure accountability of the Department and its programs.
- Establishment of effective, agency-wide contracting standards and methodologies.
- Effective development and implementation of consistent, agency-wide policies, procedures, and controls over day-to-day operations including budgeting, contracting, and travel; and a centralized information and accounting system that will provide single management reports for key areas so that management can determine a true financial position of the agency.
- Effective use of the Department’s internal audit function that ensures management responses to internal audit reports are actually implemented.

The Department should be required to update the Sunset Commission on any progress that has been made to address these recommendations in December 2000, prior to the 77th legislative session. The Department should also be required to report to the Sunset Commission by September 1, 2002, on the status of these recommendations as part of the re-evaluation of the agency during the next interim.

## **1.2 Restructure the Governing Board as a five-member public Board.**

This recommendation would reduce the size of the Department's board from nine members to five public members that geographically represent all regions of the state. Board appointments would no longer have to meet the specified representation requirements of a member with experience in tourism, a member with experience in international trade, a member who is an economic development practitioner, and a member who is a resident of a county with a population of less than 30,000. Board members would be able to get the necessary program-specific expertise through advisory committees, which could be appointed as warranted. The Board's new composition could be phased-in as the current Board members' terms expire to provide some continuity in the governance of the Department. Additionally, this recommendation would not prohibit the Governor from re-appointing any of the current Board members.

### **Impact**

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These recommendations provide a framework to address the overall concerns with the management and oversight of the agency's operations. Successful implementation is critical to the effectiveness of the Department, but will take some time. While the Department has taken initial steps to improve some of its management controls, ongoing oversight is critical to ensure that these controls are used effectively to correct long-standing problems and ensure proper accountability.

The Sunset review concluded that, working within the current policymaking and operational framework, TDED cannot effectively fulfill its role as the State's lead economic development entity. However, transferring the State's key economic development functions to another agency would not provide increased benefits to the State or reduced costs. Following sections of this report recommend transferring two of the Department's largest programs, Smart Jobs and tourism, to more appropriate agencies. Transferring these programs would reduce the Department's overall budget from approximately \$97 million to about \$20 million. Reducing the Department's responsibilities for managing and overseeing such large programs would allow the Department to focus on the effective administration and oversight of the State's key economic development functions.

Reducing the Department's responsibilities also reduces the need for a nine-member Board to provide the necessary direction and oversight. Limiting the Department's role and creating a five-member, public Board will allow its members to develop a clear focus and direction for the agency, and implement the management controls necessary to effectively oversee agency operations. However, a re-evaluation of the Department is necessary because additional time is needed to see whether the changes recommended in this report have actually been implemented effectively.

## Fiscal Implication

If the Legislature continues the functions of the Texas Department of Economic Development with the current organizational structure and duties, the Department's annual appropriation of approximately \$97 million would continue to be required for the operation its functions. However, reducing the size of the Board from nine members to five members should result in an administrative savings of approximately \$17,300 each year.

Fiscal Year	Savings to the General Revenue Fund	Change in FTEs From FY 2001
2002	\$17,300	0
2003	\$17,300	0
2004	\$17,300	0
2005	\$17,300	0
2006	\$17,300	0

<sup>1</sup> Texas Department of Economic Development Governing Board Meeting (a review of the minutes and the actual tapes of the meeting), June 4, 1998.

<sup>2</sup> Interview with Jeff Moseley, Executive Director, Texas Department of Economic Development, Austin, Texas, September 22, 1999. Interview with Mark Langdale, Chairman, and Tucker S. Bridwell, Governing Board Member, Texas Department of Economic Development, Austin, Texas, January 11, 2000.

<sup>3</sup> Overview meetings with staff, Texas Department of Economic Development, Austin, Texas, September 27, 29, 30, 1999 and October 4, 1999.

<sup>4</sup> Telephone interviews with Michael West, Planning Division, Texas Department of Economic Development, Austin, Texas, November and December, 1999.

<sup>5</sup> Governing Board Meeting Minutes, Texas Department of Economic Development, Austin, Texas, October 3, 1997.

<sup>6</sup> Interview with Texas Department of Economic Development staff, Austin, Texas, February 16, 2000 and February 18, 2000.

<sup>7</sup> Texas Department of Economic Development, Governing Board Meeting, Austin, Texas, March 1, 2000.

<sup>8</sup> Travel reports provided by the Department of Economic Development included amounts for travel that was supposed to occur during the reported month; however, if the traveling employee did not submit a request for reimbursement the following month then the amount was added back into the travel budget. The report could not provide an accurate account of travel funds available.

<sup>9</sup> Special Audit Report of Selected Activities at the Texas Department of Commerce, Austin, Texas, May, 1991, pp. A5-A6.

<sup>10</sup> Ibid, p. E4.

<sup>11</sup> Texas Department of Economic Development, *Audit Report on Internal Investigation of Airline Ticket Vouchers, Meal Reimbursements, and Long-Distance Telephone Call Charges* (Audit Report 00.001), Internal Audit Division, Austin, Texas, September, 1999.

<sup>12</sup> Office of the State Auditor, State of Texas, *An Audit Report on the Department of Economic Development*. Report No. 00-008, (Austin, Tex., January, 2000), p. 23.

<sup>13</sup> Texas Comptroller of Public Accounts, "Economic Development Corporation Report," Austin, Texas. Fiscal year 1997; available from INTERNET.

<sup>14</sup> Office of the Attorney General, State of Texas, The Attorney General's Municipal Advisory Committee, *The Attorney General's Handbook on Economic Development Laws for Texas Cities, Volume 1: How to Utilize Existing Statutory Tools to Promote Local Economic Development*, 1999 Edition, pp. 2-5.

## Issue 2

### Administration of the Smart Jobs Program Raises Doubts as to TDED's Ability to Manage This Important Job Training Program.

#### Summary

##### Key Recommendations

- Transfer authority to administer the Smart Jobs Program from TDED to the Texas Workforce Commission.
- Require the Smart Jobs Program to include more clearly defined contract provisions and monitoring practices.

##### Key Findings

- In January 2000, the State Auditor's Office cited TDED for gross fiscal mismanagement of the Smart Jobs Program.
- TDED's administration could have jeopardized the State's Unemployment Insurance Compensation Fund balance.
- TDED was aware of problems in the Smart Jobs Program as early as 1997, but did not ensure that corrective action was taken.

##### Conclusion

The State Auditor's Office found serious problems across all elements of TDED's administration of the Smart Jobs Program. TDED was unable to determine whether Smart Job grant recipients actually trained their employees or how much money was spent in training. Failure to monitor the Smart Jobs Fund (Fund) balance exposed State assets to potential fraud and abuse, and had the potential to cause an increase in the State's unemployment insurance tax. TDED has been aware of some of these problems since 1997, but only began to take serious action in December 1999, during the SAO audit of the Smart Jobs Program.

Transferring the Smart Jobs Program to the Texas Workforce Commission would provide a more stable environment for the effective administration of this key job training program. Transferring the Program would also increase coordination with other workforce development efforts and give businesses one agency to contact to access all of the State's job training programs. This transfer would not result in any programmatic changes to the Smart Jobs Program itself. Funding for Smart Jobs grants would continue to flow directly to individual employers, and the Program's focus would remain on helping businesses provide customized training for their employees. In addition, placing statutory requirements for more clearly defined contracts and risk-based monitoring should help ensure better administration and accountability of this Program.

## Support

**Current Situation:** TDED is responsible for administering more than \$100 million in Smart Jobs grants each biennium.

- The Smart Jobs Program is a state-funded competitive grant program that provides funds to selected businesses to pay for customized employee training. The Program is funded by 1/10 of one percent of the Unemployment Compensation Tax. The Legislature appropriated \$108 million for the Program in the 1998-99 biennium and provided a contingency appropriation of up to the same amount for the 2000-01 biennium. Administrative expenditures for the Program are capped at \$1.5 million per year.
- The number of Smart Job grants awarded has grown significantly since the Program's inception in 1993. The chart, *Smart Jobs Program Growth*, shows how the Program has grown over the last five years.

Smart Jobs Program Growth - Fiscal Years 1995-1999		
Fiscal Year	Estimated Number of People Trained	Estimated Total of Grant Dollars
1995	5,454	\$7.7 million
1996	22,831	\$27.1 million
1997	20,709	\$29.6 million
1998	42,441	\$53.3 million
1999	34,514	\$34.4 million

**Problem:** In January 2000, the State Auditor's Office cited TDED for gross fiscal mismanagement of the Smart Jobs Program.

- In its report, the State Auditor's Office (SAO) found serious problems across all critical elements of the Smart Jobs Program.<sup>1</sup>

TDED did not adequately review supporting documentation submitted by contractors to justify receipt of their reimbursement. As a result, TDED could not determine whether workers were actually trained and retained in accordance with contract requirements.<sup>2</sup> Despite the fact that some employees had not completed the number of training hours required by the contract, employers were sometimes paid the full rates approved in a contract.<sup>3</sup>

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The State Auditor found serious problems with all aspects of the Smart Jobs Program.

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Some contract monitoring visits took place *before* the employer had actually provided any training services. When monitoring visits did occur, TDED inconsistently applied contract monitoring procedures.<sup>4</sup>

**Problem: TDED's administration could have jeopardized the State's Unemployment Insurance Compensation Fund balance.**

- The Smart Jobs Program is funded by 0.1 percent of the Unemployment Compensation Tax, which is deposited in the Smart Jobs Fund for use by the Program. Fund balances in excess of .15 percent of total wages subject to the unemployment compensation tax are required by statute to be transferred to the Unemployment Compensation Fund, to help pay unemployment compensation benefits.
- TDED's inadequate administration of the Smart Jobs Program led to overestimating encumbered funds. As a result, TDED failed to accurately monitor the balance of the Fund or to comply with statutory requirements that caps the balance of that Fund. Despite the statutory requirement that TDED transfer surplus money in the Smart Jobs Fund to the Unemployment Compensation Fund, the agency did not begin calculating the Fund's cap, or comparing it to the Fund's balance until SAO raised the issue during its 2000 audit.<sup>5</sup>
- TDED underestimated the Fund surplus subject to transfer and did not transfer \$93 million in full until March 2000. By delaying transfer of the surplus money to the Unemployment Compensation Fund, an increase in the unemployment tax paid by Texas employers could have been triggered.<sup>6</sup>

**Problem: TDED was aware of problems in the Smart Jobs Program as early as 1997, but did not ensure that corrective action was taken.**

- A September 1997 TDED Internal Audit Report of Smart Jobs found that the Program needed clear criteria to indicate when contract amendments were required, a formalized risk assessment process, and documented policies regarding the termination of contracts by the Department on the basis of non-performance by contractors.<sup>7</sup>
- In August 1999, another TDED Internal Audit Report of Smart Jobs found that improvements needed to be made in the areas of: policies and procedures, staff training, information management, process efficiency, and controls over contracts administered by independent consultants.<sup>8</sup>

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As early as 1997,  
problems were noted  
with Smart Jobs.

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- Although Department staff developed proposed rule changes to address these problems, the Board did not formally adopt new rules for the Smart Jobs Program until February 2000, after release of the SAO report.<sup>9</sup> All of these same areas were cited by SAO in its audit. This scenario is discussed more fully in Issue 1 of this report.

**Problem: Since the release of the SAO audit report, problems with the Smart Jobs Program continue at TDED.**

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Problems continue  
with TDED's  
administration of  
Smart Jobs.

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- TDED did not, on its own accord, place a moratorium on the processing of Smart Jobs applications despite the SAO findings, the fact that the Program was operating with fewer than half of its authorized staff, and that staff had not received training on new processes resulting from the adoption of the February 2000 rules. On February 7, 2000, TDED received specific direction from Legislative Leadership to stop awarding any additional Smart Jobs contracts. TDED continued to award an additional nine contracts, but stopped awarding new contracts on February 20, 2000.
- As of February 16, 2000, 121 businesses were training workers under the Smart Jobs Program, despite the lack of an executed contract from the Department. As a result, these companies are training without oversight or monitoring by TDED, thereby increasing the risk to State funds.
- The Government Code requires TDED to use a competitive process to award Smart Job Grants.<sup>10</sup> While this requirement has been in law since 1997, TDED has never awarded these grants competitively. The current rules provide for statewide distribution, but fail to establish a system whereby businesses compete for state job-training funds. Instead, the Department awards grants to businesses that meet a threshold score. None of the steps in TDED's Smart Jobs corrective action plan deal with the lack of competition within the Program, even though this is specifically cited in the SAO report.

**Comparison: The Texas Workforce Commission is the state agency primarily responsible for job training programs.**

- The Legislature established the Texas Workforce Commission (TWC) in 1995 specifically for the operation of an integrated workforce development system by consolidating job training, employment, and employment-related educational programs.<sup>11</sup> As part of its job training responsibilities, TWC administers, among other programs, the Skills Development Program. This program, similar to the Smart Jobs Program, contracts with public community and technical colleges to provide customized training to businesses or organizations.

- TWC also administers the State's Unemployment Insurance Tax, the source of funding for the Smart Jobs Program.
- In November 1994, the Smart Jobs Program was originally recommended for transfer to the newly proposed Texas Workforce Commission so that businesses would have one agency to call to access all of the State's workforce training resources.<sup>12</sup> However, the bill that consolidated 21 employment and training programs at TWC left the Smart Jobs Program at TDED.

## Recommendation

### Change in Statute

#### **2.1 Transfer authority to administer the Smart Jobs Program from TDED to the Texas Workforce Commission.**

This transfer would not result in any programmatic changes to the Smart Jobs Program itself. Funding for Smart Jobs training would continue to flow to individual employers, and the Program's focus would remain on individual businesses. While seen as an economic development incentive, Smart Jobs grants cannot be promised or committed to companies potentially relocating or expanding in Texas that fail to meet Program criteria.<sup>13</sup> An application would still be submitted and criteria met, just as with other workforce training resources available through TWC and local community colleges.

This recommendation would eliminate the fragmentation of the State's job training programs that currently exists between TDED and TWC. Transferring the statutory responsibility for administration of the Smart Jobs Program from TDED to TWC would not include the transfer of existing TDED Smart Jobs rules, although TWC would receive rulemaking authority for the Program as a result of this transfer. To ensure a smooth transfer of the Program, TDED would not enter into any Smart Jobs contracts beginning 60 days prior to the transfer's implementation.

#### **2.2 Require the Smart Jobs Program to include more clearly defined contract provisions.**

This recommendation would require all contracts to have the following standard provisions:

- clearly defined goals, outputs, and measurable outcomes that directly relate to Program objectives;
- clearly defined sanctions or penalties for non-compliance with contract terms and conditions; and
- clearly specified accounting, reporting, and auditing requirements for funds received under Smart Jobs contracts.

### **2.3 Require the Smart Jobs Program to include risk-based contract monitoring practices.**

This recommendation would require the following monitoring approach:

- a risk-assessment to determine which contracts have the highest risk for fraud and abuse; and
- a method to obtain and evaluate program cost information to ensure all costs, including administrative costs, are reasonable and necessary to achieve program objectives.

These recommendations would establish a statutory performance-based contracting system for the Smart Jobs Program that will evaluate grant recipients on performance. Such a system would help to address the concerns identified by the State Auditor's Office in its audit of the Program. In addition, these provisions would help to ensure that State funds are used wisely and effectively, while helping to provide training for the Texas workforce.

## **Management Recommendation** \_\_\_\_\_

### **2.4 TDED and TWC should formulate a transition plan for the transfer of the Smart Jobs Program.**

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 TWC;
- assurance that TDED will continue to make employers aware of the Program and refer future inquiries about Smart Jobs to TWC; and
- specify other steps necessary to complete the transfer of the Program.

This recommendation would help ensure that the transfer of the Smart Jobs Program is in accordance with state law and has minimal effect on the Program's functions.

## **Impact** \_\_\_\_\_

The intent of these recommendations is to establish a flexible and effective job training program at the Texas Workforce Commission, that spends taxpayer money wisely, while increasing coordination with other aspects of workforce development undertaken by the State.

## Fiscal Implication

These recommendations should result in savings to the Smart Jobs Fund. These savings would result from increased administrative effectiveness at TWC. TWC estimates that it can effectively administer the Smart Jobs Program with 2.5 fewer FTEs than are currently used by TDED. Savings of about \$75,000 in salary and \$21,000 in benefits would result from the transfer. Such savings could be used to increase the level of services to businesses seeking Smart Jobs grants.

Fiscal Year	Savings to the General Revenue Fund	Change in FTEs From FY 2001
2002	\$96,000	-2.5
2003	\$96,000	-2.5
2004	\$96,000	-2.5
2005	\$96,000	-2.5
2006	\$96,000	-2.5

<sup>1</sup> Office of the State Auditor, State of Texas, *An Audit Report on the Department of Economic Development*, Report no. 00-008 (Austin, Tex., January, 2000), Key Points Page.

<sup>2</sup> Ibid, p. 8-9.

<sup>3</sup> Ibid, p. 10.

<sup>4</sup> Ibid, p. 7.

<sup>5</sup> Ibid, p. 15.

<sup>6</sup> Ibid, p. 14.

<sup>7</sup> Texas Department of Economic Development, *TDED Internal Audit Report on Smart Job Contract Administration* (Audit Report 97-007), Austin, Tex., September, 1997.

<sup>8</sup> Texas Department of Economic Development, *TDED Internal Audit Report on Smart Jobs Program and Marketing* (Audit Report 99-007), Austin, Tex., September, 1999.

<sup>9</sup> Texas Department of Economic Development Governing Board meeting minutes, 1997-2000.

<sup>10</sup> Tex. Gov't Code Ann. ch. 481, sec 481.152(c) (Vernon 1998).

<sup>11</sup> Tex. Lab. Code Ann. ch. 301, sec 301.001 (Vernon 1998).

<sup>12</sup> Texas Comptroller of Public Accounts, *Gaining Ground*, Vol. 2, Texas Performance Review, (Austin, Tex., November, 1994), p. 27.

<sup>13</sup> 10 Tex. Admin. Code sec. 186.116 (West 1999) (Smart Jobs Rules).



## Issue 3

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### **Fragmentation of the State's Tourism Functions Results in Duplication, Poor Customer Service, and an Inconsistent Marketing Effort.**

#### **Summary**

##### **Key Recommendations**

- Transfer TDED's tourism functions to the Texas Department of Transportation.
- Create a Tourism Coordinating Council in statute to coordinate tourism functions of all agencies involved in tourism-related activities.

##### **Key Findings**

- Splitting tourism between TDED and TxDOT is duplicative, resulting in an inefficient use of State resources and poor customer service.
- The State lacks a consistent and unified tourism marketing effort across the 11 different state entities involved in tourism.
- The Legislature has repeatedly mandated the key agencies involved in tourism to coordinate their efforts, but the agencies have failed to comply in an effective manner.
- TxDOT offers the best opportunities for successfully integrating the State's most critical tourism functions.

##### **Conclusion**

The primary responsibilities for stimulating travel to and within Texas are currently split between TxDOT and TDED. Together, the two agencies spend more than \$35 million a year on tourism and travel promotion. This split has resulted in numerous problems, including an inefficient use of State resources and poor customer service. The recommendation to transfer TDED's Tourism Division to TxDOT is meant to create a more unified and streamlined approach to the State's key tourism programs. On a broader level, creating the Tourism Coordinating Council will help ensure a consistent marketing effort across the 11 agencies involved in or affected by tourism activities. These two changes together should help accomplish long-standing legislative efforts to achieve a coordinated approach to tourism promotion in Texas.

## Support

**Current Situation:** Eleven state entities in Texas are actively involved in or affected by tourism promotion activities.

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TDED and TxDOT are the primary agencies with direct tourism promotion responsibilities.

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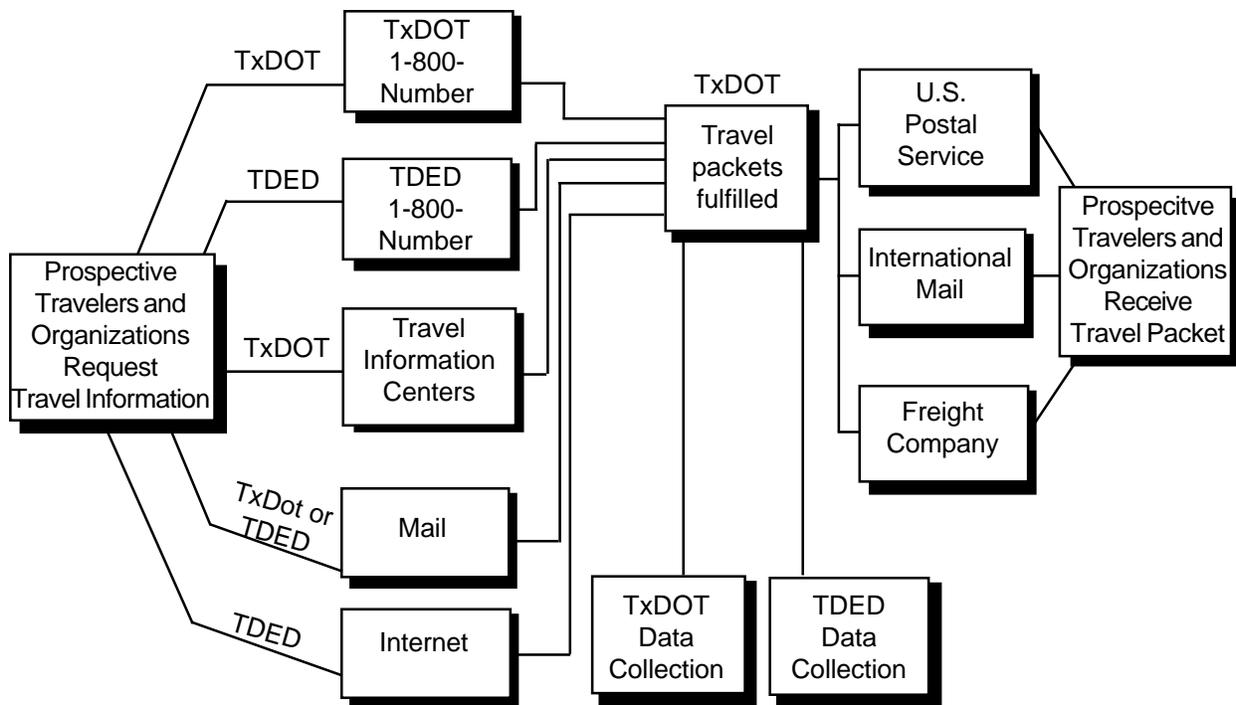
- TDED's role, by law, is to promote and advertise Texas as a premier tourist destination. In FY 2000, the agency spent more than \$19 million on tourism and travel promotion. The Department contracts with McCann Erickson Southwest for advertising production, which is the primary activity of the Tourism Division. In addition, the Department markets Texas through trade shows and interaction with the media, operates a 1-800 number to order Texas Travel Guides, conducts travel research, and assists communities in developing tourist attractions.
- The Texas Department of Transportation (TxDOT) is directed by law to stimulate travel to and within Texas. In FY 2000, TxDOT spent more than \$16 million on tourism and travel promotion. TxDOT produces several tourism publications, including the Texas Highways Magazine and the Texas State Travel Guide. TxDOT also operates the 12 travel information centers throughout the state, and a 1-800 number to provide travel assistance, trip routing, emergency road condition information, and to order the travel guide.
- Nine other entities are involved in specific aspects of tourism, but are not directly responsible for the general promotion of tourism in the State. These agencies include: 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; Department of Public Safety; Office of Music, Film, Television and Multimedia; and the State Preservation Board. Although a State Agency Tourism Council exists to share state tourism information among these agencies, it has not been effective in coordinating their tourism efforts.
- The chart, *State Tourism in Texas*, details the agencies' tourism functions and budgets.

<b>State Tourism in Texas</b>		
<b>Agency</b>	<b>Tourism Function</b>	<b>FY 2000 Estimated Budget for Tourism</b>
Texas Department of Economic Development	<ul style="list-style-type: none"> <li>• Advertise and market Texas Through television, print ads, and trade shows</li> <li>• Operate 1-800 number to order the <i>Texas Travel Guide</i></li> <li>• Conduct Tourism research</li> <li>• Assist communities to develop tourist attractions</li> <li>• Advised by Tourism Advisory Committee</li> </ul>	\$19 Million
Texas Department of Transportation	<ul style="list-style-type: none"> <li>• Produce travel information and literature such as the <i>Texas Travel Guide</i>, accommodations guide, and Texas highway map</li> <li>• Operate 12 travel information centers</li> <li>• Operate 1-800 number to provide travel assistance, trip routing, emergency road condition information, and to order the <i>Texas Travel Guide</i></li> <li>• Produce <i>Texas Highways</i> Magazine</li> </ul>	\$16 Million
Texas Parks and Wildlife Department	<ul style="list-style-type: none"> <li>• Market and advertise state parks and historical sites</li> <li>• Produce brochures on state parks</li> <li>• Operate 36 visitors centers in state parks</li> <li>• Produce <i>Texas Parks and Wildlife</i> Magazine</li> </ul>	\$2 Million
Texas Commission on the Arts	<ul style="list-style-type: none"> <li>• Provide grants to communities and businesses to advance the arts industries</li> </ul>	\$1 Million
Texas Historical Commission	<ul style="list-style-type: none"> <li>• Preservation and promotion of Texas historical sites</li> <li>• Produce brochures on Texas trails</li> </ul>	\$650,000
Texas A&M University	<ul style="list-style-type: none"> <li>• Provide tourism hospitality training, technical assistance, and workshops</li> </ul>	N/A
Office of Music, Film, Television and Multimedia	<ul style="list-style-type: none"> <li>• Market the state as a location for film and video shooting, and assist Texas music businesses</li> </ul>	N/A
Texas General Land Office	<ul style="list-style-type: none"> <li>• Promote tourism indirectly through the active management of lands</li> </ul>	N/A
Texas Department of Agriculture	<ul style="list-style-type: none"> <li>• Encourage consumers to buy Texas products</li> </ul>	N/A
Texas Department of Public Safety	<ul style="list-style-type: none"> <li>• Produce publications and assist with visitor safety</li> </ul>	N/A
Texas State Preservation Board	<ul style="list-style-type: none"> <li>• Will operate the new Bob Bullock Texas State History Museum</li> </ul>	N/A

**Problem:** Splitting tourism between TDED and TxDOT is duplicative, resulting in an inefficient use of State resources and poor customer service.

- TDED and TxDOT are both charged with promoting the State as a travel destination. The functions each agency performs are separate steps of a single tourism promotion process. Basically, TDED does the advertising and promotions designed to bring visitors to the state, while TxDOT fulfills visitors' requests for travel literature, and assists them through its travel information centers.
- The *Flow Chart for Fulfillment of Texas Travel Information* illustrates the many routes a prospective visitor could take to obtain travel information about Texas. Each of the lines that starts at TDED, and then goes to TxDOT for fulfillment, illustrates the potential for customer service problems.

**FLOW CHART FOR FULFILLMENT OF TEXAS TRAVEL INFORMATION**



- TDED and TxDOT perform a number of activities that could clearly be done more effectively and with less duplication if not split across two separate agencies. As shown in the chart above, a customer can order the *Texas State Travel Guide* from both TDED's 1-800 number and TxDOT's 1-800 number. In addition, both agencies receive similar requests for travel information by mail, and both agencies have roles in maintaining the TravelTex.com website. Other activities performed by both agencies include:
  - designing and producing travel publications,
  - representing Texas in travel trade shows,
  - producing videos that promote tourism, and
  - interacting with the media to promote Texas travel.
- The poor communication that can occur across two separate state agencies can be confusing to potential visitors and could negatively influence their decision to come to Texas. For example, TDED recently initiated a major promotional effort to bring more Canadians to Texas. However, TxDOT staff did not receive the necessary information about the program, and were unable to answer questions about it through the TxDOT 1-800 number at the 12 travel information centers.<sup>1</sup>

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Potential visitors can be confused because activities are split between two agencies.

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**Problem: The State lacks a consistent and unified tourism marketing message across the 11 different state entities involved in tourism.**

- TDED uses the slogan, “Texas, It’s Like a Whole Other Country” and the Texas patch logo to promote the state to potential visitors. While the Department has made strides in ensuring that TxDOT also uses the logo, the other agencies have not consistently incorporated it into their marketing activities.
- The State’s tourism agencies do not consistently collaborate on marketing and advertising efforts.<sup>2</sup> Failure to collaborate has resulted in mistakes, including incorrect information and misrepresentations of tourism services in publications.<sup>3</sup>
- Currently, TDED does not include many of the tourism agencies in its annual marketing plan, which determines the State’s major marketing efforts, and identifies the strategic markets that the State will use to market Texas each year. For example, the plan does not provide for coordination among TPWD, THC, and TCA in tourism trade shows and print ads.
- Marketing the State is also done through TDED’s TravelTex.com website, and through TxDOT’s, TPWD’s, THC’s, and TCA’s



*It's like a whole other country.*

websites. However, none of the websites have prominent links to the other tourism agencies' websites. This prevents travelers from getting complete information on the other agencies' tourism services or events. For example, users of the TravelTex.com website must search through at least three pages of information before they can access the Texas Parks and Wildlife Department's website to electronically reserve a campsite or learn when deer season opens, or the Texas Historical Commission's website to get detailed information and pictures of Texas Historical sites.

**Problem:** The Legislature has repeatedly mandated the key agencies involved in tourism to coordinate their efforts, but the agencies have failed to comply in an effective manner.

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In 1997, the Legislature mandated the transfer of certain TxDOT tourism functions to TDED, but the agencies never followed through in consolidating these functions.

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- As far back as 1993, the Legislature mandated TDED's predecessor, the Texas Department of Commerce, to enter into an MOU with TxDOT and TPWD regarding tourism promotion. The agencies took two years to develop the MOU, which has had limited success since the agencies have not adhered to meeting their planned schedules for collaboration on marketing, research, or literature fulfillment.
- In 1995, the Legislature directed the Texas Commission on the Arts to enter into an MOU with the Texas Department of Commerce, TxDOT, and TPWD regarding state tourism promotion efforts. Unfortunately, over five years passed before the agencies began working on the MOU. Since the agreement has not actually been implemented, its impact is uncertain.
- Finally, in 1997, due to ongoing concerns and the lack of any meaningful coordination, the 75th Legislature mandated the transfer of TxDOT's tourism functions to TDED, with the exception of the travel information centers and the *Texas Highways Magazine*. Even though required by law, the agencies never followed through in transferring these functions. Instead, the two agencies simply developed another MOU. While the agencies claim that this MOU has had some success, tourism production functions remain split between two agencies, with no single agency in creative control of these key tourism activities.
- In 1999, the 76th Legislature once again attempted to require the five key agencies involved in tourism (TDED, TxDOT, TPWD, TCA, and THC) to develop and adhere to another MOU regarding tourism promotion. Clearly, this legislation would not have been brought forward had the previous efforts met with any meaningful success. However, the agencies failed to move quickly and make development of the MOU a priority. As of April 2000, the MOU had still not been completed, much less implemented.

- Coordination of efforts has been assigned to the agencies, but no one agency is in charge of ensuring that this coordination takes place. Without someone in charge, many issues are left unaddressed and unresolved.

**Comparison:** TxDOT offers the best opportunities for successfully integrating the State's most critical tourism functions.

- In discussions with tourism industry representatives and the agencies themselves, most agreed that significant benefits would result from consolidating the State's key tourism efforts into a single agency. However, little or no agreement was reached as to which agency would be best positioned to accept this responsibility. Sunset staff evaluated several possibilities and reached the following conclusions.

Although tourism has grown significantly under TDED's control, serious overall management problems at the Department left Sunset staff unable to consider shifting significant tourism programs and resources of more than \$16 million from TxDOT to the Department. In addition, TDED does not have a statewide structure to handle TxDOT's travel information centers.

Many of TxDOT's tourism functions are integrally tied to its core mission. For example, the 12 travel information centers are built on highway right of way. In addition, the centers perform both tourism and highway functions. Information center staff answer the 1-800 number for travel information, disperse tourism publications, provide critical information on road conditions, and issue special permits to truck drivers.

TxDOT's 25-year tradition of publishing *Texas Highways Magazine*, which is linked to other parts of the agency, makes it difficult to consider transferring responsibility for developing and publishing this Texas travel magazine to another agency.

- Since integration of tourism efforts is essential for the State, and given the difficulty of transferring these tourism functions out of TxDOT, the only viable alternative for consolidating Texas' key tourism functions is to move TDED's tourism functions to TxDOT. TxDOT currently has centralized operations for its tourism functions, and is set up to handle the additional tourism activities from TDED. TxDOT staff are experienced at managing large contracts, and would be capable of overseeing TDED's advertising contract. Finally, TDED's tourism functions would complement and enhance TxDOT's current statutory duties by giving them the necessary creative expertise to assist with publications and travel information centers.

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TDED's overall  
management  
problems prevent  
considering it as the  
lead agency for  
tourism.

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## Recommendation

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### Change in Statute

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#### **3.1 Transfer TDED's tourism functions to the Texas Department of Transportation and designate TxDOT as the State's lead tourism agency.**

This recommendation would transfer TDED's Tourism Division, including all advertising, marketing, research, and tourism development functions to TxDOT's Travel Division. The advertising contract with McCann Erickson Southwest would transfer to TxDOT for the remainder of the contract period ending August 31, 2001. At this time, TxDOT could choose to renew or rebid the contract.

As part of TxDOT's responsibilities as the lead tourism agency, TxDOT would ensure that the following are accomplished.

- Ensure that TPWD, THC, and TCA are included in the State's marketing and advertising efforts, as well as the State's annual tourism marketing plan.
- Lead a comprehensive tourism development program that assists communities in developing tourist attractions and includes all agencies involved in tourism.
- Coordinate the tourism research results of all agencies involved in tourism to produce reports that accurately reflect the total tourism efforts of the State.

#### **3.2 Restructure and transfer TDED's Tourism Advisory Committee to TxDOT.**

TDED's Tourism Advisory Committee should be transferred to TxDOT to advise the Transportation Commission on the status and needs of the tourism industry in Texas. The Committee would be established in law and comprised of 14 members, with two from each of the seven established tourism regions of the state. Members would be appointed by the TxDOT Commission. The Committee would also include two non-voting, ex officio members representing the Texas Travel Industry Association and the Texas Hotel and Motel Association. Unlike the current involvement of TDED Board members on the Committee, the new Committee should not include any Transportation Commission members, and should not include appointments made by the Executive Director. The current members could be reappointed and/or remain on the Committee until new appointments are made.

#### **3.3 Create a Tourism Coordinating Council in statute to coordinate tourism functions of all agencies involved in tourism-related activities.**

This new Council would replace the existing State Agency Tourism Council that currently includes TDED; TxDOT; TPWD; TCA; THC; Texas General Land Office; Texas Department of Public Safety; Texas Department of Agriculture; Texas A & M University; and the Office of Music, Film, Television and Multimedia. By law, all of the agencies would continue to be represented on the new Tourism Coordinating Council, with the exception of TDED. Given its increasing role in tourism, the State Preservation Board should also be represented on the Council.

The Council would be chaired by a representative of TxDOT, chosen by the Transportation Commission, and would be administratively attached to TxDOT. The Council would analyze tourism functions, identify and address tourism coordination problems, ensure that agencies comply with required MOUs, and implement a coordinated marketing plan. The Council would be required to report to the Legislature biennially on all agencies' progress and actions taken to coordinate tourism efforts in Texas. In addition, the Council should work with the Tourism Advisory Committee, as necessary, to ensure input from the other state agencies responsible for specific tourism areas such as nature, heritage, and cultural tourism.

## Management Action

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### **3.4 TxDOT and TDED should formulate a transition plan for the transfer of tourism functions from TDED to TxDOT.**

The transition plan should be developed as soon as legislation affecting the transfer is passed and authorized by the Governor. The plan should address, at a minimum, the following:

- a timetable with specific steps and deadlines for the transfer;
- a method for transfer of all TDED Tourism Division records to TxDOT;
- consolidation of the two 1-800 numbers;
- identification of any areas of duplication, and potential cost savings; and
- any other steps necessary to complete the transfer of TDED's Tourism Division.

This recommendation would help ensure that the transfer of TDED's Tourism Division is in accordance with state law and has minimal effect on the continuity of the Division's ongoing operations. Developing this plan would also help identify and address any areas of duplication or overlap, and any cost savings that may be associated with the consolidation of these functions.

## Impact

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Consolidation of the tourism functions of TDED and TxDOT and the creation of the Tourism Coordinating Council, would help the Legislature accomplish its long-standing efforts to achieve a coordinated approach to tourism promotion in Texas. The State currently spends \$35 million on tourism between TDED and TxDOT. Unification of the State's two primary tourism functions would streamline what is currently a fragmented process and facilitate proper oversight and accountability of the money that the State spends in this area. Because so many of TxDOT's tourism functions are integrally tied to its other functions, consolidation within TxDOT is the only viable way to facilitate a comprehensive state tourism program.

## **Fiscal Implication**

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The dedicated 1/12 of the six percent State Hotel/Motel tax collections, which currently goes to TDED for tourism functions, would transfer to TxDOT. From this appropriation, TxDOT would receive \$446,000 and four FTEs for administration. The Department would also receive 26 other FTEs for program support.

TDED is currently mandated by appropriations rider to transfer \$150,000 annually to THC for the promotion of heritage tourism. TxDOT would continue to transfer this amount to THC on an annual basis, as long as directed to do so by the appropriations act.

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<sup>1</sup> November 18, 2000; Interview with Jim Stealy, Chief Historian, THC, Austin, Texas, December 6, 1999; Interview with TPWD staff, Austin, Texas, October 27, 1999, and February 29, 2000.

<sup>2</sup> Telephone interview with TxDOT staff, Austin, Tex., November 18, 1999.

<sup>3</sup> Memorandum of Understanding Meeting, Texas Parks and Wildlife Department, Austin, Texas, February 29, 2000.

## Issue 4

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### **The Department Is Not Meeting the Tourism Development Needs of Texas Communities.**

#### **Summary**

##### **Key Recommendations**

- Require the Tourism Division to direct more of its resources towards meeting tourism development needs.
- Require the Tourism Division to implement a matching funds program to make state tourism development funds available to communities.

##### **Key Findings**

- The Department has reduced resources and services for tourism development programs, even though a clear need for these services exists.
- Other states use matching funds programs to increase tourism development services to communities.

##### **Conclusion**

Tourism development is a critical part of state tourism. While the State expends many resources to encourage people to come to Texas, it must also help develop the product within the state so that tourists have positive experiences when they visit. Currently, the need for tourism development services is greater than the amount of services being provided. These recommendations would require the Department to direct its resources to more adequately address tourism development needs in Texas communities. Improving tourism development will help stimulate travel and bring additional tourism revenue to more communities throughout the state.

## Support

**Current Situation: Texas communities receive tourism development services through TDED's Tourism Division.**

- Tourism development has been a function of state tourism since the Texas Tourism Development Agency began in 1963. By law, TDED's Tourism Division is required to assist communities to develop tourist attractions. Currently, the Tourism Division carries out this function by providing workshops, community assessments, and grant search assistance, focusing its efforts on rural and border communities.

**Problem: The Department has reduced resources and services for tourism development programs, even though a clear need for these services exists.**

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Only 1 percent of TDED's tourism budget is spent on tourism development.

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- In FY 2000, the total TDED tourism budget was more than \$19 million, but only 1 percent went towards tourism development. While the overall Tourism Division budget has increased over the past four years, the budget for tourism development decreased from \$274,227 in FY 1995, to \$193,380 in FY 1999.
- The Department has decreased its tourism support to communities. In FY 1998, the Department assisted 236 communities, but only 189 in FY 1999.
- TDED has reduced the number of tourism development workshops that it offers. In FY 1999, TDED held six workshops, but in FY 2000, TDED anticipates providing only four workshops statewide.<sup>1</sup>
- Since 80 percent of all spending by travelers is spent in only 11 counties in Texas, many communities are not currently benefitting as much from tourism. Sunset fieldwork indicated that many communities in Texas do not have the skills, information, or resources to develop their local tourism industries.<sup>2</sup>

**Comparison: Other states use matching funds programs to increase tourism development services to communities.**

- Thirty-nine states provide matching funds for community tourism development.<sup>3</sup> A state matching funds program awards tourism development funds to communities when the communities raise a direct match of funds. Currently, Texas does not have this type of program.

## Recommendation

### Management Action

#### **4.1 Require the Tourism Division to direct more of its resources towards meeting tourism development needs.**

The Division should assess its resources and develop an action plan for allocating more of its resources to meet tourism development needs. The Tourism Development Section could do this by increasing the number of workshops and assessments to communities most in need, including rural and border communities.

#### **4.2 Require the Tourism Division to implement a matching funds program to make state tourism development funds available to communities willing to contribute an equal share.**

The State's resources are limited; thus, implementing a matching funds program would allow the Department to leverage community funding for tourism development. This program would help Texas communities develop tourist attractions and increase local revenues.

The matching funds program should target communities most in need, including rural and border communities. The guidelines for awarding these grants should be developed as rules by the Department. Staff should design a competitive program so that the Division awards funds on a dollar-for-dollar match with communities.

### Impact

These recommendations would help the Tourism Division meet its statutory responsibility to assist communities to develop tourist attractions. Implementing these recommendations would help build the tourism product across the state, and bring in additional tourism revenue to more communities. These recommendations would apply to the Tourism Division, whether at TDED or at the Texas Department of Transportation, as recommended in Issue 3.

### Fiscal Implication

This recommendation would have no fiscal impact to the State. The Tourism Division should shift current resources to address this need.

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<sup>1</sup> Interview with David Teel, Deputy Executive Director, Tourism Division, Texas Department of Economic Development, Austin, Texas, March 13, 2000.

<sup>2</sup> Interview with Chuck Snyder, Los Caminos Del Rio, McAllen, Texas, November 10, 1999; Interview with Margaret Trouart, Former Tourism Advisory Committee member, Laredo, Texas, November 11, 1999; Interview with Nick Reyna, Director of Sales and Marketing, La Posada Hotel, Laredo, Texas, November 12, 1999; Interview with Howard Rosser, President, East Texas Tourism Association, Longview, Texas, January 26, 2000; Interview with Frank Smith, Tourism and Promotion Director, Sulphur Springs Chamber of Commerce, Longview, Texas, January 26, 2000; Interview with Paul Anderson, Vice-President, Convention and Visitors Bureau, Longview Partnership, Longview, Texas, January 26, 2000.

<sup>3</sup> Travel Industry Association of America, Survey of State Travel Offices, (Washington D.C.: U.S. Travel Data Center, Travel Industry Association of America, January 1999).

## Issue 5

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### **The Department Does Not Provide Travel Information On Its Website in Spanish.**

#### **Summary**

##### **Key Recommendation**

- Require the Department to provide travel information on the TravelTex.com website in Spanish.

##### **Key Findings**

- Texas is failing to reach a large portion of international travelers by not providing tourism information in Spanish on its website.
- Other states, and other state agencies in Texas, have recognized the value of providing website information in Spanish on their websites.

##### **Conclusion**

TDED's travel website is one of the primary tools Texas uses to promote the state both nationally and internationally. Despite the fact that 75 percent of international travelers to Texas are Spanish-speaking, the website is only available in English. Requiring the tourism website to include information in Spanish would improve access to travel information to stimulate travel and increase tourism revenue for Texas. The recommendation would also help Texas remain competitive with other states that provide tourism information in different languages.

## Support

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**Current Situation:** TDED globally promotes Texas through a travel website.

- In 1995, The Department's Tourism Division created the TravelTex.com website to globally promote Texas as a tourist destination. The website includes information from the *Texas State Travel Guide* and *Texas Events Calendar*, and allows consumers to order the travel guide directly from the website. The website is maintained by the Division's advertising contractor, McCann-Erickson Southwest.
- The Department's 1998 annual report states that the Internet continues to grow exponentially as a means for consumers to receive and explore travel information. In 1999, the agency had approximately 1.5 million hits to its TravelTex.com website.<sup>1</sup>

**Problem:** Texas is failing to reach a large portion of international travelers by not providing tourism information in Spanish on its website.

- Although 75 percent of international travelers to Texas are Spanish-speaking, TDED's travel website is only available in English.<sup>2</sup>
- In 1998, approximately 3.2 million visitors from Mexico spent an estimated \$950 million in Texas. The international traveler spends more per day than the domestic traveler, with air travelers from Mexico spending an average of \$119 per day.<sup>3</sup>

**Comparison:** Other states, and other state agencies in Texas, have recognized the value of providing website information in Spanish.

- Both California and Florida, the other two most visited states in the U.S., provide their travel websites in Spanish.<sup>4</sup>
- In Texas, other state agencies, including the Texas Natural Resource Conservation Commission and the Comptroller's Office, increase accessibility by providing portions of their websites in Spanish.

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Although 75 percent of international travelers to Texas are Spanish-speaking, TDED's travel website is only available in English.

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## Recommendation

### Management Action

#### 5.1 Require the Department to provide travel information on the TravelTex.com website in Spanish.

This recommendation could be phased-in initially by posting existing printed Spanish brochures and publications from TDED and the Texas Department of Transportation, and later added to the website contract as it is renewed or rebid.

### Impact

Providing travel information in Spanish on the TravelTex.com website will make travel information accessible to more people, thus stimulating travel and increasing tourism revenue for Texas. These recommendations would apply to the Tourism Division whether at TDED or at the Texas Department of Transportation, as recommended in Issue 3.

### Fiscal Implication

This recommendation would have little or no fiscal impact to the State. The Department could make modifications to the website with existing resources. Providing travel information in Spanish should increase the number of travelers to Texas and therefore increase tourism revenues, but the amount cannot be estimated.

<sup>1</sup> Texas Department of Economic Development, *2000 Marketing Plan*, (Austin, Tex.), p. 21.

<sup>2</sup> Texas Department of Economic Development, *Texas Travel Facts*, Austin, TX. (Brochure).

<sup>3</sup> Texas Department of Economic Development, *Texas Travel Facts*, Austin, TX. (Brochure); and Texas Department of Economic Development, *2000 Marketing Plan*, (Austin, Tex.), p. 105.

<sup>4</sup> D.K. Shifflet and Associates, Limited, *Texas Attractions Study*, (Austin, Tex.: Texas Department of Economic Development, September 1999).



## Issue 6

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### **The Structure and Use of the Department's Advisory Committees Is Inappropriate and, in Some Cases, Unnecessary.**

#### **Summary**

##### **Key Recommendation**

- Require the Department's advisory committees to meet standard structure and operating criteria.
- Abolish the Texas Strategic Military Planning Commission.

##### **Key Findings**

- Having Board members serve on agency advisory committees is inappropriate.
- Using advisory committees to develop and direct agency policy and operations limits public participation and potentially violates the Open Meetings Act.
- The Texas Strategic Military Planning Commission has completed its work and is no longer needed as a Governor-appointed advisory committee to the Department.

##### **Conclusion**

These recommendations are intended to ensure the most effective structure and use of the Department's advisory committees. Having Board members serve on advisory committees that develop policy and direct agency operations, as they do at TDED, is not an appropriate or effective advisory committee structure. Advisory committees should be used as independent, external sources of information to inform the Board or the Department. Advisory committees should not develop agency policy or direct agency operations, particularly if done in closed meetings and without adequate public input. Restructuring the Department's advisory committees will allow the Department's Board and staff to access a more meaningful source of external information and expertise for its planning and program implementation.

In addition, the Governor-appointed Texas Strategic Military Planning Commission is no longer needed as an advisory committee to the Department, since it has completed its main charge.

## Support

**Current Situation:** The Department has five advisory committees to advise the Board and staff on a variety of topics.

- Advisory committees should provide independent, external expertise to advise boards and agencies on how the agency's policies and procedures affect certain entities, offer best practices for implementing agency programs, and help identify needs for agency services.
- The Texas Department of Economic Development has five advisory committees to advise the Board and the Department. The Texas Border Trade Advisory Committee, Tourism Advisory Committee, Small Business Advisory Committee, and Rural Development Advisory Committee were created by the Board. In contrast, the Texas Strategic Military Planning Commission (TSMPC) is statutorily created to advise the Department's Office of Defense Affairs.
- TDED Board rules require at least two members of the Governing Board to serve on each advisory committee, except for the TSMPC which is Governor- appointed.<sup>1</sup> A Board member serves as the Chair of most of the Department's advisory committees.

**Problem:** Having Board members serve on agency advisory committees is inappropriate.

- Requiring Board members to serve on the Department's advisory committees creates a situation where the Board is significantly influencing or even directing the advisory committees. Advisory committees are supposed to act as independent, external sources of information for the agency. They should be able to discuss issues openly and make recommendations to the Board or Department accordingly. However, having Board members on the committee may inhibit or influence the outcome or direction of discussions.
- The Department's statute prohibits Board members from being involved in the daily operations of the Department.<sup>2</sup> However, TDED's advisory committees often work directly with Department staff to develop agency policies and procedures, dealing with the day-to-day operations of the Department.

For example, the Tourism Advisory Committee's purpose is to assist the Department's Tourism Division in formulating its marketing and advertising programs. The Rural Development Advisory Committee is charged with providing input and direction for the development and implementation of Office of Rural Affairs initiatives.

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Direct involvement of Board members limits TDED's advisory committees' ability to provide an independent perspective.

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- Having Board members serve on the advisory committees inhibits the Board's objectivity. Board members are assigned to specific advisory committees and develop expertise and affiliation with the particular committees on which they serve. Board members become advocates for their assigned advisory committees and recommend policy based on the needs of the advisory committees, without considering the overall impact on the Department.
- Review of TDED Governing Board minutes and attendance showed that Board approval of the advisory committees' recommendations is generally perfunctory. TDED's Governing Board usually approves the advisory committee recommendations based on the direction of the Board members that serve on the advisory committee. Little to no explanation is offered as to how these adopted recommendations will affect the policy already established by the Board, impact the budget of the agency, or fit into the Department's overall mission.

For example, at the suggestion of Board members serving on the Border Trade Advisory Committee, the Board approved a Border Economic Action Task Force and instructed the Department to create a new position for a U.S.-Mexico policy specialist. This action is problematic because these activities were not included in the Department's Strategic Plan and no budget item was associated with these functions in the Department.

**Problem: Using advisory committees to develop and direct agency policy and operations limits public participation and potentially violates the Open Meetings Act.**

- Texas law provides that a "committee or subcommittee appointed by a governmental body and granted authority to supervise or control public business or public policy may itself fall within the definition of 'governmental body'" for purposes of the Open Meetings Act.<sup>3</sup> Currently, advisory committees at the Department are assigned tasks that can be seen as giving the advisory committees control or supervision over public business or policy for the Board and agency and may therefore fall within the definition of "governmental body."

TDED's advisory committees are involved in creating and changing agency policy and operations. Sunset staff observed policy and operation changes to the Department being directed by advisory committees.

- According to the Open Meetings Act, meetings of governmental bodies must be open to the public and the public must be given notice of the time, place, and subject matter of the meetings to ensure openness in government.<sup>4</sup> However, except for the Texas Strategic Military Planning Commission, advisory committees at the Department do not provide public notice of all meetings.

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Developing policy at  
the advisory  
committee level  
limits public input  
and participation.

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For example, no public notice was posted for advisory committee meetings on March 2, 2000; however, at least two advisory committees, the Rural Development Advisory Committee and the Small Business Advisory Committee, met that day. Because advisory committees are not directly subject to open meetings requirements, the public did not have the opportunity to observe or have input on the policy and operation changes discussed at these meetings.

- Texas law also provides that even committees that do not have a quorum of the parent board and do not have control over public business or policy are subject to the Act, if the full board simply rubber stamps the decisions and recommendations of the committee.<sup>5</sup> As mentioned previously, Governing Board approval of the advisory committees' recommendations is generally perfunctory since Board members are making the recommendations.

**Problem: The Texas Strategic Military Planning Commission is no longer needed as a Governor-appointed advisory committee to the Department.**

- The Texas Strategic Military Planning Commissions has completed its key function as a Governor-appointed advisory committee at the Department. In 1997, the 75th Legislature assigned the Office of Defense Affairs (ODA) the responsibility of preparing a statewide assessment of the of all active military installations and their missions. TSMPC was responsible for assisting ODA in the preparation of that report. ODA and TSMPC presented the assessment to the 76th Legislature, which has since acted upon the assessment.
- TSMPC's remaining charges are not usually dealt with by a state agency and duplicate those assigned to the Senate Committee on Veteran Affairs and Military Installations. The Senate committee is currently charged with developing strategies to extend the operational usefulness of Texas military facilities including increasing the number of public/private economic development partnerships involving active Texas military bases. This charge mirrors that of TSMPC, whose charge is to develop long-term plans related to overall viability of the military, and improve private and public employment opportunities for former members of the military.

## Recommendation

### Change in Statute

#### **6.1 Require the Department's advisory committees to meet standard structure and operating criteria.**

All advisory committees must:

- provide independent, external expertise on Department functions;
- not be involved in setting agency policy or managing the Department's actual operations; and
- not include Board members as members of the committee.

This recommendation ensures that the Department's advisory committees are structured and used to advise the Department and Board, and not involved in setting of policy or managing the actual operations of the agency. In addition, this recommendation prohibits Board members from serving on the Department's advisory committees which will allow the committees to actually serve in an advisory capacity. The Board will have to change the Department's current advisory committee structure to ensure they are consistent with these requirements.

#### **6.2 Abolish the Texas Strategic Military Planning Commission.**

This recommendation would abolish the Texas Strategic Military Planning Commission. Its primary function of assisting TDED's Office of Defense Affairs in performing a statewide assessment of the of all active military installations and their missions has been completed. The Commission's remaining charges have been given to the Senate Committee on Veteran Affairs and Military Installations. This recommendation does not preclude TDED's Governing Board from establishing another military advisory committee if such an advisory committee is needed in the future.

### Impact

These recommendations are intended to help the Department ensure the most effective structure and use of its advisory committees. Properly structured advisory committees will allow the Department to access a meaningful source of external information and expertise for its planing and program implementation.

### Fiscal Implication

This recommendation would have no fiscal impact to the State.

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<sup>1</sup> Tex. Gov't Code Ann. ch. 481, sec 481.0066 (Vernon 1998).

<sup>2</sup> Tex. Gov't Code Ann. ch. 481, sec 481.005(d) (Vernon 1998).

<sup>3</sup> Office of Attorney General, State of Texas, *2000 Texas Open Meetings Handbook*, Austin, Texas, p.14 (citing specific Attorney General Opinions).

<sup>4</sup> Attorney General, *2000 Texas Open Meetings Handbook*, p. 1.

<sup>5</sup> Attorney General, *2000 Texas Open Meetings Handbook*, p.14 (citing specific case law and Attorney General Opinions).

## Issue 7

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### **The Department's Methods of Collecting and Using Private Funds Are Duplicative and Do Not Ensure Accountability.**

#### **Summary**

##### **Key Recommendations**

- Require the Department's Governing Board to adopt, by rule, policies and procedures for the use of Department funds held outside of the Treasury.
- Abolish the Texas Economic Development Corporation.

##### **Key Findings**

- The Department does not have adequate controls in place to ensure accountability over the use of private funds and the use of staff time in acquiring private funds.
- Lack of controls over activities and funds held outside of the Treasury can create the appearance of impropriety.
- Since the Department can directly raise and expend private funds on its own, a separate state-sanctioned corporation to perform the same functions is unnecessary.

##### **Conclusion**

These recommendations help ensure clear accountability over the Department's assets and resources to avoid even the appearance of improper use of both State and private funds. The Sunset review found that the Department is not providing adequate accountability of the private funds it collects and needs to establish guidelines to ensure that funds are properly accounted for and appropriately used. The review also found that maintaining a private corporation for acquiring and expending private funds for the Department is unnecessary because the Department currently has the statutory authority to do this without the use of a private corporation.

## Support

**Current Situation:** The Department has two means for raising and expending private funds outside the normal appropriations process.

- In 1987, the Legislature created the Economic Development Corporation (Corporation), a statutory non-profit entity, to support the Department's International and Business Development programs. The legislation was amended in 1991 to allow the Corporation to support all the Department's programs activities. Generally, the Corporation does this by collecting and disbursing donated funds to the Department's programs and activities. Members of the Department's Governing Board serve ex officio as the Board for the Corporation and Department staff serve as the staff of the Corporation.
- The Legislature also allows the Department to directly accept and deposit contributions from private sources in separate accounts with the Comptroller, as funds held outside the Treasury.<sup>1</sup> These funds may be used by the Department for the intended purpose of the contribution.

**Problem:** The Department does not have adequate controls in place to ensure accountability over the use of private funds and the use of staff time in acquiring private funds.

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The Department does not account for staff time or expenses related to fund-raising activities.

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- The Department does not track or account for the time and expenses related to Corporation business and cannot measure the benefit of the Corporation against what it costs to support its operations. According to Attorney General Opinion MW-373, for the Department to provide staff, office space, and utility services to the Corporation, adequate consideration must flow to the public. This means that the benefit received by the State from the Corporation must offset the cost to the State for maintaining the Corporation, and that the cost to the state must be reasonable. Without a record of staff time spent on Corporation activities, the benefit and cost cannot be determined.
- The Department lacks policies and procedures to guide staff on appropriate use of Corporation funds versus Department funds. For example, Department staff frequently seek reimbursement for expenses after the expense is incurred rather than seeking approval before the funds are expended. This practice provides no real means for the agency to control how private funds are used.

**Problem: Lack of controls over activities and funds held outside of the Treasury can create the appearance of impropriety.**

- Without a clear policy, staff decide on a case-by-case basis what expenditures are appropriate, which can lead to a negative image of the Department. These activities include spending Corporation funds on moving expenses for a former Executive Director (including items such as pillows, a coffee maker, and mints). Even though such expenditures may be appropriate, assuming the money was privately donated for this purpose, the appearance is negative.
- Without adequate procedures to track these funds, clear separation of state and private funds is not certain. At times, the Department has used state funds to support projects that were supposed to be cost recovered through private funds. For example, the Department used General Revenue to pay the printing costs for a project, but no provision was made to have the Department reimbursed for the expenditure if funds became available.<sup>2</sup>

**Problem: Since the Department can directly raise and expend private funds on its own, a separate state-sanctioned corporation to perform the same function is unnecessary.**

- The Department has used the Corporation to expend funds for certain activities not allowed under state law. Such things include the purchases of meals that exceed the state allowable cost, alcoholic beverages, and gifts for dignitaries. However, the Department has the ability to expend private funds for the same purposes. Department funds deposited with the Comptroller, held outside of the Treasury, are not subject to the restrictive rules applied to appropriated funds.
- The Department also uses the Corporation to raise funds to support activities that are approved but not funded by the Legislature. However, the Legislature has provided the Department numerous other means to raise these funds. For example, the Department is statutorily authorized to recover costs for the services it provides; hold patents, copyrights, or trademarks; enter into license agreements for fees and royalties; sell advertisements; and accept gifts, grants, or loans from private sources.

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The Department can accept and expend private donations without the need for an outside Corporation.

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## Recommendation

### Change in Statute

#### **7.1 Require the Department's Governing Board to adopt, by rule, policies and procedures for the use of Department funds held outside of the Treasury.**

This recommendation would require the Board to establish guidelines for use of funds held outside of the Treasury to ensure that the funds are properly accounted for and appropriately used. These guidelines should include a requirement that the Department account for all general revenue funds contributed to projects supported by funds held outside of the Treasury, and that the Department be fully reimbursed for those contributions as funds become available. Also, the Department would be required to account for all staff time spent on fund-raising activities associated with private donations. The Board should adopt these guidelines by formal rule as soon as possible, but not later than December 1, 2001.

#### **7.2 Abolish the Texas Economic Development Corporation.**

This would eliminate the separate state-sanctioned non-profit corporation to raise funds for the Department. The Department could continue to receive donations and contributions under its general authority and use these funds in the same manner as those raised by the Corporation.

### Impact

Although private donations are an important tool for the Department, the Department must continue to account for the State resources it has available. The recommended changes would help ensure clearer policies for accounting of State assets and avoid even the appearance of improper use of both State and donated funds. Since the Department would control the fund rather than the Corporation, all transactions would be subject to direct audit by the State Auditor.

### Fiscal Implication

The Department estimates that it currently spends \$13,535 annually in support of the Corporation's activities. This does not include fund raising activities provided by the Department that cannot be estimated because the Department does not track this activity. Abolishing the Corporation would save, at a minimum, the Department's current cost of \$13,535 per year.

Fiscal Year	Savings to the General Revenue Fund	Change in FTEs From FY 2001
2002	\$13,535	0
2003	\$13,535	0
2004	\$13,535	0
2005	\$13,535	0
2006	\$13,535	0

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<sup>1</sup> Tex. Gov't Code Ann. ch. 481, sec 481.021(c) (Vernon 1998).

<sup>2</sup> Memorandum from Robin Abbott, the Texas Department of Economic Development, to Jennifer Jones, Sunset Advisory Commission, October 15, 1999.



## Issue 8

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### **The State's Intermittent Economic Development Planning Fails to Effectively Identify and Address Statewide Needs.**

#### **Summary**

##### **Key Recommendations**

- Re-authorize the Texas Strategic Economic Planning Commission.
- Require the Commission to submit an economic development plan to the Legislature every two years.

##### **Key Findings**

- Texas has taken an intermittent approach to long-range economic development planning. As a result, the State has no ongoing means to identify and address economic development problems.
- Successful implementation of the State's strategic economic development plan is limited without an ongoing entity to ensure accountability.
- The current state economic planning effort does not adequately include local economic development planning.

##### **Conclusion**

Annually, the State spends an estimated \$42 billion on economic development related activities across numerous agencies. However, the State has only taken an intermittent approach to economic development planning. The State's Strategic Economic Development Plan is only created every 10 years. In addition, although the plan identifies goals and strategies to improve the economy of the State, no one is accountable for implementing the stated recommendations.

Re-establishing the Commission would provide a comprehensive look at economic development throughout the state every two years, including identifying problems and offering solutions to them. Linking the plan to specific agencies' strategic plans and ensuring accountability through the appropriations process will help ensure effective implementation of the statewide economic development plan.

## Support

**Current Situation:** The State recently completed a long-range, comprehensive economic development plan that identified goals and strategies that cut across a wide range of state agencies.

- The Texas Strategic Economic Development Planning Commission (Commission) was created on September 1, 1997 to develop a comprehensive, long-range plan for economic development in the state.<sup>1</sup> The Commission was composed of 11 public members appointed by the Governor, two Senators appointed by the Lieutenant Governor, and two Representatives appointed by the Speaker of the House. The Commission received its administrative funding through the Governor's Office.
- In October 1998, the Commission issued the Texas Strategic Economic Development Plan. That plan established five goals and numerous strategies designed to develop a knowledge-based economy that

### Texas Strategic Economic Development Planning Commission Goals

1. Texas must make education and workforce development the State's number one economic priority.
2. Texas must develop a business climate that leads the nation in attracting and encouraging value-added businesses. Entrepreneurship and technological innovation must become hallmarks of the state.
3. Texas must become the transportation and information center of the Western Hemisphere allowing for the efficient movement of goods, capital, and information throughout the world.
4. Texas must develop an economic development strategy that drives the State's national and international business development efforts.
5. Texas' high-growth economic strategy should be inclusive of all regions of the state.

maximizes prosperity and ensures global competitiveness across all regions of the state.<sup>2</sup> The textbox, *Texas Strategic Economic Development Planning Commission Goals* identifies goals adopted by the Commission.

- Many different state agencies are integrally involved in shaping Texas' economic development infrastructure. Annually, the State spends an estimated \$42 billion on economic development related activities across agencies.<sup>3</sup> For example, the Texas Department of Transportation builds roads and other transportation-related infrastructure used to ship goods to consumers and businesses throughout Texas. The Texas Workforce Commission pays unemployment benefits and helps to train workers so they can more easily obtain new jobs. The Higher Education Coordinating Board and the Texas Education Agency help to ensure children receive the proper tools to be productive members of the workforce.

The State also regulates businesses and professions that significantly impact the business climate of the state. These regulatory agencies monitor major industries such as banking, insurance, and utilities; as well as professions such as doctors, accountants, and real estate brokers.

**Problem:** Texas has taken an intermittent approach to long-range economic development planning. As a result, the State has no ongoing means to identify and address economic development problems.

- Comprehensive economic development planning in Texas began largely with the first Strategic Economic Development Plan in 1988. However, after the plan was completed, no entity was charged with continuing the planning process and the authorization for that planning body expired.
- The Legislature then created the Strategic Economic Development Planning Commission in 1997. However, the Commission expired on February 1, 1999, once again leaving the State without a comprehensive planning entity for its vast economic development activities.
- Without regular economic development planning, the State has often been reactionary in its response to economic development problems. For example, in 1987 the Texas economy was clouded by the nation's highest workers' compensation insurance rates, the lowest benefits for injured workers, and the worst record of workplace deaths and injuries.<sup>4</sup>

Because of the seriousness of the situation, major employers in Texas threatened to move their operations out of the state and new companies were reluctant to move in, thereby threatening to stifle the Texas economy.<sup>5</sup> Not until the State's first comprehensive economic planning process was underway in 1988 did the State identify steps to comprehensively address the crisis. As a result, workers' compensation insurance is no longer ranked by employers among their top five business concerns.<sup>6</sup>

**Problem:** Successful implementation of the State's strategic economic development plan is limited without an ongoing entity to ensure accountability.

- The Commission, in its 1998 plan, identified a number of economic development problems, and made recommendations to address those problems. The Commission even set benchmarks to monitor and implement the recommendations. However, the Commission did not always directly identify which state agencies should be responsible for addressing each recommendation. As a result, accountability for implementation is not possible.

For example, in 1999, the Commission recommended that the State enhance capital availability by establishing clearinghouses at Small Business Assistance Centers to provide information on capital sources, including venture capital and private placements.<sup>7</sup> However, no state

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Without cross-agency planning, the State is left reacting to economic problems, rather than anticipating them.

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agency was identified as being in the best position to carry-out this recommendation. As a result, this recommendation has not been implemented.

- Successful implementation is the most critical aspect of any planning process. This point was recognized by the Commission, which is why it attempted to link the goals of the plan to state agency strategic plans and the appropriations process.

**Problem: The current state economic planning effort does not adequately include local economic development planning.**

- Despite the fact that most economic development activity occurs at the local level, current state planning does not formally include local governments. Development of the current Strategic Economic Development Plan did not formally make use of local planning efforts. Rather, the plan only gained local input by taking testimony in various locations around the state.
- The federal Economic Development Administration has recognized the importance of local planning by providing grant money to 10 Councils of Government throughout the state to develop a Comprehensive Economic Development Strategy (CEDS) for each of these regions. These CEDS identify local economic strengths, weaknesses, and data needs while developing strategies to address local economic development problems and achieve sustained economic growth. These plans could be used as a basis on which the State can develop its own economic development plans in the future.

## Recommendation

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### Change in Statute

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#### **8.1 Re-authorize the Texas Strategic Economic Planning Commission.**

#### **8.2 Require the Commission to submit a comprehensive economic development plan for the state, that includes problems identified in local economic development plans, to the Legislature every two years.**

Re-establishing the Commission would allow the State to take a proactive approach to economic development problems and policies that cut across numerous state agencies. The Commission should also help ensure a coordinated approach to those policies by identifying the appropriate state agencies best suited to address any potential problems within the State's economy. Re-establishing the Commission would also provide the means to hold agencies accountable for the implementation of the plan, and ensure that the plan is not just another document on the shelf.

Such a plan should make use of local economic development plans to ensure coordination with local economic development efforts. In addition, the Commission should gather input from state agency representatives, since they could be charged with implementing major components of the plan.

Submitting the plan to the Legislature would provide a link between the Commission's plan and the State's appropriations process. Submission of the plan would also provide an opportunity for consideration of any legislative changes contemplated in the plan, and possible changes in the budgets of individual state agencies. Requiring the plan to be submitted on or before September 1, of each even-numbered year would ensure that the plan is available for review prior to each legislative session.

## Impact

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The intent of this recommendation is to ensure that the State has a permanent entity charged with identifying potential economic development problems and formulating steps to resolve those problems. Such an entity can help minimize both the detrimental affects of, and the time dealing with those problems. In addition, assigning responsibility to state agencies for the implementation of the plan will help to ensure accountability.

## Fiscal Implication

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Administrative expenses for the Commission were previously appropriated to the Governor's Office, since the Commission did not receive a separate appropriation. Costs involved in this issue include per diem, travel reimbursement, and administrative support including, but not limited to, actual publication of the plan. Estimated at no more than \$75,000 per year, these costs should more than offset the enhanced economic benefit to the State stemming from a more coordinated economic development policy.

<b>Fiscal Year</b>	<b>Cost to the General Revenue Fund</b>	<b>Change in FTEs From FY 2001</b>
2002	\$75,000	0
2003	\$75,000	0
2004	\$75,000	0
2005	\$75,000	0
2006	\$75,000	0

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<sup>1</sup> Tex. Gov't Code Ann. ch. 481, sec 481.032 (Vernon 1998).

<sup>2</sup> Texas Strategic Economic Development Planning Commission, *The Texas Strategic Economic Development Plan 1998-2008*, (Austin, Tex.), p. 2.

<sup>3</sup> General Appropriations Act, H.B. 1, VII-2, 76th Leg.

<sup>4</sup> Texas Sunset Advisory Commission, *Staff Report on the Texas Workers' Compensation Commission*, (July 1994.), p. 1.

<sup>5</sup> Ibid.

<sup>6</sup> *Summary of the Texas Summits*, Austin, Tex.: Steinhardt and Company Custom Computer Services, (December 1999), p.1.

<sup>7</sup> Planning Commission, *The Texas Strategic Economic Development Plan 1998-2008*, p. 25.

## **ACROSS-THE-BOARD RECOMMENDATIONS**

<b>Texas Department of Economic Development</b>	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>A. GENERAL</b>
Already in Statute	1. Require at least one-third public membership on state agency policymaking bodies.
Already in Statute	2. Require specific provisions relating to conflicts of interest.
Already in Statute	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.
Already in Statute	4. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Update	5. Specify grounds for removal of a member of the policymaking body.
Already in Statute	6. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Apply	7. Require training for members of policymaking bodies.
Apply	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.
Already in Statute	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.



## **AGENCY INFORMATION**

# Agency Information

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## AGENCY AT A GLANCE

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

- funding job training for Texas businesses;
- promoting Texas as a tourist destination;
- providing financial, location, and expert assistance to Texas businesses and communities; and
- serving as a source of economic development information.

### Key Facts

- **Funding.** TDED's budget for fiscal year 1999 was just over \$97 million. Almost eighty percent of the agency's revenue comes from the Smart Jobs Fund (\$58.4 million) and the hotel/motel occupancy tax for tourism (\$18 million). The remaining 20 percent comes from state general revenue (\$14.4 million), federal funds (\$4 million), and other sources of revenue (\$2 million).
- **Staffing.** TDED employs 178 FTEs - all in the agency's Austin headquarters.
- **Smart Jobs.** TDED administers the Smart Jobs program that awards grants to Texas employers for customized training to promote the creation of new jobs and increase the wages of existing employees receiving training. Funding for Smart Jobs grants has grown from \$7.7 million in fiscal year 1995 to \$58 million in fiscal year 1999.
- **Tourism.** TDED advertises and markets Texas as a top tourist destination, both domestically and internationally (\$18 million in fiscal year 1999). Tourism received over 1.4 million consumer inquiries for travel literature about Texas in fiscal year 1999.
- **Financial Assistance.** TDED assists Texas businesses and communities in accessing capital for business expansion and growth through a variety of programs, including the Texas Capital Fund, Capital Access Fund, and Texas Enterprise Zones. In FY 1999, TDED's Finance Programs report creating 6,072 jobs and retaining 1,808.

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TDED administers the State's Smart Jobs Program and markets Texas as a top tourist destination.

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**On the Internet**

Visit TDED's website (<http://www.tded.state.tx.us>) for information about the agency and its resources for communities, businesses and tourism.

- **Corporate Expansion and Recruitment.** TDED disseminates business location prospect leads to Texas communities, responds to inquiries about the Texas business climate, and coordinates site visits for businesses interested in moving to Texas. Of the 742 businesses assisted in fiscal year 1999, 62 relocated or expanded to Texas.
- **International Business.** TDED assists Texas companies in promoting their products and services internationally through trade missions, trade shows, and trade seminars. The agency also works with foreign businesses looking for Texas suppliers. It operates one foreign office, located in Mexico City. International business organized nine international trade events in fiscal year 1999.
- **Information Clearinghouse.** TDED'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 1999, the Clearinghouse reports over 925,000 users on its four key websites.

## 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 nonprofit 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 TDED and an Executive Director hired by the Board, not appointed by the Governor.

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The current agency is the Legislature's attempt to redefine the State's economic development role.

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## ORGANIZATION

### Governing Body

A nine-member public board governs TDED. The Governor appoints the members, with the advice and consent of the Senate, to staggered six-year terms. Four of the members serve in specific slots required by statute. The chart, *TDED Governing Board*, lists the current Board members and their positions on the Board.

<b>Texas Department of Economic Development Governing Board</b>			
Name	Term	Position	Residence
Mark Langdale, Chair	9/16/97 - 2/01/03	International Trade Experience	Dallas
Tucker S. Bridwell, Vice Chair	9/16/97 - 2/01/01	Economic Development Practioner	Abilene
Javier Garza	9/16/97 - 2/01/01	Public Member	Laredo
Patricia Z. Holland-Branch	9/16/97 - 2/01/01	Public Member	El Paso
Limas Jefferson	4/12/99 - 2/01/05	Public Member	Seabrook
George T. Richardson	8/20/98 - 2/01/03	Resident of county with a population less than 30,000	Littlefield
Marion Szurek	4/12/99 - 2/01/05	Tourism Experience	San Angelo
Rance G. Sweeten	9/16/97 - 2/01/03	Public Member	McAllen
Martha J. Wong	4/12/99 - 2/01/05	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.

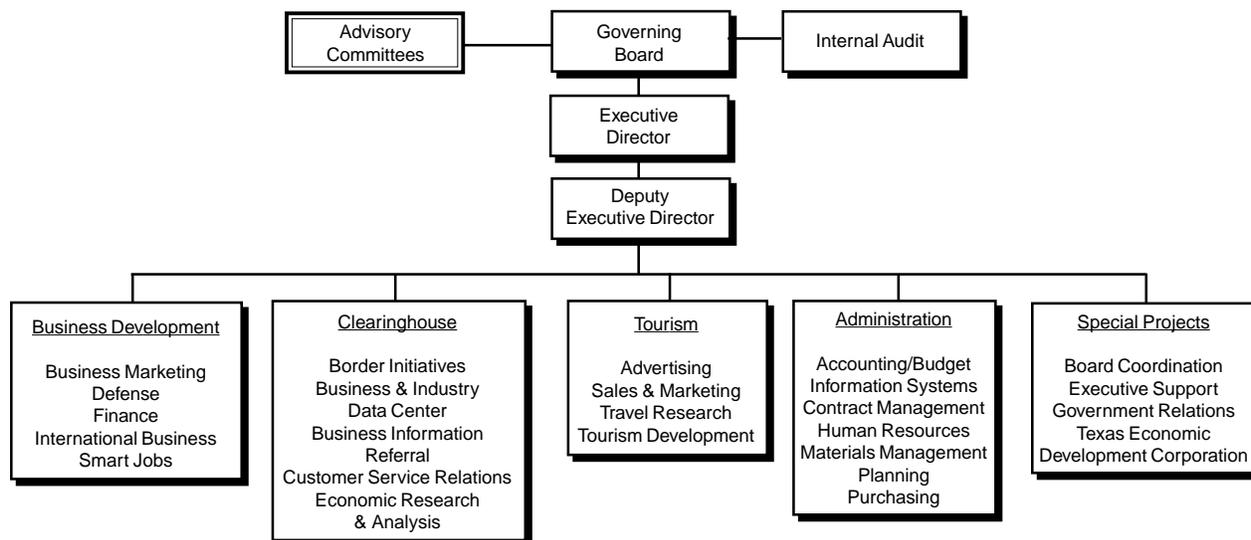
In addition, the TDED Board serves as the Board of Directors for two non-profit corporations: the Texas Economic Development Corporation and the Texas Small Business Industrial Development Corporation. The Texas Economic Development Corporation raises private funds in support of TDED programs and activities.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

Five advisory committees assist the Board and Department. A brief description of these committees can be found in Appendix A.

### **Staff**

TDED has five key divisions and a total of 178 full-time employees (FTEs). These employees all work in the agency's headquarters in Austin. The organizational structure is shown below. A comparison of the agency's workforce composition to the minority civilian labor force is provided in Appendix B.

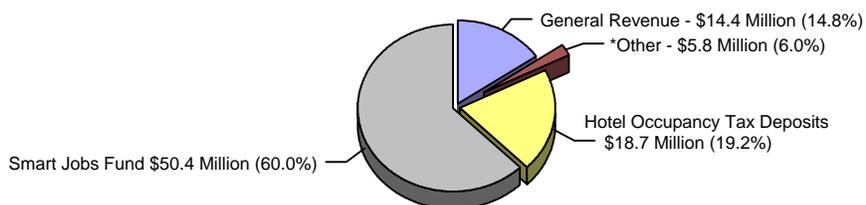
## Texas Department of Economic Development Organizational Chart As of March 1, 2000



### FUNDING

TDED receives funding from a number of sources, resulting in a total of \$97.3 million in fiscal year 1999. The largest funding sources are the Smart Jobs Fund and Hotel Occupancy Tax deposits. Additional funding detail can be seen in the chart, *Sources of Revenue - Fiscal Year 1999*.

**Sources of Revenue  
Fiscal Year 1999**

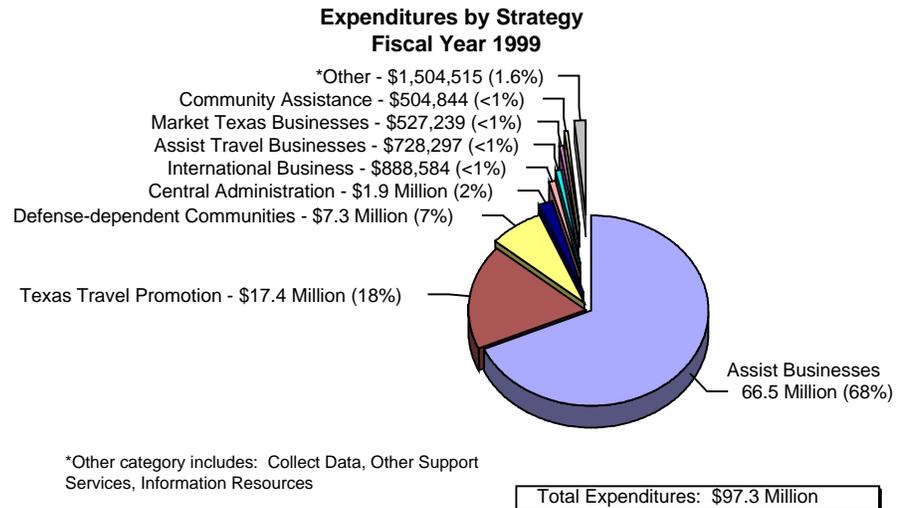


\*Other category includes: Interagency Contracts, Texas Economic Development Fund, General Revenue Dedicated Federal Funds, Appropriated Receipts, and Earned Federal Funds

Total Revenue: \$97.3 Million

TDED expenditures totaled \$97.3 million in fiscal year 1999 and were distributed among the agency's 11 strategies. The strategy, Assist Businesses,

had the most funding, followed by Texas Travel Promotion. Additional detail can be seen in the chart, *Expenditures by Strategy - Fiscal Year 1999*.



TDDED’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 commodities category in fiscal year 1998, but fell short in all other applicable areas.

## AGENCY OPERATIONS

The following material highlights TDDED’s key activities.

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### Smart Jobs

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Smart Jobs is the Department’s largest program, about 60 percent of its budget.

### Smart Jobs

Smart Jobs is the Department’s largest single program, involving grant authority of approximately \$50 million, or about 60 percent of the agency’s budget for FY 1999. The Department contracts directly with Texas businesses to train employees to fill new jobs or to upgrade the skills of existing employees. Employers must provide at least a 10 percent match or in-kind contribution and pay a salary increase to trainees at the end of the training. To avoid a penalty, businesses must continue to employ 85 percent of the trainees for at least 90 days after the project is completed.

According to TDDED, the number of grants awarded has grown each year since the program’s inception in 1993. The chart, *Estimated Smart Jobs Program Growth*, shows how the program has grown.

Estimated Smart Jobs Program Growth Fiscal Years 1995-1998		
Fiscal Year	Estimated Number of People Trained	Estimated Total of Grant Dollars
1995	5,454	\$7.7 million
1996	22,831	\$27.1 million
1997	20,709	\$29.6 million
1998	42,441	\$53.3 million
1999	34,514	\$34.4 million

TDED reports awarding 430 Smart Jobs grants totaling over \$34 million, to train more than 30,000 employees in fiscal year 1999. The Legislature appropriated \$108 million for the program in the 1998-99 biennium and provided a contingency appropriation of up to the same amount for the 2000-01 biennium. The program is funded by 1/10 of one percent of the Unemployment Compensation Fund, after the Fund is certified as solvent by the Texas Workforce Commission. Administrative expenditures for the program are capped at \$1.5 million per year. As of March 9, 2000, the agency reports a Smart Jobs Fund balance of \$108.5 million.

### Tourism

TDED's second largest program is Tourism, expending more than \$18 million, or about 19 percent of TDED's budget in FY 1999. Tourism promotes Texas as a premier destination to U.S. and international travelers, helping to increase tourism revenues and create jobs. Direct spending by travelers in Texas increased over 60 percent from 1990 to 1998, as illustrated in the chart, *Travel Spending Growth in Texas*.<sup>1</sup>

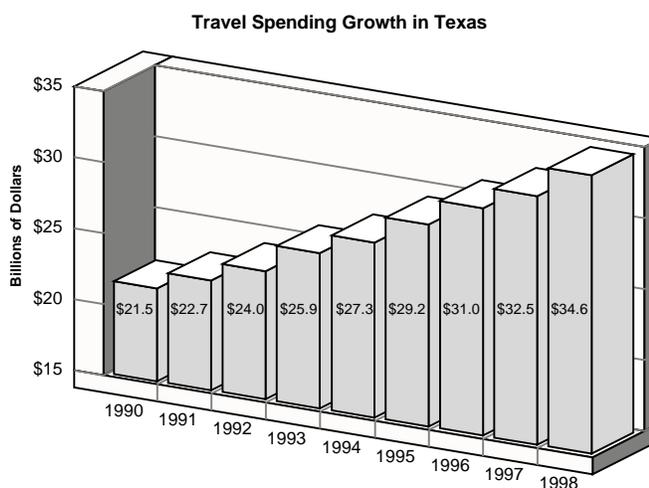
TDED's tourism operations are funded primarily through a portion of the State hotel/motel occupancy tax (1/12 of the six percent hotel tax). In FY 1999, the agency received \$18.7 million from hotel/motel tax collections for tourism.

TDED's key means for promoting tourism are through advertising and marketing Texas outside the state, both

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Promoting tourism is primarily marketing Texas outside the state, through advertising.

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in the U.S. and internationally. The Department contracts with a single outside agency, currently McCann Erickson Southwest Advertising Agency, for the majority of its advertising activities. The contract for FY 1999 totaled \$14.1 million. Advertising is done through television commercials, print ads, public service announcements, and radio. TDED also maintains a Texas travel website that received over 426,000 inquiries in 1999.

#### Top 10 Tourist Attractions

1. Alamo
2. San Antonio River Walk
3. Six Flags Over Texas
4. San Marcos Outlet Malls
5. State Capitol
6. Fort Worth Stockyards
7. Padre Island National Seashore
8. Astrodome
9. Sea World of Texas
10. San Antonio Zoo

TDED markets Texas tourism by attending travel trade shows, conducting Texas familiarization tours, and working with the media to generate publicity about Texas. The attached chart highlights the *Top Ten Tourist Attractions in Texas* in 1998. TDED markets Texas tourism through contracts with public relations firms in London, Munich, Mexico City, Toronto, New York, and Dallas. The agency also researches travel patterns and works with Texas communities to develop local tourist attractions.

Agency staff work closely with convention and visitors bureaus, chambers of commerce, airlines, and other private travel-related businesses. To coordinate tourism efforts across state agencies, TDED works with the Texas Department of Transportation, the Texas Parks and Wildlife Department, the Texas Historical Commission, and the Texas Commission on the Arts. State law requires the agencies to define their different roles and how they can most effectively work together. Also, a Tourism Advisory Committee comprised of members of the Texas travel industry advises the TDED Board and assists agency staff.

#### Financial Assistance Programs

TDED operates seven financial assistance programs, described below. The number of jobs created and retained by each program is highlighted in the chart, *TDED Finance Programs*.

***Texas Capital Fund*** The Texas Capital Fund provides financial assistance to communities to encourage business development, retention, or expansion. The purpose is to assist communities to attract and retain permanent jobs for people with low and moderate-incomes through infrastructure and real estate development.

Funding comes from the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) program. The Texas Department of Housing and Community Affairs (TDHCA) is the lead state agency for the receipt of CDBG funds in

<b>Finance Programs Fiscal Years 1999</b>			
<b>Program</b>	<b>Reported Number of Jobs Created</b>	<b>Reported Number of Jobs Retained</b>	<b>Number of Awards</b>
Texas Capital Fund	1,678	240	33
Captita Access Fund	488	1,127	199
Texas Leverage Fund	1	1	3
Linked Deposit Program	2	15	2
Enterprise Zone Program	1,368	625	NA
Denfense Economic Readjustment Zones	2,535	0	NA
Small Business Industrial Development Corporation	NA	NA	NA
<b>Totals</b>	<b>6,072</b>	<b>2,008</b>	<b>237</b>

Texas. TDED reviews and approves applications for the program and conducts monitoring, drafts contracts with performance provisions for the economic development portion of the CDBG funds. If an application is approved by TDED, TDHCA requests funding from the Department of Housing and Urban Development (HUD). HUD then sends the funding to the State Comptroller's Office, which in turn sends the funds to the community. Only smaller communities that do not receive CDBG funds directly from HUD are eligible for this assistance. The Texas Capital Fund operates three programs.

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The Texas Capital Fund provides financial assistance to communities to encourage business expansion and retention.

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The **Infrastructure Program** provides loans for infrastructure improvements to businesses that are expanding or beginning operations in a community. These improvements can include water, natural gas and sewer lines, harbors, shipping channels, landfills, streets or traffic signals. In fiscal year 1999, 17 loans were made totaling \$12.7 million.

The **Real Estate Program** provides interest-free loans to communities to make real estate improvements to support businesses that are expanding or beginning operations in the community. Loan amounts range from \$50,000 to \$1.5 million. In fiscal year 1999, eight loans were made totaling \$4.7 million.

The **Main Street Program** provides financial assistance to communities designated as official Main Street Cities by the Texas Historical

Commission. These funds are for the construction of infrastructure and awards range from \$50,000 to \$150,000. In fiscal year 1999, four awards were made totaling just over \$568,000.

***Capital Access Fund*** The Capital Access Fund encourages lending institutions to make loans or extend credit to businesses that fall outside conventional lending guidelines. This is done by establishing a reserve fund to cover the costs of any potential default. The borrower and the lender each contribute three percent of the loan value to the reserve account. The State contributes six percent of the value of the loan (up to \$35,000) to the reserve account. In fiscal year 1999, 199 loans were made, with a combined value of \$24.7 million.

***Texas Leverage Fund*** The Texas Leverage Fund provides loans to communities that have passed a local economic development sales tax. Eligible projects include the acquisition of land, buildings, machinery and industrial equipment, and sports, entertainment, and public park projects. The economic development sales tax revenue is used to repay the loan. In fiscal year 1999, three loans were made, valued at \$1.4 million.

***Linked Deposit Program*** The Linked Deposit Program provides low-interest loans to assist four groups: commercially credit-worthy historically-underutilized businesses, child care providers, non-profit corporations, and small businesses located in enterprise zones. The lower interest rate is obtained from lenders in return for the State requiring a less-than-market interest rate on State funds deposited with the lender. Nine loans, valued at \$1.2 million, have been made since the program's inception in 1992.

***Texas Small Business Development Corporation*** The Texas Small Business Development Corporation provides capital 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 TDED Governing Board serves as the ex officio Governing Board of the Corporation and determines which projects will receive funding. The Corporation currently has four outstanding loans, all to municipalities, ranging in value from \$1 million to \$12.9 million.

***Texas Enterprise Zone Program*** Through this program, TDED can authorize tax abatements on state sales, use, and franchise taxes for businesses that agree to locate and invest in economically-distressed

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The Enterprise Zone program provides businesses with tax abatements in return for locating and investing in distressed areas.

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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 average unemployment rates and population loss; and have one of the following - high poverty rates, high tax averages, or increased juvenile criminal activity. In fiscal year 1999, TDED claims that 1,368 jobs were created and 625 jobs were retained at a cost of \$4.4 million in forgone state sales, use, and franchise taxes.

***Defense Economic Readjustment Zones*** Similar to the Enterprize 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, TDED 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 realignment; create or retain jobs; and fill at least 25 percent of those jobs with residents of the zone. Currently, four locations are designated as Defense Economic Readjustment Zones: San Antonio, McGregor, Lubbock, and Beeville. To date, no tax abatements have been given.

### **Corporate Expansion and Recruitment**

Corporate Expansion and Recruitment (CER) helps attract new industry to Texas and assists existing businesses wanting to expand. CER responds to inquiries about doing business in Texas and electronically disseminates leads to a broad network of Texas communities and organizations. CER also helps identify potential site locations and can coordinate site visits with community representatives throughout the state. In fiscal year 1999, the agency reports assisting 742 businesses, 62 of which relocated to or expanded in Texas.

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In fiscal year 1999,  
the Agency reported  
assisting 742  
businesses with  
recruitment or  
expansion.

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### **Office of 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 1999, the Office of International Business reports organizing nine international trade events assisting 102 companies. The Office also administers the Texas International Center that provides office space and clerical equipment for representatives of foreign governments seeking to increase economic ties with Texas businesses.

TDED's only foreign office is located in Mexico City. The 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 FY 1999 the office had five contract employees, and a budget of \$445,000. That same year, the office reported 1,245 contacts, nine of which resulted in sales valued at about \$850,000.

### Economic Information Clearinghouse

<b>Economic Information Clearinghouse Internet Users, FY 1999</b>	
<b>Program</b>	<b>Number of Users</b>
Business and Industry Data Center	68,305
Information and Referral Services	27,294
Permit Assistance	127,193
Texas Marketplace	702,795

The Economic Information Clearinghouse, created in September 1, 1997, 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.

***Business and Industry Data Center*** TDED's Business and Industry Data Center is a one-stop source for all types of 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. Through a special initiative of the U.S. Census Bureau and the State Data Center at Texas A&M, TDED's website links to economic data, statistics, and research from a comprehensive set of state and federal sources. Frequent customers include chambers of commerce, local Texas governments, state trade associations, commercial and investment banks, real estate firms, accounting firms, international consulates, prospective business investors, and business newspapers.

***Information and Referral Service*** Another key function of TDED's website is a searchable electronic database or clearinghouse of economic development programs and services. Information is available on state, federal, private, and international economic development programs (including programs offering technical assistance, training and capital access). Most frequent users are entities that provide services to businesses and communities, such as chambers of commerce, local government officials, small business development centers, and councils of government.

***Permit Assistance*** For businesses getting-started, expanding, or relocating in Texas, TDED's Permit Assistance offers a one-stop shop for applying for a variety of required state permits. The agency provides

information on permits required for doing business in Texas, provides a comprehensive application form, helps applicants in obtaining timely permit reviews from 326 different state regulatory agencies, and assists applicants in the resolution of outstanding permitting issues. TDED also publishes a permit application handbook.

***Texas Marketplace*** TDED's Texas Marketplace is an on-line tool to facilitate electronic commerce, including government procurement and private-sector trade opportunities. By law, all state agencies must post large procurement opportunities (\$25,000 or greater) on TDED's website. In addition, any business may post "buy" or "sell" ads on the site to facilitate private sector trade between Texas businesses and other businesses in the U.S. and worldwide.

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TDED's Texas Marketplace is an on-line tool to facilitate electronic commerce.

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## **Special Offices**

***Small Business Assistance*** TDED's Office of Small Business Assistance was set up in law to serve as the focal point in state government for information and assistance to small and historically underutilized businesses (HUB), and as a way to link these businesses to TDED programs. The staff assist small businesses and HUBs by answering inquiries by phone and mail; disseminating information through the Internet, monthly newsletters, and brochures; and by participating in seminars, trade shows, forums, and conferences.

***Rural Affairs*** The Rural Affairs Office serves as a primary contact point for disseminating economic development information to about 1,900 rural communities. Key activities include keeping rural areas abreast of relevant economic development issues, opportunities, and services. In 1999, the Legislature directed TDED and the Texas Department of Agriculture to work together to address rural needs.

***Defense Affairs*** The Office of Defense Affairs serves the 47 defense-dependent communities in Texas and the defense-related businesses in those communities. Eligible communities are determined by the proximity of a military facility, defense industry employment levels, and/or a dependence on defense-related jobs. Key activities include serving as a clearinghouse for defense economic adjustment information, assisting defense-dependent communities experiencing a defense-related closure or realignment, and assisting communities in the retention and recruiting of defense-related businesses. The Office is advised by the Texas Strategic Military Planning Commission on the effect of the military on the economy of the state.

***Border Initiatives*** The Office of Border Initiatives, set up by the TDED Board in 1999, addresses economic development issues along the Texas-Mexico border. The Office's staff monitor and analyze Texas-Mexico trade and border economic development issues, and participate in related conferences and summits. The Office also markets TDED's economic development programs to border communities and serves as a point of contact at TDED for these communities.

### **Texas Economic Development Corporation**

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The Corporation collects donations to support TDED programs and activities.

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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 TDED purposes. TDED's Governing Board serves as the Corporation's Board of Directors. The Corporation contracts with TDED for staff and administrative support.

The Corporation collects donations to support TDED 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 TDED sponsored seminars and trade events, gifts for foreign dignitaries, and to supplement the costs of foreign offices and foreign travel. In fiscal year 1999, the Corporation's funds totaled about \$175,000.

# **APPENDICES**

## Appendix A

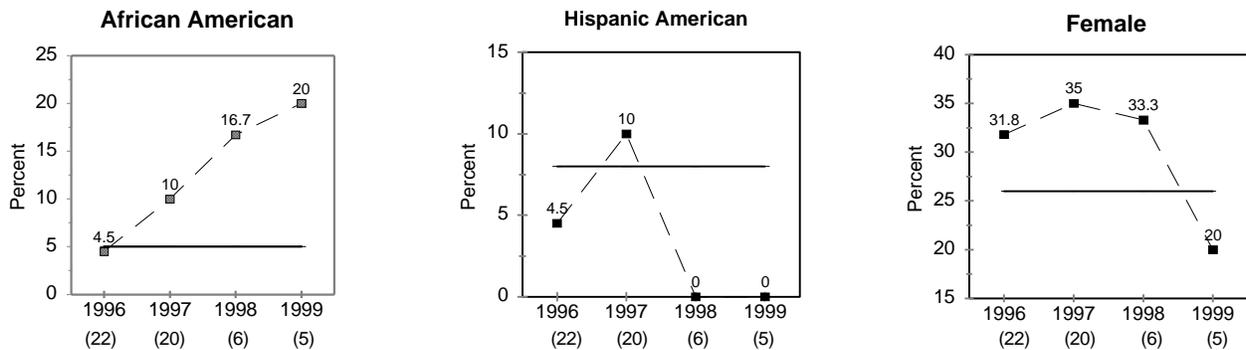
<b>TDED Advisory Committees</b>		
<b>Name</b>	<b>Structure</b>	<b>Purpose</b>
Rural Development Advisory Committee	11 members - two Governing Board members are members of the committee and nine members appointed by the Department.	To advise the Office of Rural Affairs on matters of importance to rural communities, and to provide input and direction for development and implementation of Office of Rural Affairs initiatives.
Small Business Advisory Committee	Nine members - two Governing Board members serve as members, one Governing Board members serves as chair of the committee; six members nominated by the organizations they represent, including: Texas Association of Businesses and Chambers of Commerce, National Federation of Independent Business, Bill J. Priest Institute for Economic Development, Small Business United of Texas, Texas Economic Development Council, Entrepreneurs' Association, and Texas Association of Mexican American Chambers of Commerce.	To advise the Department's Governing Board on how to increase awareness of Department programs, with an emphasis on helping small businesses.
Tourism Advisory Committee	29 members - two Governing Board members serving ex officio, 14 members from each of the seven tourism regions of the state elected by the industry, three members appointed by the Department, and 10 ex-officio members representing state travel associations and other state agencies.	To generate and maintain awareness of the tourism industry of the state, and to assist the Department's Tourism Division in formulating its marketing and advertising programs.
Texas Border Trade Advisory Committee	12 members - three Governing Board members, all members represent border communities and are nominated via community meetings or by Governing Board members. Advisory committee members can nominate replacements.	To maintain awareness of the issues and concerns of the Texas-Mexico border communities, and to assist the Department and Governing Board in formulating its policies regarding international trade and economic development in this region.
Texas Strategic Military Planning Commission	11 members - nine public members appointed by the Governor and two ex officio members: the chair of the House committee with jurisdiction over state, federal, and international relations and the Chair of the Senate committee with jurisdiction over veteran affairs and military installations.	To make recommendations regarding the development of policies and plans to promote the military in the event of base reduction, closure, or conversion, and the development of methods to improve employment opportunities for former members of the military.

## Appendix B

### Equal Employment Opportunity Statistics 1996 to 1999

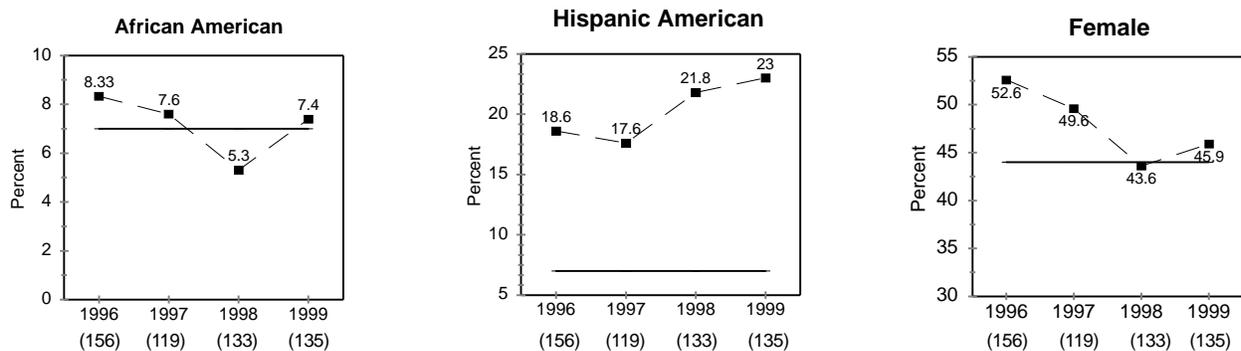
The following material shows trend information for the agency's employment of minorities and females in accordance with the requirements of the Sunset Act.<sup>1</sup> The agency maintains and reports this information under guidelines established by the Texas Commission on Human Rights.<sup>2</sup> In the charts, the flat lines represent the percentages of the statewide civilian labor force that African Americans, Hispanic Americans, 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 1996 to 1999. Finally, the number in parentheses under each year shows the total number of positions in that year for each job category.

#### State Agency Administration



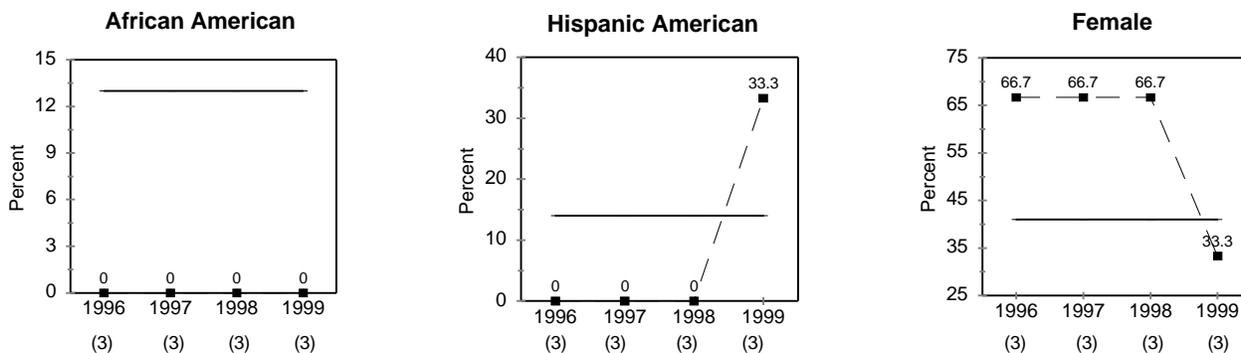
The agency falls below the civilian labor force percentages for Hispanic Americans, but exceeds the percentages for African Americans and Females.

#### Professional



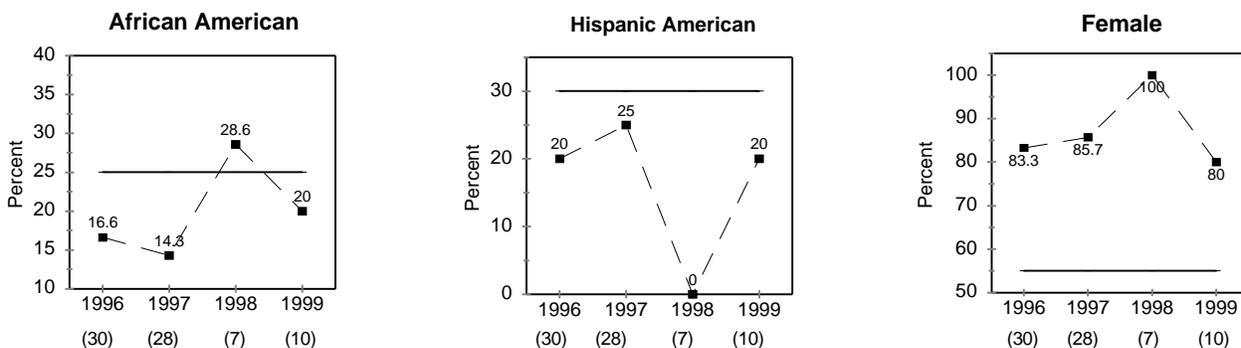
Except for 1998 for African Americans, the agency has exceeded the civilian labor force percentages for all three groups, and generally, by a wide margin.

### Technical



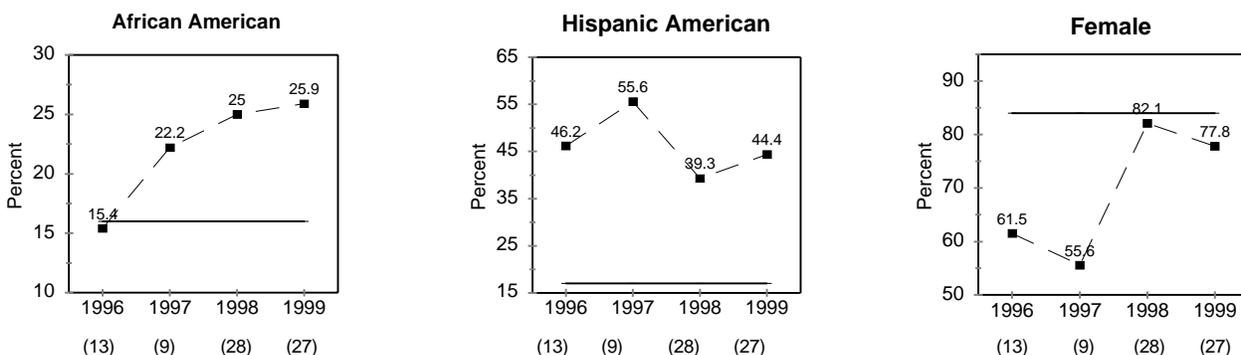
The agency falls below the civilian labor force for Hispanic Americans and African Americans every year with the exception of 1999, when it exceeded the percentage for Hispanic Americans. This is also the only year that the percentage for females falls short.

### Paraprofessional



The agency exceeded civilian labor force percentages for females, but generally falls short for Hispanic Americans and African Americans.

### Administrative Support



The agency has exceeded the civilian labor force percentages for Hispanic Americans and African Americans, but falls below the percentage for females.

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<sup>1</sup> Tex. Gov't. Code ch. 325, sec. 325.011(9)(A) (Vernon 1999).

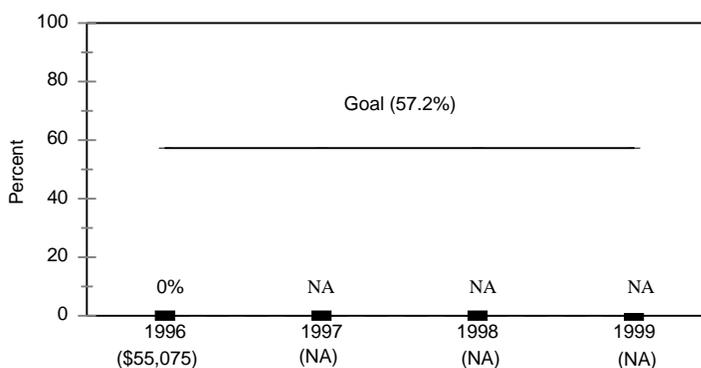
<sup>2</sup> Tex. Labor Code ch. 21, sec. 21.501 (formally required by rider in the General Appropriations Act).

## Appendix C

### Historically Underutilized Businesses Statistics 1996 to 1999

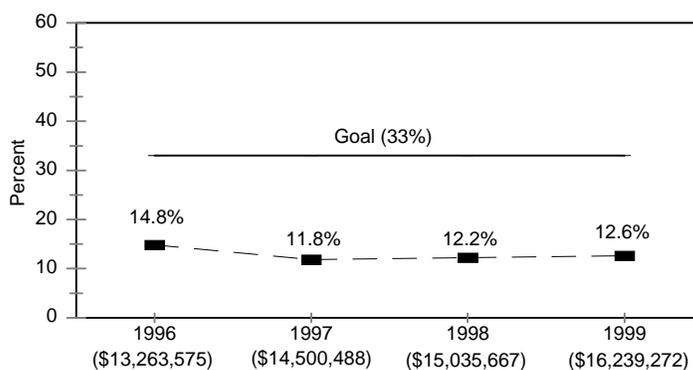
The Legislature has encouraged state agencies to use Historically Underutilized Businesses (HUBs) to promote full and equal opportunities for all businesses in state procurement. In accordance with the requirements of the Sunset Act,<sup>1</sup> the following material shows trend information for the agency's use of HUBs in purchasing goods and services. The agency maintains and reports this information under guidelines in the General Services Commission's enabling statute.<sup>2</sup> In the charts, the flat lines represent the goal for each purchasing category, as established by the General Services Commission. The dashed lines represent the agency actual spending percentages in each purchasing category from 1996 to 1999. Finally, the number in parentheses under each year shows the total amount the agency spent in each purchasing category.

#### Special Trade



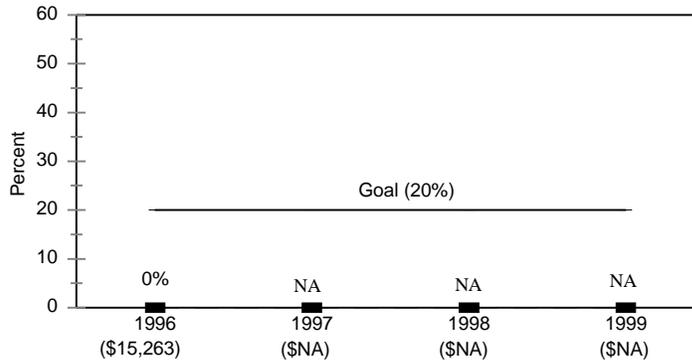
Except for 1996, TDED had no expenditures in this category.

#### Other Services



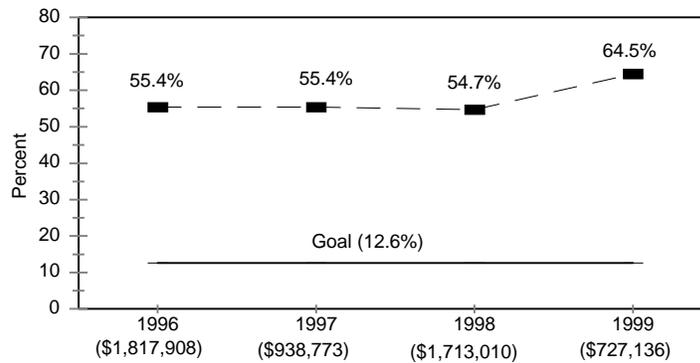
The bulk of TDED's purchases are in the Other Services category. TDED has consistently fallen below the statewide HUB goal for every year shown.

### Professional Services



Except for 1996, TDED had no expenditures in this category.

### Commodities



TDED has significantly exceeded the statewide goal in this category.

<sup>1</sup> Tex. Gov't. Code ch. 325, sec. 325.011(9)(B) (Vernon 1999).

<sup>2</sup> Tex. Gov't. Code ch. 2161, (Vernon 1999). Some provisions were formerly required by rider in the General Appropriations Act.

## **Appendix D**

### **Staff Review Activities**

The Sunset staff engaged in the following activities during the review of TDED.

- Worked extensively with TDED staff - executive management and staff from the agency's major programs.
- Met with TDED Governing Board members.
- Attended public meetings of the TDED Governing Board and reviewed past minutes of meetings.
- Worked with the Governor's Office, Lieutenant Governor's Office, Speaker's Office, State Auditor's Office, Legislative Budget Board, legislative committees, and legislators' staff.
- Interviewed state officials from the Secretary of State's Office, State Auditor's Office, Texas Comptroller of Public Accounts, Texas Workforce Commission, Texas Department of Transportation, and Texas Parks and Wildlife Department.
- Reviewed reports by the Governor's Office, State Comptroller, Office of the Attorney General, State Auditor's Office, Legislative Budget Board, and Texas Strategic Economic Development Planning Commission.
- Met with officials from the U.S. Department of Commerce, Economic Development Administration regarding federal funding, policies, and initiatives related to economic development.
- Conducted interviews and solicited written comments from state and local interest groups regarding their ideas and opinions about the State's role in economic development.
- Met with local Councils of Government, Chambers of Commerce, Economic Development Corporations, and Convention and Visitors Bureaus from Austin, Arlington, Dallas, Ft. Worth, San Antonio, Laredo, Junction, Fredericksburg, Harlingen, South Padre Island, Brownsville, McAllen, Edinburg, Nacogdoches, Lufkin, Palestine, Longview, Buffalo, and Bryan-College Station to discuss their interaction with TDED.
- Attended the annual conference of the Texas Economic Development Council to visit with members about the State's role in economic development and the programs and services provided by TDED.
- Attended various tourism meetings and visited with members of the Texas Tourism Industry Association, Tourism Advisory Committee, and Texas State Agency Tourism Council.
- Researched the structure of agencies in other states with common functions.
- Reviewed agency documents and reports, state statutes, legislative reports, Attorney General opinions, previous legislation, literature on economic development, other states' information, and information available on the Internet.



**TEXAS DEPARTMENT OF ECONOMIC  
DEVELOPMENT**

**Report prepared by:**

*Jennifer G. Jones - Project Manager*

Colin Coe  
D. John Hubbard  
Andrea Varnell  
Susan Kinney

**Ginny McKay - Project Supervisor**

**JOEY LONGLEY  
DIRECTOR**

Sunset Advisory Commission  
P.O. Box 13066  
Robert E. Johnson Bldg.  
1501 N. Congress Ave., 6th Floor  
Austin, Texas 78711  
<http://www.sunset.state.tx.us>

(512) 463-1300  
FAX (512) 463-0705