

**SUBJECT:** Establishing the Texas Economic Development Agency

**COMMITTEE:** Economic Development — favorable, with amendment

**VOTE:** 8 ayes — Oliveira, Yarbrough, Keffer, Luna, Raymond, Seaman, Siebert, Van de Putte

0 nays

1 absent — Greenberg

**WITNESSES:** For — Garry Mauro, Texas General Land Office; David Pinkus, Small Business United of Texas

Against — None

On — Dan Wattles, Texas Department of Commerce; Larry R. Soward, Texas Department of Agriculture; Bill Burnett, Texas Department of Transportation

**BACKGROUND :** In 1987, the 71st Legislature created the Texas Department of Commerce by consolidating several state agencies, including the Texas Economic Development Commission, Texas Tourist Development Agency, Texas World Trade Council and the Enterprise Zone Board. In 1991, the 73rd Legislature replaced the department's governing board with an advisory board, and policy-making functions were redistributed between the board and the executive director.

The Texas Department of Commerce currently focuses on business development and tourism. Its programs concentrate on retaining and expanding Texas businesses, marketing the state for business location and expansion, and promoting Texas as a travel destination.

**DIGEST:** HB 2500, as amended, would create the Texas Economic Development Agency (TEDA) to coordinate the state's economic development efforts and administer various state lending programs. The bill would abolish the Texas Department of Commerce and the Texas Agricultural Finance Authority (TAFE) and transfer their programs and duties to TEDA. Most TAFE

programs would be transferred to TEDA on May 1, 1998; Commerce Department programs would be abolished on January 15, 1998.

HB 2500 would repeal the Commerce Department's authority to enter into interstate compacts with Mexico and to administer the small business incubator loan, Texas-Mexico development fund, Texas Business Enhancement Fund, product commercialization fund and small business innovation research loan programs.

HB 2500 would take immediate effect if finally approved by a two-thirds record vote of the membership of each house.

### **TEDA functions**

TEDA's primary functions would be to:

- assist businesses in developing and promoting new products and expanding markets;
- disseminate information about Texas industries, markets and communities to businesses relocating to the state;
- offer incentives to communities to attract new businesses;
- ensure tax and bond revenues for economic development are spent and managed effectively and efficiently.

HB 2500 would expand the Office of Small Business Assistance currently operating in the Commerce Department to provide information to the Legislature and state agencies on the impact of proposed rules on small businesses, develop historically underutilized businesses, counsel small businesses, and disseminate information on state programs and services benefiting small businesses. The office would be headed by a Small Business Ombudsman. It could accept gifts and grants for use on projects or provide assistance to small businesses.

TEDA could participate in a securitization program to sell into secondary markets, adopt policies to market programs it administered, form a subsidiary, adopt and annually review a written cash management program, contract with other entities to perform technical services, accept gifts and grants, use excess earnings for agency programs, create an economic

emergency assistance fund, and contract with a private entity to perform activities related to programs transferred to the agency. The Texas Public Finance Authority would be authorized to issue bonds on TEDA's behalf.

### **Loan programs**

TEDA would serve as administrator of all future state agency loan and loan guarantee programs. HB 2500 would transfer loan guarantee programs from several state agencies to TEDA, including:

- Community Development Block Grants (CDBG), from the Texas Department of Housing and Community Affairs;
- recycled products market expansion, from the General Land Office;
- public information on conserving the state's natural and cultural resources, from the Texas Department of Parks and Wildlife;
- travel information, other than the operation of travel information centers, from the Texas Department of Transportation.

The agency currently administering a transferred loan program would be required to enter into a memo of understanding with TEDA to transfer the programs. Each affected state agency would have to work with the comptroller to formulate and implement transition plans, an interim operating budget, and plan for the temporary assignment of staff. Employees of a program transferred to TEDA would become TEDA employees.

TAFAs loan programs transferred to TEDA would include the loan guarantee, linked deposit, micro enterprise support, young farmers endowment, and farm and ranch finance programs. These programs would be transferred January 15, 1998.

### **Oversight**

The comptroller would have to review the programs transferred to the new agency and make recommendations concerning the agency's structure in a report filed no later than January 15, 1998.

The Texas Department of Banking would have to examine loans administered by TEDA, determine the credit quality and value of the loans, and recommend appropriate loan underwriting standards in a report no later than August 1, 1998. The state auditor also would evaluate TEDA management and fiscal control systems and make recommendations for improvement in a report no later than December 1, 1998.

TEDA would be governed by a board composed of nine members appointed by the governor with at least one representative from agricultural producers, economic development organizations, the tourism industry, and a small locally owned community bank. Members would serve two-year terms, with the terms of the initial board expiring on February 1, 1999. The board would be required to employ a chief operating office.

HB 2500 also would establish a six-member legislative oversight committee, composed of three senators appointed by the lieutenant governor and three House members appointed by the speaker. The committee would have to report biennially on any problems with board administration of TEDA programs and recommendations for legislative action. Unless continued, the committee would be abolished August 31, 1999.

**SUPPORTERS  
SAY:**

HB 2500 would increase the quality and efficiency of the state's economic development efforts. The current approach to economic development in Texas is fragmented across a multitude of programs in a variety of different state agencies. HB 2500 would simplify this by transferring economic development and loan programs to TEDA to make the agency the state's primary economic development agency.

HB 2500 would establish TEDA as the "one-stop shop" for information and loans for businesses in Texas. Often, Texas businesses and communities are forced to surf through a maze of government red tape before finding and accessing economic development funds. HB 2500 would improve program accessibility by consolidating many loan guarantee programs under a single lead agency. By eliminating duplicate services and personnel, the bill would achieve administrative and economic efficiencies.

A new agency is necessary to keep Texas competitive with the economic development efforts of other states. Many states, including Florida,

Minnesota and Oklahoma, have restructured their economic development agencies to better serve and compete for businesses. HB 2500 would empower TEDA to attract businesses through loan programs and market Texas through its tourism functions.

HB 2500 also would ensure the effective use of economic development funds. The Texas Agricultural Finance Authority has used its funds ineffectively, and its loan programs would be better administered by a new agency focused on economic development. In 1995, Texans authorized TAFE to administer \$200 million for rural economic development, but no monies have been loaned.

HB 2500 would ensure agricultural interests were represented in the agency by appointing an agricultural producer to the board, allowing the board to appoint advisory committees that could include representatives from rural agricultural communities, and transferring employees from the TAFE program to TEDA.

Although CDBG programs would be shifted to TEDA, the agency could still award those monies to cities and counties for affordable housing projects. In addition, TEDA could work more closely with Texas businesses on programs to build affordable housing.

HB 2500 would focus the efforts of Texas' lead economic development agency by bringing together various programs that have been diffused through a number of state agencies and enhance better oversight from both a governing board and legislative oversight committee. The Texas Department of Commerce advisory board has been ineffective because policy-making functions are divided between the board and the executive director. In addition, the position of executive director is too political because it is appointed by the governor. HB 2500 would address these problems by establishing an independent governing board appointed by the governor but with two-year terms to enhance accountability.

HB 2500 would eliminate unfunded programs now housed within the Texas Department of Commerce and transfer to TEDA only the viable programs in order to enhance its visibility as the state's primary economic development agency. The Commerce Department must be renamed, reformed, refocused

and rejuvenated with new programs and funds if economic development in Texas is to be meaningfully enhanced.

The magazines published by the Texas Department of Transportation and the Texas Parks and Wildlife Department are excellent marketing tools but represent an unnecessary duplication of state services. HB 2500 would eliminate unnecessary duplication of these efforts by creating a single agency focused on marketing Texas, not just Texas highways or Texas parks and wildlife. Under HB 2500, TEDA could contract with TxDOT or any other agency for printing services.

HB 2500 also would facilitate the state's ability to effectively manage its debt. Debt issuance authority spread among many agencies should be consolidated into one agency with appropriate measures to oversee debt management. This would help increase the number of banks participating in the state's loan guarantee programs. Some banks are hesitant to participate because similar programs are dispersed among so many agencies. Banks would rather work with one agency on loan programs. Because banks are an integral part of the state's economic development efforts, it is important the state facilitate their participation.

OPPONENTS  
SAY:

HB 2500 is a misguided, albeit laudable, effort to organize the state's economic development efforts into one lead agency. The Texas Department of Commerce and its predecessor agencies have been the subject of repeated and extensive reorganization efforts over the past nine years. Unfortunately, administrative and economic efficiencies previously achieved are lost each time the agency is reorganized and its functions reprioritized. The Commerce Department and the programs proposed for transfer should remain in their respective agencies and given a chance to achieve their administrative and economic potential.

The \$1.3 million negative fiscal impact resulting from the implementation of HB 2500 would outweigh the advantages of reorganizing the department. The Commerce Department could be more effective if given more direction by a gubernatorial-appointed governing board. This would jumpstart the department and would allow it to focus on and improve the programs it currently houses.

The programs transferred to TEDA would be more effectively housed in their current agencies. The Texas Department of Parks and Wildlife communication program strives to serve the unique needs of its client population by publishing information related to outdoor recreation and education. Transferring this program to TEDA would change the focus of the public message from outdoor recreation and education to tourism and would unnecessarily dilute the effectiveness of this award-winning educational campaign.

Under HB 2500, *Texas Highways* magazine, published by the Texas Department of Transportation, would be transferred to TEDA. The strength of this magazine is its ability to draw upon in-house experts, including botanists, architects and engineers, to write articles promoting travel on Texas highways. Transferring this program to TEDA would change the content of the magazine in a way that might not appeal to subscribers. In addition, TxDOT has its own print shop to publish the magazine and keep costs down. TEDA would not be as efficient because it would not have its own print shop.

Transferring loan guarantee programs from the Texas Agricultural Finance Authority to TEDA also would be short-sighted. After undergoing sunset review in 1995, TAFE appointed four individuals from rural banks to the TAFE board to advise its loan guarantee programs. TAFE is currently in the process of rejuvenating its program and should be given more time to realize these improvements.

The clients served by CDBG programs would be adversely impacted by the move to TEDA. The CDBG program has been transferred among many different state agencies over the past few years, and it is just now achieving consistency and efficiencies. Moving the programs to TEDA would unnecessarily delay the administration of the funds. In addition, because the CDBG program is housed within the Texas Department of Housing and Community Affairs, it has focused its efforts on providing funds to fill the lack of adequate affordable housing in Texas. If moved to TEDA, the CDBG program could lose its affordable housing focus.

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OTHER  
OPPONENTS  
SAY:

Abolishing the Texas Agricultural Finance Authority would mean abolishing representation from agricultural economic development at the state level. At the very least, HB 2500 should be amended to add the Commissioner of Agriculture to the TEDA governing board.

NOTES:

The committee amendments would expand the duties of the Office of Small Business Assistance and delete a provision that would have transferred General Land Office natural gas promotion program and TxDOT travel information centers to TEDA.

SB 932 by Sibley, which would establish the Texas Department of Economic Development and Tourism, passed the Senate on April 16 and is pending in the House Economic Development Committee.