HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2004

A REPORT TO THE
HOUSE OF REPRESENTATIVES
79TH TEXAS LEGISLATURE

JIM KEFFER
CHAIRMAN

COMMITTEE CLERK
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Committee On
Economic Development

December 10, 2004

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Chairman

P.O. Box 2910
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The Honorable Tom Craddick
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Economic Development of the Seventy-Eighth Legislature hereby submits its interim report, including recommendations, for consideration by the Seventy-ninth Legislature.

Respectfully submitted,

Jim Keffer, Chairman

Mark Homer, Vice Chair

Carl Isett, CBO

Bryan Hughes

Eddie Rodgriguez

Senfronia Thompson

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INTRODUCTION

At the beginning of the 78th Legislature, the Honorable Tom Craddick, Speaker of the Texas House of Representatives, appointed seven member to the House Committee on Economic Development. The Committee membership included the following: Jim Keffer, Chairman; Mark Homer, Vice Chair; Carl Isett, CBO; Bryan Hughes; Eddie Rodriguez; Senfronia Thompson; and Martha Wong. The committee has completed its hearings and research and has filed its report.

The committee expresses appreciation to our staffs for their assistance and efforts throughout the session and the interim. In addition, we would like to thank the speakers and citizens who provided testimony at our hearings for their involvement in the process. Finally, we thank the leadership and staffs of the Texas Economic Development and Tourism Office, the Texas Workforce Commission, The Texas Workforce Investment Council, The Texas Department of Agriculture, and the Office of Rural Community Affairs for their time and efforts on behalf of the committee.

HOUSE COMMITTEE ON ECONOMIC DEVELOPMENT

INTERIM STUDY CHARGES

CHARGE	**1**	**Evaluate job training programs offered by the state and whether the state's efforts have been negatively impacted by the loss of the Smart Jobs program. Study the role of career and technology job training programs and their effectiveness in adult education programs, job retraining programs, post-secondary education and high school programs. Recommend legislative changes to enhance job training programs or provide incentives for business recruitment and retention.**
CHARGE	**2**	**Review the state's role in tourism and the effects of moving tourism functions within the Governor's office under SB 275, 78th Legislature. Examine how the state can assist rural communities in the promotion of tourism.**
CHARGE Trust	**3**	**Actively monitor the status of the Unemployment Compensation Fund. Review the impact of legislative changes enacted by SB 280, 78th Legislature, on funding of the Unemployment Compensation Trust Fund.**
CHARGE	**4**	**Study how businesses currently view the Texas Workers' Compensation System and whether it deters business growth or expansion into Texas. Study any reforms that could be used as an incentive for economic development, business recruitment or business retention.**
CHARGE	**5**	**Study the role that Texas ports have in the economic growth of the state and how the state can partner with ports in developing trade, business recruitment and relocation and the transportation of goods and services both in domestic and foreign markets.**
CHARGE	**6**	**Evaluate the state's role in serving economic development interests in rural Texas after the passage of SB 275, 78th Legislature, and other economic development legislation from the 78th Legislature.**
CHARGE	**7**	**Monitor the agencies and programs under the committee's jurisdiction, with special attention paid to the agencies' implementation of sunset legislation.**

CHARGE 1

Evaluate job training programs offered by the state and whether the state's efforts have been negatively impacted by the loss of the Smart Jobs program. Study the role of career and technology job training programs and their effectiveness in adult education programs, job retraining programs, post-secondary education and high school programs. Recommend legislative changes to enhance job training programs or provide incentives for business recruitment and retention.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on August 25, 2004, to discuss Interim Charge #1.

ISSUE SUMMARY

In Texas, employer-driven customized training programs are focused through two programs: the Skills Development Fund (SDF) and the Self-Sufficiency Fund (SSF). The state established the Skills Development Fund in 1995 to respond to the needs of local businesses and industries to train or retrain workers in their area. Texas designed the Self-Sufficiency Fund in 1999 to respond to the needs of local businesses and industries by providing job training and support services to recipients of Temporary Assistance for Needy Families (TANF). In addition to providing job training through employer incentive programs, Texas also provides job-training programs for incumbent and dislocated workers and economically disadvantaged individuals through the Workforce Investment Act and for individuals with disabilities through the Vocational Rehabilitation Act.

SKILLS DEVELOPMENT FUND

The Skills Development Fund is a workforce development program created by the Texas Legislature in 1995 and administered by the Texas Workforce Commission (TWC). In partnership with public community and technical colleges and the Texas Engineering Extension Service, SDF is used as assistance in financing customized job training programs to fit the express needs of Texas businesses. Grants are awarded annually, and are limited to no more than $500,000 for a single business.

During Fiscal Year 2003, TWC awarded 32 grants totaling $12 million, which served 164 businesses and 20 business consortiums. This represented a commitment to create and train 4,214 jobs and retrain just over 8,626, with an average hourly wage of $17.16 per hour. The average wage paid to workers trained with SDF grants has steadily increased from $10.33 an hour in FY 1996 to $17.16 in FY 2003.[1]

The 78th Texas Legislature appropriated $25 million for the SDF to be used during the 2004-2005 biennium.

SELF-SUFFICIENCY FUND

The 76th Legislature in 1999 established the Self-Sufficiency Fund (SSF) based on the Skills Development Fund model, to provide training for individuals receiving Temporary Assistance for Needy Families (TANF) and/or Food Stamp recipients with dependent children. The Self-Sufficiency Fund Program, administered by the TWC, assists businesses by designing, financing and implementing customized job training programs in partnership with public community and technical colleges, the Texas Engineering Extension Service, and community-based organizations. The goal of the program is to help eligible individuals to obtain jobs and become independent of government financial assistance. Training may be provided through the SSF only after a market-driven initial job search proves unsuccessful and the individual's basic skill levels are found appropriate to the level of job training the employer requests. Since the funded training must prepare trainees for jobs with specific employers, those employers must participate in the application process. The Fund also provides money for support services that are necessary to enable participants to take part in training activities and to make the transition from training to work.

During Fiscal Year 2003, TWC awarded 15 grants, totaling just over $6.5 million, serving 129 businesses with a commitment to create and/or retrain 8,955 individuals at an average hourly rate of $9.42 per hour.[2]

The 78th Texas Legislature appropriated $6 million for the SSF to be used during the FY 04-05 biennium.

SMART JOBS FUND

During the 77th Legislative Session, the Legislature discontinued the Smart Jobs Fund (SJF) after numerous problems with the management of the program. A key reason for the decision to dissolve the SJF was a report by the State Auditor's Office in 2000 that cited the Texas Department of Economic Development (TxED) for "gross fiscal mismanagement" of the program. According to the report, TxED focused on awarding and distributing program funds, with less regard for service outcomes. TxED's failure to maintain adequate administrative and fiscal oversight of SJF contracts or keep accurate financial records of the SJF balance put the State at great risk of waste and abuse.[3]

Texas created the Smart Jobs Fund program in 1993 to respond to demand for highly skilled workers in the technology sector and to retrain skilled workers in the declining defense industry. The SJF was exclusively funded by an additional one tenth of one percent of the Unemployment Insurance (UI) Tax added to the taxes employers pay into the Unemployment Compensation (UC) Trust Fund. Although employers were responsible for the additional one tenth of one percent of the UI Tax, employers experienced no net loss because the SJF assessment was offset by an equal amount reduction in an employer's replenishment tax rate. TWC who is responsible for the administration of the UC Trust Fund, was also responsible for the Smart Jobs Holding Fund which held funds raised through the SJF assessment. On October 1 of each year, TWC would determine whether the UC Trust Fund met its statutory floor, defined as one percent of the total taxable wages of the State. If the UC Trust Fund was certified to be above the floor by TWC, the Smart Jobs Holding Fund was released to TxED for the SJF. However, if the UC Trust Fund was not determined to be above the floor, the Smart Jobs Holding Fund balance was released to the UC Trust Fund to bring it to the floor, with any remaining funds transferred to SJF.

According to TWC, a total of $458,361,202 was collected and deposited into the Smart Jobs Holding fund via the additional one tenth of one percent assessment from the SJF's inception in 1995 until October 1, 2001.[4]

SKILLS DEVELOPMENT FUND ASSESSMENT

In 1999, the Texas Legislature directed the Texas Comptroller of Public Accounts to conduct a performance review of the Smart Jobs Fund (SJF), the Skills Development Fund (SDF) and the Self-Sufficiency Fund (SSF) programs and report back to the 2001 Legislature. As part of the evaluation, the Legislature requested the Comptroller to conduct a survey and an analysis of program satisfaction from former grant recipients. The Comptroller developed a customer satisfaction survey, which was mailed in April 2000 to all grantees.[5]

The most marked difference in the surveys was a 41 percent difference in the positive response to the first question: "The application for training funds were easy to complete." While 91percent of Skills Development Fund respondents agreed or strongly agreed that the application for training funds was easy to complete, only 50 percent of the Smart Jobs customers felt the same. This is not a surprising result considering that most of the detailed administrative work for the Skills Development Fund is handled by community colleges, while the Smart Jobs Fund required the businesses to handle the administrative burdens required under the Smart Jobs contracts.

Other areas of program operations where the Skills Development Fund received the higher rating by at least 25 percentage points compared to the SJF, were:

- Grant funds were distributed in a manner timely for my needs. (30 percent difference)
- Closing out the contract was easy to accomplish. (39 percent difference)
- Staff assistance was helpful and timely. (28 percent difference)
- Reporting requirements were clear. (28 percent difference)
- Reporting requirements captured necessary information only. (26 percent difference)

The Committee heard positive testimony from local economic development professionals, community colleges, and businesses that had experience using the Skills Development Fund. The witnesses praised the SDF, but were concerned that the program was being underfunded. In 2003 alone, TWC received proposals for over $50 million in SDF grants. The following chart illustrates the differences between the requests for Skills Development Fund dollars, and what the State was able to award:

Skills Development Fund Proposals Vs. Awards FY 96-03

	Number of Proposals	Amount of Proposals	Number of Grants Awarded	Amount of Grants Awarded
Contracts FY 96-97	132	$64,921,202	94	$22,588,052
Contracts FY 98-99	160	$79,100,045	101	$24,078,766
Contracts FY 00-01	165	$107,927,788	89	$23,891,649
Contracts FY 02-03	133	$90,665,641	65	$25,145,926
Totals	590	$342,614,676	349	$95,704,393

General Revenue appropriations for the Skills Development Fund could be supplemented with additional revenue generated using a similar funding approach as the former Smart Jobs program. An assessment of one tenth of one percent of taxable wages paid by an employer could be transferred to a holding fund. A corresponding decrease of the employer's unemployment insurance tax rate by one tenth of one percent would prevent a net tax increase. Upon determination at the beginning of the state fiscal year that the Unemployment Compensation Trust Fund would be at least equal to 100 percent of the floor, funds could be transferred to the SDF, as well as, a Skills Development Rainy Day Fund. The Skills Rainy Day Fund would receive a percentage of the funds to ensure that in years when the trust fund is below the floor, Skills Development efforts are not as drastically affected.

Based on the current estimated taxable wage base of $77.5 billion, an assessment would generate $77 million each year. If on September 1 of any year, it were estimated that the UC Trust Fund would not be at 100 percent of the floor, the funds collected by the assessment necessary to bring the balance to the floor, up to 100 percent, would be transferred to the compensation trust fund with excess being transferred to the Skills Development Fund.

CAREER & TECHNOLOGY EDUCATION (CATE)

CATE courses are strictly elective courses, and are offered in 8 different program areas: Career Orientation, Business Education, Marketing, Family & Consumer Sciences, Technology Education, Agricultural Sciences & Natural Resources, Trade and Industrial, and Health Science Technology Education. In 2002-03 approximately 47% of students enrolled in grades 7-12 were enrolled in CATE programs. In 2003-04 CATE served over 800,000 students.[6]

Data compiled by the Texas Education Agency shows that students enrolled in CATE programs score as well or better than students not enrolled in any CATE course on the former TAAS tests and now the new TAKS tests.[7] The results of a longitudinal study (1994-2002) of Career and Technology Education in Texas conducted by the LBJ School of Public Affairs found that students enrolled in CATE course sequences (2 or more courses, 3 or more credits) when compared to other students as a whole:

- Had a lower high school dropout rate
- Showed greater gains in TAAS performance
- Performed comparably on TAAS
- Enrolled and persisted in postsecondary education comparably
- Attained employment beyond high school at a higher rate
- Received greater earnings from employment beyond high school

CATE has received supplemental funding since it was established in 1917 with the Smith-Hughes Act. In 1984, during the second called session of the 68th Legislature, a select committee was appointed to determine how CATE programs should be funded. It was decided that since most CATE courses involve labs that require equipment and supplies beyond the regular classroom needs, in order to be effective there would need to be a weighted formula significantly above average to adequately fund the courses. Therefore, the committee established a formula that would fund all CATE courses with an average weight of 1.45, with the total amount generated by all courses using this average weight shared by all. During the 72nd Legislative Session in 1991, the weight was reduced to 1.37. The 78th Texas Legislature in 2003 further reduced the weight to 1.35.

State formula:

Career and Technology Allotment = FTE X AA or ABA X 1.35

Where

FTE = 30 contact hours per week X number of weeks in school year
(1 FTE is 36 weeks (180 days) X 30 = 1080 contact hours)

ABA = Adjusted Basic Allotment

AA = Adjusted Allotment is for small districts and is calculated after the district has an ABA

1.35 is the funding weight given for 1 FTE in Career and Technology Education

CATE programs are critical to developing a viable workforce in Texas. High School students enrolled in CATE courses are a key component of workforce development in Texas, and they receive skills, leadership and job training that complement and enhance their academic core courses. However, while enrollment in CATE courses continues to increase, reduced state spending has caused a struggle for CATE programs throughout the state.

ADULT EDUCATION

Texas funds adult education and literacy programs through two agencies, the Texas Education Agency and the Texas Workforce Commission. During the May 2002 Sunset Advisory Commission Staff Report on the Texas Workforce Commission, the Sunset staff recommended transferring responsibility for adult education and literacy programs from the Texas Education Agency to the Texas Workforce Commission, concluding:

> *The State spends almost $50 million across two agencies, the Texas Education Agency (TEA) and the Texas Workforce Commission (TWC), for adult basic education and literacy programs that serve less than 4 percent of Texans in need. However, TEA's failure to provide statutorily required outcome information means the State cannot assess the effectiveness of this funding in helping adult Texans get a job, advance in the workplace, earn more money for their families, or go on to receive advanced skill training at the college level. In addition, splitting adult education services and funding between two agencies creates inefficiencies that take money away from services for Texans who need to improve their basic education and literacy skills.*
>
> *Sunset staff concluded that the State would be better positioned to target and track the impact of these critical services by merging adult education and literacy programs into a single agency whose primary mission is workforce development. TWC would thus be accountable for implementing effective employment, basic adult education, and training programs. TWC has the capacity to contract for these services effectively and to produce required outcome measures to help evaluate the effectiveness of adult education programs. The result of these efforts would ensure that more Texans who participate in the State's adult education and literacy services receive the basic skill training needed to become self-sufficient and successfully compete in today's economy.*

However, the Sunset Advisory Commission decided against moving the programs under TWC, and Senate Bill 280, 78th Legislature, required TEA and TWC to improve the coordination and implementation of adult education and literacy services.

SB 280 required TWC, under contract with TEA, to develop a workplace literacy and basic skills curriculum. It charged the Texas Workforce Investment Council (TWIC) with evaluating adult education and literacy programs at TEA and TWC, and to identify any problems, including any duplication of planning and lack of client information sharing. It required TWIC to develop and implement immediate and long-term strategies for improving any problems affecting the delivery of services. It required the Council to develop a system to monitor and evaluate the employment outcomes of participants in TEA-administered adult education and literacy programs. Finally, it required the Council to report to the Governor and the Legislature problems identified, and the result of measures taken to address them.

TWIC fulfilled part of its mandate to evaluate adult education and literacy programs administered by the TEA and TWC when it released a report in December 2003 titled, *A First Look at Critical Issues Surrounding Adult Education and Literacy in Texas*.[8]

In its research, the Council focused on three aspects of adult education and literacy: (1) Funding, (2) Outcomes, and (3) Service Delivery. The Council identified a number of critical issues that affect millions of Texans and the future of our state and its economy. In this report the Council makes two recommendations for improving the status of adult education and literacy in Texas and suggests strategies to support both recommendations. The report can be found at the following link: [www.governor.state.tx.us/divisions/twic/reports/files/adultliteracy.pdf].

It should be noted that TWIC estimated that the number of undereducated adults in Texas in need of adult education services was 3,800,000; while the number served by adult education programs in 2002-2003 was only 132,521.[9] Adult education and literacy programs are key components in the state workforce system. Texas cannot afford to continue running these programs in an inefficient manner. The Committee and the Legislature should follow TWIC's reports regarding the efforts of TEA and TWC to increase cooperation in running the State's adult education and literacy programs. If the problems continue to persist, these funds – earmarked for adult basic education and literacy services – should flow through TWC and the Local Workforce Boards with the focus of developing and implementing specific workplace literacy strategies and efforts targeted to reach those with limited English proficiency.

RECOMMENDATIONS TO THE 79TH TEXAS LEGISLATURE:

1. Supplement general revenue appropriations for the Skills Development Fund by using a similar funding approach as the former Smart Jobs program. An assessment of one tenth of one percent of taxable wages paid by an employer could be transferred to a holding fund. A corresponding decrease of the employer's unemployment insurance tax rate by one tenth of one percent would prevent a net tax increase. Upon determination at the beginning of the state fiscal year that the Unemployment Compensation Trust Fund would be at least equal to 100 percent of the floor, funds could be transferred to the Skills Development Fund, as well as, a Skills Development Rainy Day Fund. The Skills Rainy Day Fund would receive a percentage of the funds to ensure that in years when the trust fund is below the floor, Skills Development efforts would not be drastically affected.

2. Encourage integration of Career and Technology Education (CATE) classes into the required curriculum, and consider increased state funding to CATE programs that could positively impact the state's workforce system.

3. Follow the Texas Workforce Investment Council's reports regarding the efforts of TEA and TWC to increase cooperation in running the State's adult education and literacy programs. If these problems continue to exist, the Legislature should consider flowing the funds through TWC and the Local Workforce Boards with the focus of developing and implementing specific workplace literacy strategies and efforts targeted to reach those with limited English proficiency.

CHARGE 2

Review the state's role in tourism and the effects of moving tourism functions within the Governor's office under SB 275, 78th Legislature. Examine how the state can assist rural communities in the promotion of tourism.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on December 9, 2003, to discuss Interim Charge #2.

ISSUE SUMMARY

Tourism has long been recognized as an important economic development tool, generating revenues and jobs for the Texas economy. The travel industry is often promoted as an economic development tool for several reasons. First, travel is an "export" industry that injects money into local economies. In this respect, it is similar to firms and industries that sell manufactured products in other geographic markets. However, a local travel industry accomplishes this through spending by visitors on locally produced services. Second, because the travel industry is service-oriented and labor intensive, it generates many employment opportunities relative to investments in physical capital. The travel industry provides a large number of entry-level positions, as well as opportunities for small business proprietors. Third, the promotion of visitor amenities can have other beneficial effects in a community. Many of the same attributes that draw visitors to a community (e.g. recreation facilities, cultural events, attractive downtowns) can also enhance the "quality of life" for residents.[10]

Texas Travel Facts[11]:

- Travel is Texas' third leading export industry and one of Texas' largest industries overall.
- Texas ranks third among all states in its share of leisure travel. In 2003, Texas had 6.5 percent of the market share; California, 10.6 percent; Florida, 6.8 percent.
- Travelers spent an estimated $41.2 billion in Texas in 2003, a slight increase over 2001 and 2002.
- Travelers spend almost $113 million in Texas every day.
- Traveler spending produced nearly $2.2 billion in state taxes in 2002.
- Visitor spending in 2003 directly supported 177,000 jobs with earnings of $13.3 million.
- Eighty percent of all travel spending occurs in 12 Texas counties, but the largest economic impact is often felt in smaller rural counties.
- San Antonio and rural Texas are the leading leisure and vacation destinations in Texas.
- Texas Tourism programs generated a return-on-investment in state taxes of $10.97 for each dollar budgeted in FY 2004.

Prior to the 78th legislative session, 11 different state entities were involved in tourism in Texas. Senate Bill 275, 78th Legislature, abolished the Texas Department of Economic Development and transferred most of its functions to the newly created Texas Economic Development and Tourism Office (TEDTO) in the Office of the Governor. The bill also shifted the responsibility of promoting tourism into five agencies: the Governor's Office (TEDTO), Texas Department of Transportation; Texas Parks & Wildlife; Texas Historical Commission; and Texas Commission on the Arts. In December 2003, these entities formalized a Memorandum of Understanding (MOU) to minimize duplication of efforts and maximize state resources in accordance with the state legislative tourism statute. The combined efforts of these agencies is known as "Texas Tourism". The State of Texas provides funding ($39.5 million in the 04-05 biennium) to state entities to support and facilitate the growth of the state’s tourism industry.

Texas Tourism’s mission is to enhance and extend local economic development efforts by marketing Texas as a tourist destination in out-of-state domestic and international markets, generating non-Texan travel to the state thereby creating revenue and jobs. Tourism revenues provide significant economic benefits for the Texas economy. However, many Texas communities and other travel industry partners lack the resources needed to market themselves as tourist destinations to non-Texans. The functions and services of each of the three interrelated program areas -- advertising, public relations and travel research & development – support Texas Tourism’s overall mission.

- ***ADVERTISING***

  The award winning advertising campaign is driven by the theme: Texas. It's Like A Whole Other Country ®. This positioning statement is showcased in the domestic markets. In Mexico, Texas’ largest international market, and other parts of Latin America, the positioning statement is Texas. De Todo Un Poco. Y Mas ® (loosely translated Texas. A little of everything. And more.) Both highlight the variety of travel and leisure opportunities available. The advertising campaign is designed to promote Texas as a premier travel destination through national and international advertising. This includes consumer and trade magazines, national cable television, radio, newspaper, the Internet and the TravelTex.com web site.

- ***PUBLIC RELATIONS***

  The Public Relations program area works proactively with the travel trade industry (tour operators, wholesalers, travel agents, airlines, etc.) and travel media throughout the United States and top international markets including Mexico, Canada, the United Kingdom, Germany and Japan. Through trade shows, sales and media missions, educational seminars, familiarization and media tours, Public Relations provide the travel trade and travel media with first-hand knowledge of the Texas travel product. The Public Relations area also creates cooperative opportunities for Texas travel industry partners (convention and visitors bureaus, hotels, attractions, etc.) to participate in travel trade and media promotions, and it disseminates travel trade and media leads online to these industry partners.

- ***RESEARCH & DEVELOPMENT***

  The Travel Research program area provides and analyzes information about domestic and international travel behavior and trends which directs and drives the programs and services provided by Texas Tourism. Nationally recognized research contractors conduct all primary travel and tourism research and the reports are published online at www.travel.state.tx.us. In addition, Travel Research utilizes focus groups to evaluate advertising before, during, and after advertising campaigns. Studies are conducted to determine the effectiveness of travel literature, the influence of Texas advertising, and consumers' images of Texas. The Travel Research area offers a comprehensive tourism development outreach effort that provides training, assistance, and technical expertise through regional workshops in conjunction with the Texas Department of Agriculture, assessments, and presentations to help communities, businesses, and organizations recognize, develop, package, and market their tourism destinations and products.

HOTEL OCCUPANCY TAX

In Texas, counties and cities can levy a local hotel occupancy tax in order to generate revenue for purposes dedicated to promoting tourism and local hotel and convention activity. Cities may adopt a hotel occupancy tax of up to seven percent of the cost of a hotel room. Texas counties are authorized to adopt a tax amount between two and seven percent of the amount paid for a hotel room. Unlike the local sales tax, the hotel occupancy tax is optional and can be imposed without the approval of voters.

Currently, 22 counties and over 500 cities levy the tax. In 2000, this tax generated over $18.2 million for counties, and over $247 million for cities. Local hotel occupancy tax revenues may only be spent to establish or enhance a convention center, cover the administrative expenses for registering convention delegates, pay for tourism-related advertising and promotions, fund programs that enhance the arts, pay for historic restoration or preservation projects that will enhance tourism, or fund sporting events in which the majority of participants are tourists in cities located within a county with a population of 290,000 or less.

The State of Texas also imposes a hotel occupancy tax of six percent. Texas law provides that the revenue from the tax be deposited into the general revenue fund, and an amount equal to one-half of one percent of revenues generated must be used for media advertising and other marketing activities of the Texas Economic Development and Tourism Office. In fiscal year 2003, over $227 million was collected from the state hotel occupancy tax.

SUMMER TOURISM

Although an interim charge regarding the impact of moving the school start date is being studied by the House Committee on Pubic Education, it should be noted that our Committee has received considerable input from various travel-related industries and associations regarding the negative impact that a shortened summer break in Texas public school's schedules is having on tourism. The following information was compiled by the Comptroller of Public Accounts in a September 2004 report entitled *Saving Summer: Lessons Learned* --

> *The most noticeable result of changes in the school calendar has been a negative impact on the summer seasonal industries such as travel, tourism, amusements and summer camps. Travel industry representatives believe that a longer summer break would improve the tourism sector. The Comptroller's office estimates that extending the summer break by two weeks would generate an additional $28 million per day for the state's tourist destinations; $392 million for the two additional weeks.*
>
> *Summer is essentially the entire business season for coastal areas and water and theme parks. But all of the state's 30 top travel and tourism attractions are affected by the length of the summer travel season (Exhibit 14).*
>
> *Six of the top 30 attractions in Texas, including the top two, the River Walk and the Alamo, are in or near San Antonio. For San Antonio and South Texas, a shortened season represents a considerable net reduction of economic activity. San Antonio lost 2,800 jobs—more than 28 percent—in amusement and recreation from June to September 2002. Corpus Christi lost 11.5 percent of its jobs in amusement and recreation from June to September 2002. The metro area, including Padre Island, suffered a 14.5 percent loss.*

HERITAGE TOURISM (CULTURAL AND HISTORICAL)

Heritage tourism can be defined as being based upon the social and physical structures of the past and present. Heritage tourism, also called cultural or historical tourism, focuses on the cultural landscapes of the past and present that were shaped by human actions. The specific attraction may be an ethnic dance, an historical battleground, a Southwest art exhibit, a film festival, an archeological display, a craft show, or any other type of activity or place that defines our culture and heritage. Abandoned battleships, mills, airbases, jails, graveyards, dams, seaside and riverside complexes, or old cattle-driving trails are all aspects of cultural and heritage tourism.

The travelers who participate in cultural and heritage activities spend money on shopping, entertainment, dining and touring, visiting theme parks, national and state parks and the beach. For example, cultural and heritage tourists spend more, on average, per day than general leisure travelers ($103.50 per day compared to $81.20 per day).

The number of cultural and heritage tourists in Texas peaks in the spring, again in midsummer, and once again in the fall, which could provide some relief to tourism-based businesses during historically slack times. The largest group of travelers who participate in cultural and heritage activities are day trip travelers.

NATURE TOURISM

Nature tourism as defined by the State Task Force on Texas Nature Tourism: “discretionary travel to natural areas that conserve the environmental, social and cultural values while generating an economic benefit to the local community.” Nature tourism includes activities such as hunting, fishing, wildlife/bird watching, photography, nature study, backpacking, hiking, boating, camping, rafting, biking, climbing, and visiting parks.

Bird watching, or birding, has a broad definition that can be applied to varying types of wildlife enthusiasts. Some birders simply enjoy observing birds in their backyards, neighborhoods or towns. Others study birds and their habits and travel to see specific species of birds.

Birding is the fastest growing area of nature tourism. According to the National Survey on Recreation and the Environment, the number of people birding in 2001 was 232 percent higher than the number of people involved in birding in 1983. A 2001 U.S. Fish and Wildlife Service study estimates that 82 million U.S. residents 16 years or older participated in wildlife-related recreation. Of this number, 66.1 million participated in at least one type of wildlife-watching activity including observing, feeding or photographing wildlife.

Texas is the premier birding spot in the United States. The Central Flyway is an avian highway (one of four major migratory paths in North America) that passes directly over Texas. More than 75 percent of all bird species known to exist in the United States live in or migrate through Texas.

RURAL TOURISM

In 2003, Rural counties in Texas as a whole received 22 percent of all leisure trips to and within Texas. In an effort to boost tourism in rural Texas, the Governor's office partnered with the Texas Department of Agriculture (TDA) to promote the Texas Yes! program. Texas Yes! is a new initiative from TDA designed to promote the growth and prosperity of every rural Texas town, city and county. Membership in Texas Yes! is free and open to rural communities, rural businesses and other organizations devoted to the success of rural Texas. For the purposes of this program, "rural" is defined as a non-metropolitan area, an unincorporated area, or a city with a population under 20,000 that does not adjoin another city or group of cities with an aggregate population of 50,000 or more.

Texas Yes! creates a single rallying call for rural Texas, educating the public about all that rural Texas has to offer and encouraging rural communities to share and promote successful ideas. TDA has launched a multi-faceted marketing campaign utilizing print, broadcast and electronic resources to raise awareness of tourism and travel opportunities in rural Texas. Because a crucial focus of Texas Yes! is on empowering rural communities, TDA will also be conducting workshops across the state focused on rural tourism opportunities and success stories. The two-day workshops will offer introductory information to rural communities new to tourism and more advanced tools for securing funding and support for rural communities with strong tourism components.

Among other topics, attendees will learn the secrets of success for growing rural tourism from nationally recognized experts and homegrown heroes with hands-on experience, brainstorm ideas in round-table discussions, create connections with other communities, and identify ways to secure funding and measure success.

In addition, Governor Rick Perry announced that his office would provide funding to TDA for the Texas Yes! Hometown STARS (Supporting Tourism and Rural Success) program which provides a matching reimbursement to help rural communities offset the costs of their own tourism promotion efforts. The program will reimburse communities for half of their promotional costs up to $15,000.

The Governor funded the Texas Yes! program at $1 million to be used through August 2005. TDA staff will prepare a report to the Governor and the Legislature on the impact of the program before the start of the 79th Session.

Model of Tourism in Texas State Government

Product Development

Texas Parks & Wildlife Department
- State Parks, State Historic Sites, Wildlife Management Areas, Natural Areas, Nature Trails
- Technical and marketing assistance to landowners to develop nature tourism
- Federal grants for boat ramps and trails

Texas Department of Transportation
- TEA 21 Development Grants
- Texas highways beautification programs

Texas Historical Commission
- Develop historic sites and heritage trail regions
- Main Street Program
- Grants for heritage project development and preservation
- Historic Site Designation

Texas Commission on the Arts
- Technical assistance and development grants for arts & festivals

Texas Department of Agriculture
- Assist land-owners to develop agricultural-based nature tourism products
- Grants to develop nature tourism products

Texas General Land Office
- Manage Gulf Coast
- Grants for Coastal Enhancement

Texas State Preservation Board
- Operate/Maintain State Buildings (Capitol, State History Museum, General Land Office Bldg.)

Texas A&M University
- Extension services for hospitality training, festivals & events management, nature tourism and community tourism strategy development and evaluation

Office of Music, Film, Television & Multimedia
- Locations and workforce for Texas film and music industry

Office of Community and Rural Affairs
- Community Development Grants

Marketing to Non-Texans (Out of State)

OOG-EDT Texas Tourism

Domestic and International Marketing and Promotion of Texas Travel Products
Broadcast, print, and Internet advertising
1-800# for response to advertising
www.TravelTex.com web site

Customers

Domestic/International Travelers
Texas Travelers
Domestic/International Travel Trade
Domestic/International Media
Texas Media

Marketing to Texans (In-State)

OOG-EDT
- Encourage in-state travel through media relations

Texas Parks & Wildlife Department
- Encourage in-state travel to participate in nature or heritage related activities through publications, marketing materials, advertising, media relations, promotional events and educational activities

Texas Department of Transportation
- Encourage travel through publications

Texas Historical Commission
- Promote heritage attractions through brochures, web site, public relations, advertising

Texas Commission on the Arts
- Promote arts and cultural events and activities through brochures, web site, media relations

Customers

Texas Travelers
Texas Media
Texas Travel Trade

Customer Service

Texas Parks & Wildlife Department
- Hunting/fishing licenses
- Maintain and operate state parks, state historic sites and fisheries visitor centers
- Register/title boats
- Public information and education on fishing, hunting, and boating skills, ethics and safety
- Site maps and interpretive brochures

Texas Department of Transportation
- Travel Information Centers provide road information, travel guidance, trip routing and literature to travlers
- Fulfill Customer Requests for Publications
- 1-800# for road condition information and traveler assistance

Texas Historical Commission
- State historical marker program

Texas State Preservation Board
- Visitor Services at Capitol and General Land Office Bldg.

Department of Public Safety
- Visitor Safety

RECOMMENDATIONS TO THE 79TH TEXAS LEGISLATURE:

1. Considering the high return-on-investment that tourism provides, the Legislature should at least maintain the current funding for tourism, as well as, consider ways to increase funding. Since local entities already spend a significant amount of revenue collected from local occupancy taxes on in-state tourism, any increase in funding for state programs should be aimed at marketing Texas to lure non-Texans to the state.

2. Monitor the impact of the Texas Yes! program, and consider continuation of the initiative.

3. The state should continue to support the coordination, not the consolidation, of tourism programs.

CHARGE 3

Actively monitor the status of the Unemployment Compensation Trust Fund. Review the impact of legislative changes enacted by SB 280, 78th Legislature, on funding of the Unemployment Compensation TrustFund.

Bill	Purpose	Trust Fund Impact
HB1221 (Telford)	Unemployment Compensation chargebacks based on separation from employment when the **employer** is called to active military duty. Benefit amounts paid to UI claimants are not charged to employers when the separation was based on the **employer** being called to active military duty.	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Fiscal Impact – Engrossed Version)
HB1819 (Oliveira)	An exclusion from unemployment compensation chargebacks based on a separation from employment caused by certain disasters. Benefit amounts paid to UI claimants not charged to employers when the separation was based on a natural disaster declared by the Governor.	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Significant Fiscal Impact – Engrossed Version)
HB1820 (Oliveira) TWC Bill	Relating to the exception of certain agricultural labor from unemployment compensation. Exempts from UI eligibility certain classes of non-resident alien agricultural workers. Also exempts from the requirement to pay UI tax employers of certain classes of non-resident alien agricultural workers.	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Significant Fiscal Impact – Engrossed Version)
HB3324 (Keffer)	Relating to the issuance of certain obligations and the imposition of assessments for the unemployment compensation system.	No direct Trust Fund Impact, although issuance of bonds did reduce costs of financing debt to achieve Trust Fund solvency, and thereby indirectly affects the Trust Fund. TWC's Office of Governmental Relations has been providing testimony to various Legislative committees on the impact of HB3324
SB280 (Nelson) TWC Sunset	Provision related to job separation due to family violence.	No Significant Trust Fund Impact (Consistent with LBB Fiscal Note) For the provision related to job separation due to family violence, analysis reveals that since this law went into effect on September 1, 2003, 43 claimants filing under this job separation category were determined eligible and received $124,201 in UI benefits. TWC disqualified 161 claimants.
SB1070 (Jackson)		

Bill	Purpose	Trust Fund Impact
TWC Bill	Relating to the procedures of the Texas Workforce Commission. Relates to TWC administrative procedures	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Fiscal Impact – Introduced Version)
SB1071(Jackson) TWC Bill	Relating to requirements for voluntary payments of unemployment compensation contributions Relates to Tax Department administrative procedures	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Fiscal Impact – Introduced Version)
SB1072 (Jackson)	Relating to judicial review of a Texas Workforce Commission decision in an unemployment compensation proceeding. Relates to judicial review of TWC contested claims	No Trust Fund Impact (Consistent with LBB Fiscal Note – No Fiscal Impact – Introduced Version)

*** On October 1, 2004, the Unemployment Compensation Trust Fund balance was estimated to be $889 million, which is $120.4 million above the Trust Fund Floor.

CHARGE 4

Study how businesses currently view the Texas Workers' Compensation System and whether it deters business growth or expansion into Texas. Study any reforms that could be used as an incentive for economic development, business recruitment or business retention.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on August 25, 2004, to discuss Interim Charge #4.

ISSUE SUMMARY

Workers' compensation (WC) insurance provides a state-regulated system that oversees the payment of medical bills and income benefits to replace some portion of lost wages if an employee is injured at work or has a work related illness. Benefits are provided by the insurance carrier if the employer carries workers' compensation insurance or by the employer if the company is certified by the Texas Workers' Compensation Commission (TWCC) to self-insure. If the employer provides coverage, the employee will receive statutory medical and income-replacement benefits and the employer is protected from injury-related lawsuits except in cases of gross negligence.[12]

Texas is the only state that allows any private sector employer the option of not purchasing workers' compensation coverage for employees. However, political subdivisions such as cities, counties, and school districts must provide coverage.

Workers' Compensation Coverage in Texas
Several terms are used to define an employer's coverage status in Texas.

Non-covered or Nonsubscriber – An employer that chooses not to provide workers' compensation coverage for employees. The employer may provide alternative types of income and medical benefits for work-related injuries but can still be sued for injury-related compensation.

Self-insured – A private employer who has been approved by TWCC to act as its own insurance carrier to administer workers' compensation claims. Political subdivisions can be self-insured, form a "pool" to provide coverage, or elect to purchase coverage from a private carrier.

Subscriber – An employer that purchases coverage from a carrier licensed by the Texas Department of Insurance (TDI) to offer workers' compensation insurance in Texas.

As of 2004, an estimated 38 percent of year-round Texas employers did not carry workers' compensation coverage. These firms employ approximately 24 percent of the Texas workforce. While 38 percent of Texas employers do not have workers' compensation insurance, more than half of these nonsubscribing employers (58 percent) indicated that they pay medical and/or wage replacement benefits to injured employees.[13]

Basic Information Regarding Benefits Provided by Nonsubscribers[14]:

- Approximately 58 percent of nonsubscribing employers surveyed in 2004 reported that they pay medical and/or wage replacement benefits to injured employees, slightly up from 56 percent in 2001.
- Of those nonsubscribing employers that said they pay benefits in 2004, 84 percent pay medical benefits.
- Almost two-thirds (64 percent) of nonsubscribing employers said that they pay medical benefits for as long as medically necessary.
- Of those remaining nonsubscribing employers that cap medical benefits, 58 percent cap these benefits based on the amount of money spent on the medical treatment received by the injured employee, 32 percent cap these benefits based on the length of medical treatment provided to injured employees, and 9 percent use some other method.
- Approximately 69 percent of nonsubscribing employers in 2004 said they pay wage-replacement benefits to injured employees.
- More than half (55 percent) of nonsubscribing employers said that they pay wage replacement benefits for the entire duration of an injured employee’s lost time.
- Of those remaining nonsubscribing employers that cap wage replacement benefits, 53 percent cap these benefits based on a certain amount of time, specified in the benefit plan; 30 percent cap these benefits based on the amount of money spent on the benefits paid to the injured employee; and 17 percent use some other method.

Since workers´ compensation insurance can be a significant expense for Texas employers, many businesses choose to go without insurance or seek alternative coverage. The cost savings provided by a responsible nonsubscriber program can prove valuable to businesses. While some larger employers may be able to offset a certain percentage of WC increases through self-insurance or higher deductibles, many small to mid-sized employers face more taxing decisions like outsourcing Texas-based jobs, consolidating operations in another state or closing their doors altogether.

During the past decade, workers’ compensation costs in Texas have reached some of the highest levels in the nation, placing significant strain on the profit margins of many Texas employers. It is during these difficult periods that nonsubscription holds the most value because responsible nonsubscriber programs can lower occupational injury costs for Texas employers. However, while nonsubscribing employers often see significant cost savings, employers without workers´ compensation coverage risk facing high damage awards if an employee is injured and can prove in court that the employer was negligent in any way. Also, many large-scale businesses cannot afford the liability associated with nonsubscription, and must participate in the workers' compensation system.

Some of the key findings from a study entitled *Employer Participation in the Texas Workers' Compensation System: 2004 Estimates,* by the Texas Department of Insurance (TDI) Workers' Compensation Research Group, are:

- Overall, the percentage of Texas employers that do not have workers' compensation (WC) insurance has increased since 2001, but has not yet reached the levels previously seen in 1993 and 1995.

- However, the percentage of Texas employees employed by nonsubscribing employers has increased to the highest levels seen since these figures have been tracked by the state. This increase appears to be the result of a higher percentage of larger employers deciding not to purchase WC insurance than found in previous years.

- Concern over lawsuits, concern regarding the potential high risk of their injuries, the need to have WC insurance for government contracts, confidence in the administration of the WC system, and the ability to use self-insure or use other premium reduction tools dominated the primary reasons why subscribing employers purchased WC insurance.

- However, the primary reasons why nonsubscribing employers decided not to purchase WC insurance included high WC premiums, the perception that employers have too few employees or too few on-the-job injuries to warrant WC insurance, the understanding that WC insurance is not required by law, and the concern over high medical costs in the Texas WC system.

- Compared with 2001, a slightly higher percentage of subscribing employers experienced some sort of change in their WC premium since the last policy renewal.

- For those employers that experienced an increase in premium, 50 percent said the increase was less than 10 percent, while 60 percent of employers who experienced a decrease in premium said the decrease was less than 10 percent.

- More than half (53 percent) of current subscribers indicated that they would consider dropping WC coverage if premiums increased by 20 percent, while 18 percent of nonsubscribers indicated that they would consider purchasing WC insurance if premiums decreased by 20 percent.

- However, it's important to note that 37 percent of nonsubscribers said that they would not consider purchasing WC insurance regardless of WC premium reductions.

Concerns with the Workers' Compensation system include the high cost of workers' compensation insurance coverage, rising medical costs and utilization, limited access to quality medical care, and poor return to work outcomes for injured workers. Criticism has also focused on the performance of the TWCC as the administrator of key parts of the system, including overseeing the benefit delivery system, ensuring fair and reasonable reimbursement for health-care providers, and resolving disputes in the system.

An annual study completed by the Workers' Compensation Research Institute (WCRI) compared Texas with 11 other states (California, Connecticut, Florida, Illinois, Indiana, Louisiana, Massachusetts, North Carolina, Pennsylvania, Tennessee, and Wisconsin) and found that Texas had the highest average medical costs per claim. Additionally, WCRI's study concluded Texas' costs are not just the highest among those 12 states analyzed, but among the highest in the nation.[15]

Based on the most recent TWCC medical data analyzed by TDI, the average medical cost per claim in Texas has increased approximately 35 percent from injury year 1999 to 2003, one-year post injury. Furthermore, TDI found that these medical cost increases are not a result of changes in injury patterns, but rather from increased utilization of medical care.[16]

A 2003 survey by the Research and Oversight Council on Workers' Compensation regarding work-related health problems of injured workers showed that two years after their injury, a significant percentage (34%) of injured workers with soft tissue injuries were not employed. Nineteen percent of those unemployed workers returned to work at least one point post injury, while 15 percent never went back to work after their injury.[17]

During the interim, several Senate and House Committees studied the Texas Workers' Compensation System. Also, the Texas Workers' Compensation Commission is under review by the Sunset Advisory Commission. While other committees evaluated the finite details of the system, our committee studied the issue in relation to economic development and how businesses view the system.

Highlights from testimony provided to the Committee from witnesses representing businesses that participate in the Texas Workers' Compensation System:

J'Don Bollom, Occupational Health Manager, Southern Division, Hyatt Corporation:

> *The number of employees working for Hyatt Hotels is approximately the same for both Texas & Georgia. In 2004 alone, Hyatt Hotels in Texas are spending on average 58% more on workers' compensation costs compared with Hyatt Hotels in Georgia.*
>
> *Ms. Bollom's recommendation:*
> *To encourage the Texas Legislature to adopt an employer network care delivery system that provides workers' compensation beneficiaries prompt access to appropriate medical care, fosters optimum treatment, adheres to nationally accepted medical treatment guidelines and focuses on returning the injured worker back to work.*

Don Rich, Personnel Director at the General Motors Arlington Assembly Plant:

> *General Motors has over 3000 employees in Texas, and is a certified self-insurer in Texas, as well as, in other states.*

We value our employees as our greatest asset. At the Arlington assembly plant, we have a full time physician, physical therapist, and registered nurses on site to assist employees with any work related medical issues. However, current Workers' Compensation provisions in the state of Texas, do not allow employers the opportunity of first treatment.

The General Motors Arlington facility produces full size sport utility vehicles such as the Chevrolet Tahoe and Suburban, GMC Yukon and Yukon XL, and Cadillac Escalades. A sister plant in Janesville, Wisconsin produces the same vehicles with the exception of the Cadillac Escalade, of which Arlington is the sole producer. Although both plants build identical products with similar tooling, the Workers' Compensation costs vary significantly.

In 2001, General Motors spent $931.00 per employee in Janesville, Wisconsin while spending $3548.00 per employee in Arlington for the same time period. We also have vehicle manufacturing facilities in Oklahoma City, Oklahoma and Shreveport, Louisiana. The Workers' Compensation costs in 2001at these facilities were $1437.00 and $1182.00 per employee respectively.

It is very apparent by the above numbers, that Workers' Compensation costs for General Motors are significantly higher in Texas than in adjacent states, as well as in Janesville Wisconsin, building an identical product. The automotive industry is an extremely competitive environment. General Motors is continually looking at every opportunity to reduce cost in an effort to remain competitive in this industry. As decisions are made for future product allocations, cost remains one of the key drivers in product sourcing decisions.

Sam McMurry, Administrator of Workers' Compensation for Lockheed Martin Aeronautics Company[18]:

Workers' Compensation in Texas has become a significant drain on employers. While Lockheed Martin has worked hard to reduce accidents and injuries and to provide prompt medical care and an early return to work for our employees, we saw our cost per employee rise 35% last year. This was in great measure due to the increased involvement of chiropractic care.

Incurred costs per employee last year at the Fort Worth plant were 48% higher than the Marietta, Georgia plant. These are plants with similar physical environments, workforce demographics and products. The major difference is that in Georgia our employees select their provider from a panel of physicians selected by our Medical Department. This is not a network, but a group of at least six physicians that are not associated with each other as specified under the Georgia rules. These are quality providers and well respected within their medical community. By working together we are able to provide needed care quickly and coordinate a rapid and safe return to work. The Fort Worth and Marietta plants use the same Return To Work policy, but the different medical *environments produce vastly different results.*

Medical care is the major cost driver in Texas. Limiting the employee's choice of provider to medical networks set up by employers and/or carriers is being highlighted as a cure to this problem. Done correctly such networks will have a major impact on the quality of care provided to employees, their prompt return to work, and the overall cost of providing benefits. We must guard; however, against the form of a network without its substance. Sufficient controls must be in place to ensure adequate coverage and quality care for the injured employee, but there must be the flexibility to reduce administrative burdens and depart from the fee schedule in setting up these networks. We must shift our focus from the process to the outcome.

Networks offer the possibility of putting together a group of providers that have the confidence of the payer. Therefore fewer controls are needed. The use of nationally recognized, evidence based treatment guidelines offer a standard for all parties in the system. The injured employee can determine if the treatment being provided is appropriate, and the carrier/employer has criteria by which utilization can be judged.

While my primary focus has been on medical issues, they are not the sole problem of the system. The dispute resolution system is cumbersome, slow, and inconsistent in its results. There is no limit to the number of Benefit Review Conferences (BRC's) which can be held on a single issue. A carrier or employer cannot move the process along by requiring a Contested Case Hearing (CCH).

Significant changes are necessary to create a system seen by the participants as fair, evenhanded, and consistent. There should be a limit to the number of BRC's held on any one issue and a mechanism to dismiss an issue with prejudice if a party declines to move to the next level of the system. Administrative hearings (CCH's) should be moved out of the TWCC entirely and conducted by another agency such as the State Office of Administrative Hearings (SOAH). This would remove an inherent conflict of interest with the TWCC ruling on its own decisions. A more comprehensive review of Appeal Panel Decisions (APD's) is needed to ensure decisions don't contradict each other. The agency responsible for the Appeal Panel should acknowledge court decisions and be guided by their judgments. In addition an authoritative source should be established to provide interpretation of the statute and regulations that participants could rely on.

The health and wellbeing of employees and the ability of their employers to continue providing jobs will be greatly affected by the next legislative session. Providing the best outcome for the employee and employer is not an "either or" proposition. We can have both.

Clearly, the rising costs associated with workers' compensation have the potential to place Texas at a competitive disadvantage. Site selection is often about the bottom line. Texas's unusually high workers' compensation costs might very well tip the scale in favor of an alternative location. This was the case with Union Tank Car Company; the leading designer, builder, and manufacturer of specialized railcars. David Lawrence representing Union Tank Car Company testified that the high cost of workers' compensation in Texas was a substantial factor in the companies decision to build a new railroad tank car manufacturing facility in Louisiana.

RECOMMENDATIONS TO THE 79TH TEXAS LEGISLATURE:

1. Rising costs associated with workers' compensation have the potential to place Texas at a competitive disadvantage. The 79th Legislature must address the problems in the Texas Workers' Compensation System, and find ways to lower costs, reduce administrative burdens, improve return to work outcomes for injured workers, and ensure that injured workers receive quality care.

2. Nonsubscription has given Texas businesses a crucial advantage in times when many employers could not have afforded workers' compensation insurance. The cost savings provided by a responsible nonsubscriber program can prove valuable to businesses that may be shopping for more cost-effective venues to expand or develop new operations. The 79th Legislature should continue to allow nonsubscription as an option.

CHARGE 5

Study the role that Texas ports have in the economic growth of the state and how the state can partner with ports in developing trade, business recruitment and relocation and the transportation of goods and services both in domestic and foreign markets.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on March 16, 2004, to discuss Interim Charge #5.

ISSUE SUMMARY[19]

Texas ports have always had a significant impact on the state's economic development and growth. Today, Texas has 29 deep-draft (18 feet and deeper) and shallow-draft (fewer than 18 feet) ports, which provide access to not only 367 miles of coastline but to interior regions of the state for the promotion of trade and commerce. In addition, the passage of the North American Free Trade Agreement (NAFTA) has also resulted in increased trade through Texas ports and waterways.

According to the Texas Ports Association, Texas ports are connected to one another and to the rest of the United States inland waterway system by the Gulf Intracoastal Waterway (GIWW). The GIWW allows inland barge shipments to connect to ocean-going traffic. The Texas portion of the GIWW transports more than 73 million tons of cargo annually through 40,000 barges. The same amount of tonnage would equate to over three million semi-trailer trucks and over 570,000 rail cars.

The majority of Texas ports are public entities created by statute. Within some public ports/waterways are private docks owned by key customers. Public port authorities operate in the same capacity as any subdivision of the State of Texas. They are usually governed by a Board of Directors that are either elected by citizens within the jurisdiction of the port authority or appointed by local governmental entities.

The State of Texas provides no state revenues or assistance to port authorities. In order to support their operations and functions, port revenues are generated from one or more of the following methods:

- A local ad valorem tax on property within the jurisdiction of the port authority;
- An assessment on the goods or products that flow within the jurisdiction of the port authority to ships and barges; and
- Dockage fees by ships or barges berthing at port facilities.

Even though all revenue is generated at the local level through property taxes or user fees, the economic development generated from Texas ports has a significant impact on the economic stability and health of the entire state. The committee heard testimony stating that other states like Louisiana and Florida, our competition in the Gulf region, provide financial support to their local ports. The 77th Legislature passed Senate Bill 1282 in 2001 to assist port authorities in building infrastructure by creating the Port Access Account Fund (Fund). The Fund would have provided matching dollars to support port infrastructure projects. However, because of Texas' own budget constraints, the Legislature has never allocated monies to the Fund. During the 78th Session in 2003, the jurisdiction of the fund was moved from the Texas Department of Economic Development to the Texas Department of Transportation in House Bill 3588, and the purpose of the Fund was expanded to include port security projects.

The Texas Ports Association reports that Texas ports contribute over $87 billion annually to the Texas economy. The ports employ nearly 1 million Texans, which equates to over $30 billion in personal income. Additionally, the ports contribute around $5 billion in local and state tax revenue.

In terms of tonnage moved, five of the nation's largest 25 waterways are in Texas: (2) Houston; (4) Beaumont; (7) Corpus Christi; (11) Texas City; (24) Freeport. Texas is the country's second leading state in terms of tonnage moved through its ports at an annual average of 317 metric tons. Petroleum and petroleum products constitute 72% of these goods, while chemicals and chemical related products make up 15%. The value of all goods passing through all Texas ports in 2000 was about $58 billion.

The Port of Houston alone handles two-thirds of all container shipments for the entire Gulf of Mexico. Containers are measured in 20-foot equivalent units or 6.1 meters that are unloaded and transported to other designations by rail or truck. The top five importers of containerized cargo to Texas ports are Wal-Mart, Target, Dole Food Company, Chiquita Brands International, and Lowe's Companies. Wal-Mart has announced plans to open a new "super distribution warehouse" in Baytown. According to the American Association of Port Authorities (AAPA) figures cited in *Fiscal Notes* published in September 2004 by Texas Comptroller Carole Keeton Strayhorn, the Port of Houston was the second busiest port in the nation in terms of total cargo with more than 161 million metric tons. A metric ton is 2,205 pounds.

With transportation costs increasing, the trend in shipping is to develop larger ocean-going vessels to move more goods and products for less cost. According to the *Fiscal Notes* report, the Port of Corpus Christi is looking to expand its facilities and deepen its channel from 45 feet to 52 feet making it the deepest port on the Gulf of Mexico. The expansion project would also increase the width of the channel from 400 feet to 530 feet. The Port of Corpus Christi is building the La Quinta Trade Gateway Container Terminal to meet the growing demand of containerization and trade with Mexico, Latin America, and South America. Items that will be shipped through containers at the Port of Corpus Christi include cotton, electronics and vegetables. The report cites that once this project is operational, it could generate 6,000 jobs and provide $27.2 million in state and local taxes. The Port of Corpus Christi is also unique in that it serves as a strategic military port along with the Port of Beaumont.

International trade, through increased shipping of 8 to 9 percent per year worldwide, is impacting access to existing facilities and offering new opportunities for Texas ports. West Coast ports in the United States are operating currently at capacity. In the fall of 2003, a dockworkers strike resulted in the shutdown of all ports on the West Coast by the Pacific Maritime Association (PMA), and this ship traffic had to be diverted to East Coast ports and Gulf Coasts ports. East Coast ports are expected to reach capacity before the end of this decade. Gulf Coast ports, including Texas ports, must prepare to meet increasing demand. The Marine Transportation System National Advisory Council stated that it was reasonable to assume 200% growth by 2020 for all maritime trade with the caveat that container traffic might grow even faster. Texas port officials are presently working to attract more container traffic and consumer goods to their ports.

SHOALING, DREDGING, AND MAINTENANCE ISSUES

Though port authorities are local governmental entities, they have a very important relationship with the United States Corps of Engineers. The U.S. Army Corps of Engineers is charged with maintaining the channels used by the ships and barges. Maintaining channels means keeping them at specified depths and widths by dredging and other means. In addition, ports rely on the Corp of Engineers for their expertise in developing new projects or improvements to accommodate more voluminous shipping and obtaining federal appropriations to finance port projects. Generally, federal appropriations on port projects are cost-shared at some level by local contributions from port authorities.

Because the condition of channels are subject to the natural flow of currents and artificial currents caused by the impact of high ship traffic areas or man-made objects, the maintenance on ship channels are a continual and costly concern. Untreated shoaling in Gulf channels threatens to clog waterways with sand and other sediments. Shoaling occurs when these currents or other movements in the water cause the sand or sediment to settle in a shipping channel and elevate the bottom of the channel, which creates a hazard to navigation.

The Rio Grande Valley is heavily dependent on the GIWW, and continuous dredging is necessary to keep this waterway open to shipping. Losing this transportation artery would cause the freight bill for the affected commodities to more than double —from $9.73 per ton to $19.72 per ton, for a total increase of $21.5 million. The annual dredging cost for the Corpus Christi to Brownsville stretch is $2.5 million.

In January 2004 due to decreased federal spending and more appropriations dedicated to homeland security, the Galveston District of the Corps of Engineers announced that it could not guarantee any funds would be available to address emergency repairs or dredging that may be required to keep waterways functioning efficiently during the remainder of the fiscal year.

INCREASED SECURITY BURDENS AT PORTS

Since the terrorism strikes on our nation in September 2001, more federal money has been appropriated for the security of key infrastructure including ports and waterways. Texas has many industries that could be potential targets of terrorism. Much of the nation's oil refining capacity and petrochemical industry are situated in the Houston and Corpus Christi areas. The world's largest plastics company has facilities at the Port of Port Lavaca\Point Comfort. The need for increased spending on security measures are impacting available federal dollars for dredging and maintenance and are draining local port revenues. Some port authorities now operate their own police force for security.

According to estimates by the U.S. Coast Guard, port facilities will need to spend $5.4 billion on enhanced security measures over the next ten years to comply with new federal regulations mandated by the Maritime Transportation Security Act. This means that ports are going to have to spend at least 10% of their capital budget on security from now until 2006.

The U.S. Department of Homeland Security has stopped awarding security grants to the ports and has diverted Homeland Security money to the Governor's office to appropriate. Governor Rick Perry has charged the Texas Engineering Extension Service (TEEX) at Texas A&M University with distributing the funds to cities and counties for anti-terrorism equipment and homeland security planning. Because of this new funding method, ports may not receive needed funds to update security measures to protect facilities.

RECOMMENDATIONS TO THE 79TH TEXAS LEGISLATURE:

1. Texas ports are better equipped to assess their security needs in order to comply with new federal mandates. It would be much more efficient for ports to assess their own needs and access the money directly instead of going through local governments. The state should authorize TEEX to seek and evaluate applications from ports and distribute funds directly to them.

2. Because port authorities positively impact economic development, employment, and state revenues, Texas should consider a method of supplementing federal and local funding to assist port authorities in building new infrastructure and maintaining ship channels and waterways. This could be done either by direct appropriations to the Port Access Account Fund or through legislation creating an alternative dedicated funding mechanism for the Fund. It would be beneficial to work with the port authorities in developing this funding mechanism to ensure it would not have an adverse effect on future trade, or place Texas ports at a competitive disadvantage.

3. The Legislative Budget Board should study the economic impact Texas ports have on the state economy. Additionally, the study should determine the return of investment that could result from any state dollars appropriated or granted to port authorities through the Port Access Account Fund or other state assistance.

CHARGE 6

Evaluate the state's role in serving economic development interests in rural Texas after the passage of SB 275, 78th Legislature, and other economic development legislation from the 78th Legislature.

COMMITTEE WORK

The House Committee on Economic Development held a public hearing on March 16, 2004, to discuss Interim Charge #6.

ISSUE SUMMARY

What is Rural Texas?

As a primary source of agriculture, livestock, petrochemical, and mining industries, the contribution of rural Texas to the state's traditional economy is clearly significant. Accurately identifying rural/urban and metro/non-metro areas can be crucial for designing public policy, as well as, providing the basis for many government funding formulas and assistance programs aimed at rural problems. However, there is not one universally accepted definition of rural. To some, rural is a subjective state of mind, and to others rural is an objective quantitative measure. Even the two federal agencies most involved in defining rural, the U.S. Census Bureau and the U.S. Office of Management and Budget (OMB), have trouble settling on any one definition; and each of those definitions are revised at least every 10 years with a new census.

Researchers and others who discuss conditions in "rural" America most often refer to conditions in non-metropolitan areas. Metropolitan (metro) and non-metropolitan (non-metro) areas are defined on the basis of counties. The U.S. Census Bureau defines what makes up an urban or metro area as any area of census blocks with a population density of 1,000 people or more per square mile combined with any surrounding census blocks with densities of at least 500 people per square mile. Anything outside is considered rural or non-metro.

According to the Census, Texas has the highest total non-metro population of any state in the country. In 1999, Texas had a population of over 20 million, with more than 15 percent of the population, or 3.1 million people, living in non-metro counties. More than 77 percent of the counties in the state are considered rural by the United States Department of Agriculture (USDA).

In June of 2003, the OMB revised its definition of metro and non-metro areas and created a new designation, micropolitan, which is a subset of non-metropolitan. The OMB defined metro areas as (1) central counties with one or more urbanized areas of 50,000 or more population, and (2) outlying counties that are economically tied to the core counties as measured by work commuting. Outlying counties are included if 25 percent of workers living in the county commute to the central counties, or if 25 percent of the employment in the county consists of workers coming out from the central counties—the so-called "reverse" commuting pattern. Non-metro counties are outside the boundaries of metro areas and are further subdivided into two types: micropolitan areas, centered on urban clusters with a population of at least 10,000 but less than 50,000, and all remaining "noncore" counties. Under this new definition, Texas has 77 metropolitan counties and 177 non-metropolitan counties.[20]

What is the State's Role in Serving Rural Economic Development?

According to the Office of the State Demographer, during the next four decades rural areas in Texas will experience a growth statewide of 25 percent. Rural counties generally have higher poverty rates and lower income levels than their urban counterparts, and there are increased challenges related to growth in the elderly and minority populations. Since a larger percentage of the rural population will be living on fixed incomes, city and county revenues could be shrinking while the demand on services will be increasing. Data suggest that rural Texas needs assistance in generating increased economic development that will create better paying jobs and retain young people in rural areas. Barriers to economic growth in rural areas can include lack of financial resources and equipment, inadequate housing, scarce basic health care, and a heavy community dependence on a single industry such as petroleum or agriculture.

Rural areas are constantly experiencing the need to diversify, and new and existing residents must be able to earn a living commensurate with their standard of living. If economic opportunities are not present, residents will be forced to relocate. While the government cannot fulfill certain leadership needs, the state can aid in rural economic development efforts by fostering a supportive climate with tax and regulatory policies, as well as, creating supportive infrastructure with access to capital and services.

How is Texas Set Up to Provide the Core Functions of Rural Economic Development?

Numerous state and federal government agencies offer valuable assistance and resources, but most government agencies are in a position of trying to serve all citizens and may not be able to focus on individual communities. Government funds are limited, with preference given to projects or regions that have a solid plan aimed at self-sustainability.

In 1997, the 75th Legislature created the Office of Rural Affairs (ORA) within the Texas Department of Economic Development (TxED). ORA's charge was to provide information on economic development in rural areas, identify potential business opportunities, maintain an economic development database, and submit a report to the Legislature each even-numbered year. ORA had two staff members, a director and a program coordinator.

After complaints by members of the legislature that TxED had been unable to integrate rural development into its programs, House Bill 819 in 2001 transferred the Office of Rural Affairs to the Texas Department of Agriculture. During the same year, the Office of Rural Community Affairs (ORCA) was created by the 77th Legislature to develop policy specifically addressing economic and quality of life issues affecting small and rural communities across Texas. House Bill 7 created ORCA by merging two existing programs administered by the state: the Center for Rural Health Initiatives (CRHI), previously associated with the Texas Department of Health, and the Texas Community Development Program (TCDP) from the Texas Department of Housing and Community Affairs.

ORCA administers programs supporting rural health care, the federal Community Development

Block Grant non-entitlement program, and programs designed to improve the leadership capacity of rural community leaders. ORCA also coordinates and monitors the state's effort to improve the results and cost-effectiveness of programs affecting rural communities, as well as, provides an annual evaluation of the condition of rural Texas communities.

The Texas Capital Fund (TCF) program is administered by the Texas Department of Agriculture through an interagency agreement with ORCA. The TCF encourages business development, retention, or expansion by providing infrastructure and real estate development funds to qualified applicants (non-entitlement cities/counties) with the express purpose of creating new permanent jobs or retaining existing permanent jobs, primarily for low-and-moderate income (LMI) people. In order to comply with the national goal of expanding economic opportunities for LMI persons, a minimum of 51 percent or more of all the jobs created or retained by the business must benefit persons who qualify as LMI. These funds are a part of the U. S. Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program and is known as the Texas Community Development Program (TCDP) in our state. The program is only available to non-entitlement city or county governments. Non-entitlement cities/counties do not receive direct funding from HUD and typically include cities with a population of less than 50,000 and counties of less than 200,000. There are over 1,200 eligible cities and counties in the state. Funds are awarded to cities and counties to make public infrastructure and/or real estate improvements to support a specific business that is expanding or beginning operations in the applicant's jurisdiction and are contingent upon the business making a capital investment and creating/retaining jobs for Texans.

Currently, TCF has four program areas:

- Main Street Improvements
  The Texas Capital Fund Main Street Improvements Program is designed to foster and stimulate economic development in the downtown area by providing financial assistance to non-entitlement cities for public infrastructure improvements. This program aids in the elimination of slum or blighted areas. Only a city designated as an official Texas Main Street City by the Texas Historical Commission may submit an application for proposed improvements. The improvements must directly support the revitalization of the city's designated main street area.

- Real Estate Development
  The Texas Capital Fund Real Estate Development Program is an economic development tool designed to provide financial resources to non-entitlement cities and counties. Funds must be used for real estate development to assist a business that commits to create and/or retain permanent jobs, primarily for low and moderate-income persons. The real estate and/or improvements must be owned by the community and leased to the business. This program encourages new business development and expansions.

- Infrastructure Development

  The Texas Capital Fund Infrastructure Development Program is an economic development tool designed to provide financial resources to non-entitlement communities. Funds from this program can be utilized for public infrastructure needed to assist a business that commits to create and/or retain permanent jobs, primarily for low and moderate-income persons. This program encourages new business development and expansions.

- Downtown Revitalization Program

  The Texas Capital Fund Downtown Revitalization Improvements Program is designed to foster and stimulate economic development in the downtown area by providing financial assistance to non-entitlement cities for public infrastructure improvements. This program aids in the elimination of slum or blighted areas in non-entitlement communities.

Other State programs that assist in rural economic and business development efforts include:

Texas Capital Access Fund
Loan program for businesses with fewer than 500 employees.
www.txed.state.tx.us/TexasCapitalAccess/

Texas Linked Deposit Fund
Lower interest rate loan program for qualified businesses.
www.txed.state.tx.us/TexasLinkedDeposit/

Texas Leverage Fund
Loans to cities that have the economic development sales tax.
www.txed.state.tx.us/TexasLeverageFund/

Industrial Revenue Bonds
Tax-exempt financing to businesses for land and depreciable property.
www.txed.state.tx.us/TexasIRBProgram/

Enterprise Zone Program
Encouraging job creation and capital investment by providing tax incentives to businesses in economically distressed areas.
www.txed.state.tx.us/TexasEnterpriseZone/

(* The above mentioned website links were active at the printing of this report. If the links should become inactive, information may be accessed through the Governor's website at [www.governor.state.tx.us].)

Rural Municipal Finance Program
Provides financial assistance in the form of loans to city and county governments; economic development corporations; hospital districts; rail districts; utility districts; special districts; agricultural districts; and private water and wastewater corporations. Funds are provided to projects that improve or assist in the economic development of the rural area, such as purchase of real estate, construction of buildings and site improvements, equipment, water and wastewater systems, municipal infrastructure projects.
www.agr.state.tx.us/eco/finance_ag_development/tafa/fin_rdfpmunicipal.htm

Young Farmer Loan Guarantee Program
Financial assistance through loan guarantees to lenders for eligible applicants who wish to establish or enhance their farm and/or ranch operation or establish an agricultural-related business.
www.agr.state.tx.us/eco/finance_ag_development/tafa/fin_yfarmer.htm

Agribusiness Linked Deposit Program
Facilitates commercial lending at below market rates to qualified applicants for eligible agricultural purposes, including assistance for value added processing and marketing and assistance for water conservation projects.
www.agr.state.tx.us/eco/finance_ag_development/tafa/fin_linked.htm

Texas Yes! Hometown STARS (Supporting Tourism and Rural Success) Program
Matching reimbursement program to help rural communities offset the costs of their own tourism promotion efforts.
www.texasyes.org

Microenterprise Loan Program
Funding for the development of a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.
www.orca.state.tx.us

Small Business Loan Program
Funding for the development of small businesses; a for-profit business with less than 100 employees.
www.orca.state.tx.us

Economic Development Sales Tax[21]

Although legislators have always understood the need to promote economic development, prior to 1979 there were few statutory vehicles that facilitated such efforts. Business leaders expressed this concern to the Texas Legislature and asked for authorization to create an entity that could encourage the development of new local commerce.

In response, the Texas Legislature passed the Development Corporation Act of 1979 (Texas Revised Civil Statutes Article 5190.6). The Development Corporation Act of 1979 (the "Act") allows municipalities to create nonprofit corporations (called development corporations) that promote new and expanded industry and manufacturing activity within the municipality and its vicinity. The development corporations operate separately from the municipalities, with boards of directors that oversee their efforts. These corporations, in conjunction with industrial foundations and other private entities, work to promote local business development. Prior to 1987, the efforts of these entities were dependent on funding from private sources, which often was difficult to obtain. At that time, development corporations could not legally receive funding from the state or local governments because of a Texas constitutional prohibition against the expenditure of public funds to promote private business activity. In November 1987, the voters of Texas approved an amendment to the Texas Constitution that provided that expenditures for economic development serve a public purpose and were therefore permitted under Texas law. This amendment states in pertinent part:

> *Notwithstanding any other provision of this constitution, the legislature may provide for the creation of programs and the making of loans and grants of public money . . . for the public purposes of development and diversification of the economy of the state . . .*

After this constitutional amendment, the Texas Legislature passed laws that would allow state and local government funds to be used to promote economic development. In fact, the 1989 and subsequent legislative sessions have produced a wide range of new laws granting economic development authority to municipalities.

Most notably, in 1989, the Texas Legislature amended the Act by adding Section 4A, which allowed the creation of a new type of development corporation. The legislation provided that a Section 4A development corporation could be funded by the imposition of a local sales and use tax dedicated to economic development. The tax could be levied only after its approval by the voters of the city at an election on the issue.

The proceeds of the Section 4A sales tax were dedicated by statute to economic development projects to primarily promote new and expanded industrial and manufacturing activities. This authority became popularly referred to as the Section 4A economic development sales tax. The Section 4A tax was generally available to cities that were located within a county of less than 500,000 and had room within the local sales tax cap to adopt an additional one-half cent sales tax.

In 1991, the Texas Legislature made a number of changes to the Section 4A sales tax authorization. It allowed the tax to be adopted at any rate between one-eighth and one-half of one percent (in one-eighth percent increments). It additionally allowed cities to offer a joint proposition to be voted on that would authorize both a Section 4A economic development sales tax and a sales tax for property tax relief.

Also in the 1991 Legislative Session, the Legislature authorized a new type of sales tax, a Section 4B sales tax. This legislation authorized a one-half cent sales tax to be used by certain cities to promote a wide range of civic and commercial projects. The legislation authorized 73 Texas cities to propose a Section 4B sales tax. Between 1991 and 1993, 19 cities adopted the new Section 4B sales tax.

The popularity of the Section 4B sales tax led the Texas Legislature in 1993 to broaden its availability to any city that was eligible to adopt a Section 4A sales tax. In other words, most cities in a county of less than 500,000 could adopt either the Section 4A or the Section 4B sales tax if they had room in their local sales tax. Until recently, only cities within El Paso County and Travis County were ineligible by statute to adopt either the Section 4A or the Section 4B tax. Now, cities located within El Paso County and Travis County are authorized to adopt a Section 4B tax.

The local option sales tax for economic development is one of the most popular and effective tools used by cities to promote economic development. Since 1989, more than 513 cities have levied an economic development sales tax, cumulatively raising in excess of $324 million annually in additional sales tax revenue dedicated to the promotion of local economic development. Of these cities, 123 have adopted a Section 4A economic development sales tax, 303 cities have adopted a Section 4B economic development sales tax, and 87 cities have adopted both a Section 4A and a Section 4B sales tax.

There are a number of important differences between the Section 4A and Section 4B sales taxes for economic development. In broad terms, Section 4A and Section 4B taxes can be distinguished on the following grounds: 1) the authorized uses of the tax proceeds; 2) the oversight procedures regarding project expenditures; and 3) the means for adopting and altering the tax by election.

The purposes or “projects” for which economic development sales taxes may be used have evolved and expanded since the initial legislation passed in 1979. Most recently, during the 78th Legislative Session, House Bill 2912 amended the laws related to 4A and 4B sales taxes. Among other things, the bill redefined “primary jobs,” as jobs that are within 14 specific industry sectors and at companies that export a majority of products or services beyond the local market, infusing new dollars into the local economy. The definition is important because economic development corporations are required to focus on projects that will result in primary jobs. The Office of Attorney General published an updated Handbook on Economic Development Laws in 2004, which provides guidelines for the amended law.

How Can Texas Improve the Delivery of Rural Economic Development Services?

Rural development in Texas depends on the availability of resources, and as communities encounter diminishing resources, multiple communities may be able to address problems more effectively by pooling assets. The 77th Texas Legislature, recognizing the need to develop a plan for the future of the Texas economy, passed House Bill 931, which instructed the Texas Department of Economic Development to develop a coordinated, comprehensive economic development plan for the state. Dr. Ray Perryman, a respected Texas economist, completed the study without cost to the state.

In his report entitled "Texas, Our Texas: An Assessment of Economic Development Programs and Prospects in the Lone Star State," he expounds on the benefits of focusing on regional development strategies; for example, marketing a region for economic development purposes, supporting regional industry clusters, or developing regional health care systems to improve efficiency. He suggests that the Council of Government (COG) areas are remarkably well defined and institutionally suited for this purpose.

Regional councils or councils of governments (COGs), are voluntary associations of local governments formed under Texas law. There are 24 COGs in Texas. These associations deal with the problems and planning needs that cross the boundaries of individual local governments or that require regional attention.

Regional services offered by councils of governments are varied. Services are undertaken in cooperation with member governments, the private sector, and state and federal partners, and include:

- planning and implementing regional homeland security strategies;
- operating law enforcement training academies;
- providing cooperative purchasing options for governments;
- managing region-wide services to the elderly;
- maintaining and improving regional 9-1-1 systems;
- promoting regional economic development;
- operating specialized transit systems; and
- providing management services for member governments.

Inspired by Dr. Perryman's report, Senate Bill 275 abolished the Texas Department of Economic Development and transferred most of its programs to the newly created Texas Economic Development and Tourism Office (TEDTO); a division of Office of the Governor. The bill also required TEDTO to maintain regional offices, and in the Fall of 2003 Governor Perry announced the creation of eight regional economic development offices.

The Texas Department of Agriculture's Rural Economic Development Division also employs seven regional rural economic development field staff members, called Rural and Agribusiness Specialists, across the state to provide localized assistance, and work closely with other agencies and organizations. However, the boundaries for TEDTO's and TDA's regional service areas are not the same, and neither follow the COG boundaries.

Small businesses are the driving force behind the Texas economy. According to the Small Business Administration, in 2002 98.6 percent of the businesses in Texas were small (with fewer than 500 employees based on 2000 firm size data).[22] There is tremendous potential for entrepreneurship and small business development as a means of creating jobs and building wealth in rural communities. In a report to the National Governor's Association entitled *Nurturing Entrepreneurial Growth in State Economies*, authors Thom Rubel and Scott Palladino note that states should develop policies to nurture entrepreneurs, such as:

- improving access to capital;
- providing technical assistance;
- streamlining securities regulation;
- improving state regulatory and licensing environments;
- implementing regulatory reform;
- building intellectual capacity at state universities;
- creating industry clusters;
- improving state tax environments;
- improving entrepreneurship education;
- reaching out to entrepreneurs; and
- recognizing entrepreneurial achievement.

The committee heard testimony from Dr. Greg Clary from the Texas Center for Rural Entrepreneurship (TCRE); a non-profit organization headquartered at the Texas A&M Research and Extension Center and created by rural entrepreneurs, economic development leaders, non-profit organizations, and local, state and federal goverment entities. TCRE was created to establish neutral ground to facilitate the delivery of educational and technical support to meet the needs of rural entrepreneurs and organizations supporting entrepreneurs and the entrepreneurial spirit in rural Texas.[23] One initiative Dr. Clary has been working on is the creation of the "Texas Enterprise Network." The following is the proposal as provided to the Committee:

The Texas Enterprise Network (TEN) is an innovative entrepreneurship development system aiming for an extraordinary impact in rural communities through the achievement of five far-reaching goals:

1. Promote entrepreneurship education and training in underexposed markets;
2. Facilitate local business community development through the process of commercializing new ideas;
3. Identify new innovations that could potentially develop into extraordinarily successful products or high growth enterprises;
4. Disseminate entrepreneurial "best practices" with the power to increase survival rates for local small business owners; and
5. Accumulate data for researchers studying entrepreneurs and the factors predictive of their success.

TEN will capitalize on a clear opportunity to utilize existing State resources to build a more prosperous, dynamic and sustainable economy in rural Texas through entrepreneurship development. TEN will unleash our state's most valuable and renewable resource - the energy and creativity of its people - through a comprehensive program for facilitating the growth and success of local entrepreneurs. TEN will leverage existing infrastructure and resources in our state's university, government and business sectors to connect entrepreneurs throughout the state to the resources they need, wherever they reside.

The architects and primary collaborators behind TEN -- including the IC² Institute at UT-Austin, Texas Cooperative Extension at Texas A&M, the College of Agricultural Science and Natural Resources at Texas Tech, the Texas Department of Agriculture, the Texas Workforce Commission, the Office of Rural Community Affairs, and the Texas Economic Development Council -- will achieve its goals by implementing the following six strategies:

1. Provide coordinated services that leverage State's existing infrastructure investments.
2. Train and develop a network of Entrepreneurship Agents (E-Developers) by leveraging Texas Cooperative Extension's existing human capital and organizational infrastructure.
3. Sponsor a local physical presence (E-Centers) where entrepreneurs can register with the TEN network and begin accessing its knowledge and resource benefits.
4. Develop a virtual network of knowledge, leadership and financial capital resources accessible through TEN's E-Developers and available at local E-Centers.
5. Facilitate leading research on the sociology and economics of rural entrepreneurship.
6. Develop awareness and participation though inclusive, positive, educational and exciting competitions (the Texas Launchpad).

The fiscal agent for TEN is the Texas Center for Rural Entrepreneurship (TCRE), a nonprofit 501 (c)(3) Texas corporation whose primary goal is to stimulate and support private and civic entrepreneurship development in rural communities. TCRE is led by Dr. Greg Clary, an economist with Texas Cooperative Extension.

RECOMMENDATIONS TO THE 79TH TEXAS LEGISLATURE:

1. The Texas Economic Development and Tourism Office and the Texas Department of Agriculture should ensure that their regional economic development field staffs are not duplicating services and are working together as a cohesive force. The use of Council of Government (COG) boundaries to established service areas should be encouraged.

2. Fund and foster the Texas Enterprise Network. Re-task the Cooperative Extension System to help entrepreneurs gain access to knowledge capital, leadership capital, and financial capital in every county of the State. Leverage government and university funding and know-how to aid success of entrepreneurs.

3. Direct the Texas Economic Development and Tourism Office to coordinate with the Texas Department of Agriculture's Rural Economic Development Division, the Office of Rural Community Affairs, the Texas Workforce Commission, and other relevant agencies to create a one-stop website for economic development services.

CHARGE 7

Monitor the agencies and programs under the committee's jurisdiction, with special attention paid to the agencies' implementation of sunset legislation.

COMMITTEE WORK

The House Committee on Economic Development held public hearings on December 9, 2003; March 16, 2004; and August 25, 2004, to discuss various topics related to Interim Charge #7.

Throughout the 78th Legislative Interim, the committee monitored the Texas Economic Development and Tourism Office, the Texas Workforce Commission, and the Texas Workforce Investment Council.

ENDNOTES

[1] *Texas Workforce Commission Skills Development Fund Annual Report, Fiscal Year 2003.*
[2] Texas Workforce Commission website: [www.twc.state.tx.us/svcs/funds/ssfintro.html].
[3] *An Audit Report of the Department of Economic Development's Contracting Practices for the Smart Jobs Program,* Office of the State Auditor, August 2000.
[4] *Summary of Transaction History for TWC Holding Fund*, Texas Workforce Commission, January 2003.
[5] *Smart Jobs and Skills Development Review: A Report to the 77th Legislature*, Office of the Comptroller of Public Accounts, March 2001.
[6] *2003 Workforce Development Strategic Plan for FY 2003-2007: The Key to Creating Opportunity and Building Prosperity in Texas*.
[7] *Pocket Edition, 2002-03 Texas Public School Statistics*, TEA Division of Performance Reporting.
[8] *A First Look at Critical Issues Surrounding Adult Education and Literacy in Texas*, Texas Workforce Investment Council, December 2003, can be found at the following link: [www.governor.state.tx.us/divisions/twic/reports/files/adultliteracy.pdf].
[9] *A First Look at Critical Issues Surrounding Adult Education and Literacy in Texas*, page 45, Texas Workforce Investment Council, December 2003.
[10] *The Economic Significance of the Texas Travel Industry*, Dean Runyan Associates, February 2004.
[11] Information was gathered from the research conducted by the Office of the Governor, Texas Economic Development & Tourism.
[12] *Texas Workers' Compensation Commission, Sunset Advisory Committee Staff Report,* April 2004.
[13] 2004 estimates from the Texas Department of Insurance Workers' Compensation Research Group and PPRI.
[14] *Employer Participation in the Texas Workers' Compensation System: 2004 Estimates*, Texas Department of Insurance Workers' Compensation Research Group, August 2004.
[15] *CompScope Benchmarks: Multistate Comparisons*, 4th edition, 2004, Workers' Compensation Research Institute.
[16] *Texas Workers' Compensation Medical Cost Comparisons: Key Findings from Multiple Studies*, Research and Oversight Council on Workers' Compensation, 2004.
[17] *Survey of Injured Workers Regarding Work-Related Health Problems: Comparison of the State and Private Sector Worker Experiences*, Research and Oversight Council on Workers' Compensation, 2003.
[18] Mr. McMurry did not testify at the hearing on August 25, but he provided written testimony to the Committee staff.
[19] Unless otherwise noted, figures were received from testimony of Jim Kruse, Texas Transportation Institute, House Economic Development Hearing, 16 Mar. 2004.
[20] *Measuring rurality: What is rural*, Economic Research Service at the United States Department of Agriculture, [http://ers.usda.gov/briefing/rurality/WhatisRural/index.htm].
[21] Portions of this section are excerpts from *Handbook on Economic Development Laws*, Office of the Attorney General of Texas, 2004.
[22] Source: U.S. Dept. of Labor, Employment and Training Administration; U.S. Dept. of Commerce, Census Bureau; U.S. Dept. of Labor, Bureau of Labor Statistics.
[23] www.tcre.org