



# Interim Report

---

## to the 84th Legislature

House Committee on  
Economic and Small Business Development



December 2014

---

**HOUSE COMMITTEE ON ECONOMIC AND SMALL BUSINESS DEVELOPMENT  
TEXAS HOUSE OF REPRESENTATIVES  
INTERIM REPORT 2014**

**A REPORT TO THE  
HOUSE OF REPRESENTATIVES  
84TH TEXAS LEGISLATURE**

**CHAIRMAN  
JOHN E. DAVIS**

**COMMITTEE CLERK  
LAURIE McANALLY**

---





Committee On  
Economic and Small Business Development  
December 1, 2014

John E. Davis  
Chairman

P.O. Box 2910  
Austin, Texas 78768-2910

The Honorable Joe Straus  
Speaker, Texas House of Representatives  
Members of the Texas House of Representatives  
Texas State Capitol, Rm. 2W.13  
Austin, Texas 78701

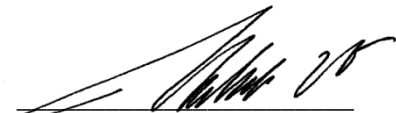
Dear Mr. Speaker and Fellow Members:

The Committee on Economic and Small Business Development of the Eighty-third Legislature hereby submits its interim report including recommendations for consideration by the Eighty-fourth Legislature.

Respectfully submitted,



John E. Davis, Chair



Hubert Vo, Vice Chair

Yvonne Davis



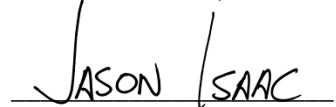
Jim Murphy



Eddie Rodriguez




Cecil Bell, Jr.



Jason Isaac



Mary Ann Perez



Paul D. Workman

Hubert Vo  
Vice-Chairman

Members: Cecil Bell, Jr. Yvonne Davis, Jason Isaac, Jim Murphy, Mary Ann Perez, Eddie Rodriguez, Paul D. Workman



---

## TABLE OF CONTENTS

INTRODUCTION .....	6
INTERIM STUDY CHARGES .....	7
Letter from Representative Workman .....	8
HOW DID WE GET HERE? WHERE DO WE GO? .....	9
We're So Awesome!.....	9
And Yet.....	9
Nature v. Nurture .....	10
The Downside of Crankiness .....	10
Addressing the Cracks .....	11
PUBLIC-PRIVATE PARTNERSHIPS .....	13
Making Do .....	13
Past Solutions.....	13
Public-Private Partnerships.....	14
A Grocery Store Partners with a Library .....	14
A New School and an Apartment Building .....	15
A Town Aims for No Cost Infrastructure .....	15
A History.....	15
We DID It! Didn't We? .....	16
The Part about the Appointments .....	16
Adapting the Canadian Experience to Texas .....	17
Trying Again.....	18
Perception is Always Reality .....	18
Profit is Not a Four-Letter Word .....	18
The Boogey-Man .....	19
Other States.....	19
Recommendations.....	19
INCENTIVES .....	22
An Intelligent Conversation.....	22
The Texas Enterprise Fund .....	22
Issues and Incidentals .....	23
It's the Jobs.....	23
The Emerging Technology Fund .....	24
Changing the World.....	24
Products on the Market.....	25

---

---

Moving Image Industry.....	26
Digital Media .....	27
Return on Expenditures.....	27
Skills Development Fund.....	28
To Keep in Mind.....	28
An Obvious Measure .....	29
Chapter 313.....	29
It's the Investment .....	29
Events Trust Funds .....	30
An Inexact Measurement .....	30
4A and 4B Sales Taxes .....	31
Bang for the Buck .....	31
The Governor's Office .....	32
Thinking Out Loud .....	32
Recent Tweaking .....	33
Sharing the Wealth.....	33
VENTURE CAPITAL .....	36
Why It Matters .....	36
Silicon Valley Envy .....	37
Shifting Capital and Pre-Seed Funding.....	37
Scaling Up.....	38
Hanging Out Together .....	39
Anchor Tenants.....	39
Jobs for Texas .....	40
Immigrants .....	40
Independent Assistance - Accelerators and Incubators .....	41
Recent Successes .....	41
Recommendations.....	41
MANUFACTURING .....	44
The Oil and Gas Connection.....	44
Making More Stuff .....	44
Legislative Action.....	45
Preparing for the Jobs .....	45
Opportunities to Think.....	46
Going Forward.....	46

---

---

TWC REPORT ON SIGNIFICANT BILLS .....	49
Federally Mandated Legislation .....	49
Non-federally Mandated Legislation .....	50
WE'RE CHANGING .....	55
New Demographics.....	55
Punishing Original Thought.....	55
ENDNOTES .....	57

---





---

## INTRODUCTION

At the beginning of the 83rd Legislature, the Honorable Joe Straus, Speaker of the Texas House of Representatives, appointed nine members to the House Committee on Economic and Small Business Development. The committee membership included the following: John E. Davis, Chairman; Hubert Vo, Vice Chair; Cecil Bell, Jr., Yvonne Davis, Jason Isaac, Jim Murphy, Mary Ann Perez, Eddie Rodriguez, and Paul D. Workman.

The committee was given jurisdiction over all matters pertaining to:

- Workforce Training;
- Commerce, trade, and manufacturing;
- Economic and industrial development;
- Development and support of small businesses;
- Job creation and job-training programs;
- Hours, wages, collective bargaining, and the relationship between employers and employees;
- Unemployment compensation, including coverage, benefits, taxes, and eligibility;
- Labor unions and their organization, control, management, and administration;
- Weights and measures; and
- The following state agencies: the Texas Economic Development and Tourism Office, the Texas Workforce Commission, and the Texas Workforce Investment Council.

The chair of the committee was additionally instructed to appoint a permanent subcommittee on manufacturing consisting of not fewer than five members to consider all matters pertaining to:

- Manufacturing in the state, including the state's manufacturing capability;
- Advances in manufacturing science and technology;
- The promotion of manufacturing research, development, and technology transfers in the state; and
- Matters related to cooperation of state and local governments with the scientific, educational, and manufacturing communities, including industry, institutions of higher education, and federal or state experiment stations and laboratories.

The following members were appointed: Jim Murphy, Chairman; Jason Isaac, Mary Ann Perez, Eddie Rodriguez, and Paul D. Workman.



---

## INTERIM STUDY CHARGES

1. Review the statutes and state agency rules pertaining to public-private partnerships to ensure a fair, competitive, and transparent process that benefits all parties engaging in the partnership. Review how other states and countries utilize public-private partnerships and make recommendations on how to improve the process in Texas, specifically looking at whether there needs to be a single state entity responsible for administering the public private partnership program.
2. Examine and evaluate economic development incentives to determine if the incentives are achieving the desired outcomes for which the incentives were initially established. Review which economic development goals and incentives are most important and report on methods to further improve those goals and incentives while reducing ones not meeting their desired objectives.
3. Study venture capital investment in the state and determine how Texas compares to other states in attracting venture capital dollars. Make recommendations to improve Texas's ability in attract venture capital investment.
4. Review the current Texas Industry Cluster Initiative to determine if the state's targeted industry clusters need to be updated to reflect changes in industry sectors that have evolved in Texas since the clusters were initially identified.
5. Review the Governor's Office of Economic Development and Tourism and determine its effectiveness on economic development in Texas. Determine how the office could be more efficiently coordinated with local and regional economic development entities and other state agencies to help further the economic development goals of the state.
6. Monitor manufacturing and manufacturing workforce development initiatives passed by the 83rd Legislature.
7. Conduct legislative oversight and monitoring of the agencies and programs under the committee's jurisdiction and the implementation of relevant legislation passed by the 83rd Legislature. In conducting this oversight, the committee should:
  - a. consider any reforms to state agencies to make them more responsive to Texas taxpayers and citizens;
  - b. identify issues regarding the agency or its governance that may be appropriate to investigate, improve, remedy, or eliminate;
  - c. determine whether an agency is operating in a transparent and efficient manner; and
  - d. identify opportunities to streamline programs and services while maintaining the mission of the agency and its programs.

**Note: Charge #4 is the same as last interim's charge on clusters. The committee determined that conditions have not changed enough to warrant a new review and refers readers to last session's interim report for information on the topic.**



---

## Letter from Representative Workman



**PAUL D. WORKMAN**  
STATE REPRESENTATIVE  
*District 47*

November 5, 2014

Rep. John E. Davis, Chairman  
House Committee on Economic & Small Business Development Committee  
P.O. Box 2910  
Austin, TX 78768

Re: Committee Interim Report to the 84<sup>th</sup> Texas Legislature, Committee Member Letter

Dear Chairman Davis:

Thank you for your dedicated service and expert chairmanship of the committee. Your many years of service to the people of Texas has made Texas a better place. Thanks also to the committee members for their thoughtful efforts. Additionally, thanks to committee clerk, Laurie McAnally, for her tireless assistance to the committee and drafting the interim report.

Although I am attaching my signature to the interim report, the report contains some language that could be improved. Therefore, my signature on the report is not an endorsement of some of that language. However, on the whole, I do agree with and support most aspects of the report. Substantively I believe that the following three items should be added in the report:

1. Texas should not be subsidizing morally objectionable movies. Movie makers know in advance what rating they want and we should bar incentives for "R" rated movies. To incentivize movie makers in producing motion pictures which contribute to the degradation of our society is not in the best interest of the state.
2. Texas should not be providing incentives for video gaming with violent or sexually explicit content that inevitably wind up in the hands of minors.
3. The Business personal property tax is an unfair and non-uniformly administered tax on business. We should eliminate the business personal property tax entirely.

I kindly request this letter be attached with the signature to the interim report.

Chairman Davis, again, thank you for your efforts. Thanks to the committee members for their arduous efforts.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul D. Workman", with a long horizontal flourish extending to the right.

Paul D. Workman  
District 47



---

## HOW DID WE GET HERE? WHERE DO WE GO?

*"Success breeds complacency. Complacency breeds failure. Only the paranoid survive."*<sup>1</sup>

*"When you turn over rocks and look at all the squiggly things underneath, you can either put the rock down, or you can say, 'My job is to turn over rocks and look at the squiggly things, even if what you see can scare the hell out of you.'"*<sup>2</sup>

*"Why fit in when you were born to stand out?"*<sup>3</sup>

### **We're So Awesome!**

It's been another banner year for the state of Texas' economic development program. SpaceX will soon begin launching private rockets from Boca Chica. Drones are being tested in South Texas. We've landed major businesses like the Toyota headquarters in Plano, DropBox in Austin, and Tenaris in Matagorda County. Caterpillar is transforming Victoria. The state now has a world-class vaccine facility, the only one west of the Mississippi. For the first time last year, Texas exported more technology than California.

The state's unemployment rate has been lower than the national average continuously since 2007, even as hundreds of thousands of people move here.

The data shows that Texas has experienced far greater growth of "good jobs" than the rest of the nation has since 2000. It is true that Texas continues to have a high share of minimum wage jobs, too, but the lower cost of living in this state ensures that workers' earnings here will go further than in other large states.<sup>4</sup>

Lately, even our climate is better than everyone else's.

### **And Yet...**

Deadspin.com has a fun little interactive game: which state is your state's enemy? If you click on Washington state, you will find that they are at odds with Oregon, who is at odds with them. New York doesn't think much of California, and California pretty much despises Texas. Other states who can't stand Texas include Arkansas, New Mexico, Oklahoma, and Louisiana.

So what happens when you click on Texas? Who do we supposedly hate the most? The answer, according to Deadspin, is "everyone."

And yet, people come here. Our population continues to soar. Texas ranked second in the country in people relocating here versus going to another state between 2000 and 2012. Our state's new jobs, faster economic recovery during the mid-2000s, and relatively lower cost of living were major attractions.<sup>5</sup>

Everyone talks behind the backs of the popular kids, but everyone secretly wants to hang out with them. Texas is THAT cool. And once you get here, you're cool, too.

So why is Texas enemies with everyone?



---

## Nature v. Nurture

It is in Texas' nature to be a little aloof at first.

The Alamo was Texas' epic story that everyone knows. Its defenders, although noble, were mainly people who had fled other states for a new start. They were adventurers, fighters, tough people who could survive the land that that didn't seem to hold much promise for the average person. When General Santa Ana asked for surrender, they responded by firing a cannon. We've been firing cannons ever since.

Nobody wanted Texas. The Spanish planted the flag, but took little notice of the land until the French showed interest. The Louisiana Purchase left Texas out, because aggravating Spain wasn't worth it. The United States took a pass again in 1819, taking control of the Oregon territory, but not including Texas.

After the Alamo, once Texas became a Republic, their bid for annexation was rejected. Hurt feelings caused Texas to officially withdraw the offer a year later.

In 1845, after a lot of political maneuverings, Texas was finally needed, and accepted for statehood, just in time for the Mexican-American War and then the Civil War. Although not as devastated as the southern states, Reconstruction went against its independent nature. So Texans were already in a foul mood by the 1880's, when the then-agricultural state needed banks and railroads, two institutions that were large enough to squash them.

So Texas became one of the first states to pass an anti-trust law, which held the big oil companies at bay when Spindletop roared in. Money could be made by independent companies and their workers, as long as you were willing to work hard under dangerous conditions.<sup>6</sup>

And Texas has carried the chip on its shoulder to this day. Unwanted, go-it-aloners, highly suspicious of government and pretty much everyone, and everything else. People who made it on their own, and expect everyone else to do the same.

## The Downside of Crankiness

*"There was the tiniest little hole in the bank. Just an air-hole. A drop of water bubbled slowly through.*

*"It is a hole in the dike!" cried Hans. "What shall we do?"*

*He looked all round; not a person or a house in sight. He looked at the hole; the little drops oozed steadily through; he knew that the water would soon break a great gap, because that tiny hole gave it a chance. The town was so far away--if they ran for help it would be too late; what should he do? Once more he looked; the hole was larger, now, and the water was trickling.*

*Suddenly a thought came to Hans. He stuck his little forefinger right into the hole, where it fitted tight; and he said to his little brother, "Run, Dieting! Go to the town and tell the men there's a hole in the dike. Tell them I will keep it stopped till they get here."<sup>7</sup>*

---

Paranoia is not always a bad thing. Suspicion of the federal government is long-standing. But suspicion of our own state government is something new. And Texas has gotten caught up in an attitude of "If you want to spend money, there's something wrong with you."

Saving money for a rainy day is a good thing. But when cracks appear in the foundation, you fix them. You don't wait for the dike to collapse. Our economy is ever-shifting, and cracks must be addressed. At some point, the boy holding back the ocean with his finger must be rescued.

The American Legislative Exchange Council ranks Texas first for economic performance, but only thirteenth for economic outlook.<sup>8</sup> Our outlook suffers due to our high property tax burden, and our tendency to borrow money rather than pay for things outright. No one wants to raise taxes, but the bills will come due eventually. Our last recession was brought about by those who refused to think responsibly. Texas is better than that.

### **Addressing the Cracks**

Texans have made some good first steps. HB 5 addressed the problem of where Texas is to find future workers for the manufacturing jobs that the state is attracting with its cheap natural gas. But the rural communities need to be invited to the party, and their school districts will need funds for the necessary infrastructure to ensure their students are prepared. Career-tech courses aren't cheap. Texas also needs to invest in school counselors to help students find the right educational pathway for individual success. That takes one-on-one time with each student, which takes more counselors, which takes money.

Texans approved water legislation in November 2013, spending some of the rainy day money to bring more water to a thirsty state. But the monies approved are just the beginning, not the final cure. More will need to be done.

Texans approved road legislation in November, but it's just a start. We must have more roads to move people and goods. In the past 40 years, our population has grown 125 percent and vehicular use has increased 172 percent, highway use has increased 238 percent, but highway space has only increased a mere 19 percent.<sup>9</sup> Traffic is a deal-killer for those who want to bring their businesses and jobs here. And the people who already live here are starting to feel that road rage is a normal emotion. Communities that are unable to increase their road capacity will be left behind.

And we will need all of these things: jobs, education, water, transportation. Between 2010 and 2050, Texas' population is expected to grow by 120 percent. That's a lot of people who need employment, a way to get to that employment, and a drink of water.

The six words that no Texan likes to hear: Money will have to be spent.

Things long left to flounder need to be addressed. Oil and gas have brought great revenues to our state, which should be spent wisely. It's not a free for all; thoughtful decisions should be made. The next legislative session will lay the groundwork for our future. The kid's finger is going numb. Let's help him out.



---

## **Public-Private Partnerships**



---

## PUBLIC-PRIVATE PARTNERSHIPS

*Nothing has more strength than dire necessity.*<sup>10</sup>

*Necessity...the mother of invention.*<sup>11</sup>

*Necessity is the mother of taking chances.*<sup>12</sup>

### **Making Do**

It's a game everyone plays, usually because circumstances dictate it. It's called "how far can I make this dollar stretch?"

Individuals and families clip coupons, attend free outings, haggle the price of a car, and set the thermostat at a barely comfortable temperature.

Cities cut back on library hours, shut down public swimming pools, and let that pothole go a little longer before being repaired.

States cut back on maintenance for parks, freeze hiring, and enter into contracts with the lowest bidder.

Unfortunately, something's got to give eventually. The state will have to spend money on road infrastructure. The city will have to open a new fire station for a growing population, and the family will have to find the money for new school supplies.

### **Past Solutions**

*"There are another 800,000 people in the state every time the legislature convenes. The state has inadequate resources to deliver all of the public infrastructure that is needed for a growing population. If the state doesn't have those resources, but we need to have it, that means we've got to find additional ways to deliver that."*<sup>13</sup>

In the past, the state's solutions have included borrowing. The state has passed bonds to pay for things like roads. The problem is that borrowed money has to be paid back eventually. With interest. Families borrowing from relatives usually get a favorable rate of interest, with generous payback terms. When the state borrows, it borrows from Guido, not Mom. Most Texans are not comfortable with high levels of debt.

Raising taxes is also a solution that doesn't sit well with Texans. And the method itself has mixed results. For instance, raising the gas tax won't achieve much now that cars are more fuel efficient. We just don't fill up as often as we used to. That raises fairness issues. Is it fair that a person who can afford a pricey hybrid should pay less at the pump, and thus, less in taxes?

---

## Getting Creative

When it comes to finding new ways to economize, individuals have led the way. Trading goods, downsizing (even micro-sizing!) your house, and Craigslist are innovative ways to get by in a world that largely relies on capital.

Desperate times can lead to creative solutions.

Municipalities and states obviously can't purchase office equipment on Craigslist. Nor can such entities barter for goods and services. Alternative financing, however, is a tool that has been used by state governments with some success. One of those financing tools is a public-private partnership.

### Public-Private Partnerships

What is a public-private partnership?

Under a public-private partnership, a contractual arrangement is formed between public and private sector partners. These arrangements typically involve a government agency contracting with a private partner to renovate, construct, operate, maintain, and/or manage a facility or system, in whole or in part, that provides a public service.

Under these arrangements, the agency may retain ownership of the public facility or system, but the private party generally invests its own capital to design and develop the properties. Typically, each partner shares in income resulting from the partnership. Such a venture, although a contractual arrangement, differs from typical service contracting in that the private-sector partner usually makes a substantial cash, at-risk, equity investment in the project, and the public sector gains access to new revenue or service delivery capacity without having to pay the private-sector partner.<sup>14</sup>

What does that mean?

### A Grocery Store Partners with a Library

It's 1999. Dallas wants a library in Oak Lawn. Kroger wants a grocery store.

After a year of negotiation, the City of Dallas and the Kroger Company enter into a development agreement which, in return for the construction of a new 12,900 square foot branch library to replace an existing 11,000 square foot building, allowed the Kroger Company to construct a new grocery store on property owned by Kroger and a joint-use parking lot on adjacent Library and Kroger property. In return for the joint parking, Kroger designed and constructed a new Library, including site preparation, parking, lighting and landscaping and contributed \$175,000 for a temporary facility to operate Library services during the construction period.

Kroger paid for the architect's design of the building. The architect worked with library staff, incorporating the elements of contemporary library service with community expectations for the Library. The Library's location was moved closer to the corner to give it more street visibility and an entrance facing out onto a main thoroughfare. The design included windows which

---

flooded the building with light and made the building attractive to those walking and driving by it. The design was so successful that the building was recipient of the Texas Society of Architects 1998 Design award.

The two entities share a vast parking lot, which benefits the Library and Kroger. The grocery store attracts library users and vice versa. In fact, library usage at this location climbed from 112,141 people in fiscal year 1995-96 to 192,104 in fiscal year 1997-98, an increase of almost 80,000 people in a two-year period. Having the Library and the grocery store in close proximity made the Library a part of the neighborhood's traffic pattern, providing more visibility and convenience to its patrons.<sup>15</sup>

### **A New School and an Apartment Building**

The District of Columbia desperately needs to renovate a 70-year old school building, but lacks the funding.

A partnership with a national real estate developer leads to the discovery that the underutilized land that the school occupies is grossly undervalued. Located in a highly desirable, affluent area, an apartment building is developed adjacent to the school. Rather than renovating the school, the decision is made to build a new one on the same site.

The District of Columbia issued a 35-year, \$11 million tax-exempt bond for the construction costs to be repaid entirely with the revenue generated by the private apartment building. Thus, the project was completed at no cost to District of Columbia taxpayers.<sup>16</sup>

### **A Town Aims for No Cost Infrastructure**

Von Ormy, Texas is a small community of about 1300 people near San Antonio. Residents have become used to waiting for services, and have adopted a "pay as you go" approach. In recent years, the town has cut its property tax rate in half while almost tripling its sales tax revenue with the help of fast-food restaurants and truck stops along its I-35 frontage roads.

Its location on I-35 is also its key to providing wastewater services to its residents. Von Ormy plans to pursue a public-private partnership to develop a \$4 million sewer line to serve new businesses at the intersection of I-35 and Loop 1604. According to the mayor of Von Ormy, Art Martinez de Vara, the revenue from that line would finance extending sewers to the entire city.<sup>17</sup>

### **A History**

P3s have been around for years, although in various forms. The Brooklyn Bridge, the New York subway system, and the Transcontinental Railroad were P3s. The Potomac River Canal Company was formed right after the revolutionary war to grow the new country's economy. Briefly headed by George Washington (who quit to become president), The company worked to construct skirting canals to bypass obstacles from the Potomac River to make it more navigable for commerce.<sup>18</sup>

More recently, the Texas Department of Transportation uses them for road construction, and site-specific legislation has previously been passed by the legislature to give clear authority to allow



---

individual projects. The state capitol building was a P3, as was the Cowboys Stadium. The problem was that there was no general statute on the books, leading some to believe that the authority didn't exist. Thus, the Legislature passed a bill in 2011 to provide structure and clear permissive authority for those who wish to enter into such agreements.

### **We DID It! Didn't We?**

Texas has actually passed one of the most comprehensive P3 laws in the nation. Approximately twelve states followed our lead, quickly surpassing the state in constructing infrastructure. That's largely because the state failed to create a user-friendly oversight commission.

What the law does:

Allows a responsible governmental entity more flexibility in contracting with private entities to provide public services through qualifying projects. Although the legislation sets parameters for such projects, there is no requirement that a governmental entity actually stay within those parameters. Basically, the code states that "yes, you have the authority to enter into these contracts. You've had the authority all along. If you want to use the guidelines in the law, you can, but you don't have to."

The legislation also gave authority to the Texas Facilities Commission to enter into such contracts for the benefit of the state and its property.

And the bill set up the Partnership Advisory Commission, which advises governmental entities on proposals on which they receive input. The governmental entity, however, does not have to consult the Commission.

Rather than solving problems, however, the very nature of the Commission prevents problem-solving.

### **The Part about the Appointments**

*"Anything we can do to de-politicize the process, to make it more transparent, we believe improves the quality of the effort."<sup>19</sup>*

Currently, the Partnership Advisory Commission consists of eleven members, eight of whom are lawmakers, appointed by the Big Three (speaker, lieutenant governor and governor). Their staff is the luckless person who works for the lawmaker who is appointed chair. (When a new program or entity is to be run with "existing resources," that's legislative code for don't spend any money, and don't hire anyone).

The commission, according to legislation, shall approve or disapprove, in a public hearing by majority vote of the members present, each detailed proposal submitted to the commission for review and may provide its findings and recommendations to the responsible governmental entity not later than the 45th day after the date the commission receives complete copies of the detailed proposal.

If you asked state representatives whether or not they feel qualified to vote on whether or not a proposal is a good proposal, you probably wouldn't get confident answer. Because state

---

representatives are average people just like the rest of us. (If there ARE state representative who feel qualified, please let yourselves be known...we have a P3 commission seat for you!)

They're not alone. A recent report by the National conference of State Legislatures warned of a "knowledge and experience gap" in the United States, citing a 2009 survey that found 61 percent of state and local officials had no experience dealing with P3s and did not fully understand them.<sup>20</sup>

It's not working. It's not working because what is needed is a non-partisan, expert-oriented group of people who understand P3s inside and out, and can make solid recommendations without worry. That costs money. And a piece of legislation with a fiscal note isn't easy to pass.

### **Adapting the Canadian Experience to Texas**

Approximately one in seven projects are good P3 candidates, and a center of excellence in Texas would help to determine the best projects, and weed out those that should instead be built with traditional financing methods.

Partnerships British Columbia has been touted by many as the example of how a successful oversight board should work. It's not a government agency. It's a company that is owned by the province, reports to the ministry of finance, and is governed by a seven-member board with representatives from both the public and private sectors. The company, which functions like a consulting firm, performs procurement analysis, structures contracts, selects bidders and helps implement P3 proposals under consideration by various public entities.<sup>21</sup>

In Texas, the center of excellence would probably look something like the Lower Colorado River Authority. Created by the legislature, but operating on their own. A small board of experts, with a "rolodex" of other experts called upon when needed.

There are four basic phases of a P3 project:<sup>22</sup>

- Conceptualization and initiation -- stakeholders' opinions of the vision are surveyed and partners selected through a competitive bid process.
- Definition -- entities document the partnership and begin to define project elements, roles and responsibilities, risks and rewards, and the decision and implementation process. The deal is negotiated.
- Support -- the partnership attempts to obtain support from all stakeholders, including civic groups and local government. Financing is procured.
- Construction -- the project begins construction, leasing and occupancy, and property management.

A Texas Center of Excellence could help with all of these phases.

Although seed money would be needed to get started, the center would eventually become self-sustaining. Funding would come from counties and cities paying the entity for its services, which would be cheaper for them than hiring their own experts, or trying to go it alone. The center of excellence typically provides the service at a fraction of the cost of what a private sector entity would charge.

---

Once the center has presented their findings to the governmental entity requesting the analysis, the requesting entity makes the final decision as to whether or not to go ahead with the project. Projects are generally delivered faster, and the burden of risk falls on the private sector. For instance, if something goes wrong during construction, the private sector fixes it. At no additional cost to the taxpayer.

### **Trying Again**

So it made sense that the Legislature would try again to create an expert board, even though a fiscal note would be part of that effort.

That effort was sidetracked during the debate over the sunset legislation for the Facilities Commission. In 2013, the Legislature became concerned about the Texas Facilities Commission's efforts to maximize state property within the Capitol Complex, with or without the P3 process. Although several tweaks to the overall P3 legislation were considered, the attention to what was going on at the TFC remained the focus of lawmakers' attention. What finally passed were numerous safeguards to protect the state's interests, should TFC pursue public-private partnerships to develop state assets.

Unfortunately, the Partnership Advisory Commission remained in place.

### **Perception is Always Reality**

One of the reasons the Partnership Advisory Commission has a difficult time giving the green light to projects is that no one wants to cast a vote that the public will perceive in a negative way. If members of the public threaten you whenever a project (however worthy) is approved, you tend to avoid those votes.

P3s have gotten a bad reputation with the public, largely because of the ongoing toll road controversy and a lack of understanding about how the finance mechanism works.

The public does not want to pay for things. It is human nature to want stuff for free. And finance mechanisms can be confusing. Who really gets how the stock market works?

But the essence of P3s are simple. The public wants something. So does the private sector. They join together to make it happen. Both sides profit--the private sector makes money, and the public sector saves it.

### **Profit is Not a Four-Letter Word**

Detractors of public-private partnerships state that private entities should not be profiting from doing business with the public entity. This argument ignores that the public entity does business with private entities on a regular basis. The private companies that mow our right-of-ways are making a profit. The private companies that sell us police cruisers are making a profit. The private companies that sell local governments copier and fax machines are making a profit. Low bid, but definitely profit. Small (and large) businesses work with the state every day. They employ people, and pay taxes. It is not unreasonable for hard-working Texans to expect a profit for their labor.

---

## **The Boogey-Man**

Another common complaint about P3's is the belief that the private outweighs the public. For example, fears have been expressed that if a library is built with a P3 agreement, then an individual will have to purchase books from the library instead of borrowing them. If a road is built using the private capital of a foreign company, then we have to "give the road back" when that foreign country decides to invade us.

It's hard to assuage paranoia when a lot of people get their news from the internet.

But fears and rhetoric aside, new financing ideas are going to be part of our future. The debate on whether or not to allow P3s should be over. The emphasis now is on moving forward in the best way possible. When change is inevitable, it's time to find a way to make change work in our best interests.

## **Other States**

Although Texas has rarely cared what other states are up to, our state is also not the type to have possession of the ball and then hand it off to someone else for the touchdown. Although we may have been in the lead with the legislation, we've fallen behind on implementation. That's fine, we'll just learn from everyone else's mistakes.

Thirty-three states have enacted laws authorizing P3s for highway and bridge projects. Social projects (such as buildings) are slower to gain ground, although several states, such as Tennessee, North Carolina, Massachusetts and Oregon have used them for downtown revitalization. New York and Colorado have used them for neighborhood redevelopment. A number of states have used P3s to construct or renovate water and wastewater facilities.

Smaller cities and towns across the nation have used P3s to construct public libraries, police stations and courthouses.

Individual projects continue in Texas, although those entities have chosen to go it alone, not working with the Partnership Advisory Commission.

## **Recommendations**

This issue was studied by the House Committee on State Affairs during the last interim. Our committee took it up this interim, and there will probably be suggestions to look at it again next interim. This is one of those issues where there will always be tweaks suggested by different groups to make this legislation better. States continue to wrestle with such issues as unsolicited proposals, contract lengths, and maintenance issues.

But what is really needed, and what the main focus should be next session, is a responsible oversight commission to make decisions regarding individual projects. Lawmakers, and politics, should not be a part of this panel. Not only is politics too uncertain to attract investment, but the lawmakers themselves should not be overseeing the process. They do, after all, have day jobs. Instead, lawmakers should concentrate on preparing corrective legislation when needed.

---

Individual experts, however, will expect to be paid for their time, or at least their travel. And they will need at least one paid staffer to do the paperwork required of any state or quasi-state commission. Witnesses before the committee indicated such an oversight commission could be created with seed money of approximately \$2 million.

With the many mandates that state government has passed on to city governments, this is one way that the state could assist small cities. Smaller cities are the ones who could most benefit from alternative financing projects, yet are also the ones who cannot afford to hire expensive consultants. The state could do this for the cities. And it should.

---

## **Incentives**



---

## INCENTIVES

*"We have substantially raised the bar in what economic development programs mean."*<sup>23</sup>

*"We are teaching everyone else how to compete with us. Every success that we have, they take those successes and they learn from them. And if you go to other states and listen to what the governors of other states are saying, they are taking those lessons to heart and they are using them."*<sup>24</sup>

*"Haiku are easy.  
But sometimes don't make much sense.  
Hippopotamus."*<sup>25</sup>

### **An Intelligent Conversation**

Incentives are easy to create. And if being copied by other states is the sincerest form of flattery, Texas is really good at them. But since incentives originate from different legislative committees, they often lack cohesion. It becomes difficult to determine the purpose, much less the favored outcome. A little tax break here, a special exemption there, a slice of special program...it all adds up to "hippopotamus." At least to the outside observer.

Last legislative interim, this committee offered a report detailing some of the major incentives in the state in hopes of starting a conversation. Unfortunately, the conversation often drifted to the fact that the incentives weren't doing what they were supposed to do. Which led to the question: What ARE the incentives supposed to do?

Consider this your handy guide to how incentives in the state of Texas should be measured, by those who work with the programs every day. Because you can't start an intelligent conversation by saying you hate an incentive. You have to know WHY you hate it.

So let's get to it...

### **The Texas Enterprise Fund**

*"Back then it was very novel. The state of Texas came in big with it. \$400 million is a lot of money. It is. And yet now, you can go on to Site Selection Magazine and find at least twenty other states that have deal closing funds just like the Enterprise Fund. And the kicker is that most of them are bigger. And they are a heck of a lot faster."*<sup>26</sup>

At the time Toyota was considering San Antonio for a manufacturing facility, the legislature was in session, and a package was cobbled together to make the deal happen. Realizing a lack of incentives was hampering the state, and wanting a more permanent mechanism, the legislature created the Texas Enterprise Fund (TEF) in 2003 as the largest deal-closing fund in the United States. And in 2014, the TEF was used to bring Toyota headquarters to Plano. There's an elegance to that circle.



---

The TEF has many requirements: It is a deal-closing fund, not a deal-opening fund. There has to be real competition from another state or country. An applicant must have corresponding significant local support and demonstrate a significant rate of return on the amount of monies being granted to the project.<sup>27</sup> Eligibility standards include job creation, above-average wages, substantial capital investment, submission of an economic impact study, and an 11-step due diligence process. Before doing business with a company, the TEF investigates it thoroughly, including the balance sheets. If the company does not hire the number of people it said it would, the TEF takes money back in the form of clawbacks.

The money offered to the company is not a random number. It's 1.5% of gross wages over a certain period of time, usually about ten years, sometimes less, and sometimes more. The 1.5% is the amount estimated by the comptroller that people spend from their wages. That spending comes back to the state in the form of sales tax. Thus, the state recovers the original cash outlay through that spending. Anything after the contracted time period is gravy to the state.

### **Issues and Incidentals**

The Enterprise Fund is running into a problem, created mainly by its success: It is a requirement that any new company receiving funds pay the average county wage. Which sounds really good, until you realize that Round Rock is skewed by the presence of Dell, and Austin is skewed by its tech industry, making that wage unattainable for many manufacturing facilities. This requirement will eventually lock out middle-wage jobs, and middle class living. Travis, and increasingly Williamson counties are known for their high cost of living. The average county wage requirement will add to this problem.

Two other problems frequently cited by those who work with the Enterprise Fund is that there seems to be no single point of contact, and the process takes too long.

The "single point of contact" issue is tricky because the Enterprise Fund requires local buy-in before monies can be dispersed. This means that local communities come up with their own monetary incentives. It has never been the policy of the TEF to recommend to interested companies specific communities from which to choose. The governor's office is only concerned that the company is between "the Red River and the Rio Grande." Texas is a big state, and everyone who shows up with a bag of marbles gets to play.

The process takes too long mainly due to the requirement of the Speaker, Lieutenant Governor, and Governor to unanimously approve offers to companies hoping to access the fund, a process that can take up to ninety days. The Big Three are frequently out of state (or out of the country) and getting unanimous approval can take months. Legislation to shorten the approval time (other states take two weeks) is needed to force the Big Three to act more quickly. (No offense, guys).

### **It's the Jobs**

How should the success of the Enterprise Fund be measured? Job numbers. Through its inception, the Enterprise Fund has spent about \$400 million to bring 71,000 jobs to Texas. Although not part of the official record, those investments also resulted in indirect jobs. An

---

indirect job is a job that comes about because of the first job. For instance, a new business might want to order light bulbs, or stationery, or hire a cleaning service. How many indirect jobs did those 71,000 new jobs bring to Texas? 228,000. Not chump change.

If one only counted the direct jobs, and stopped funding the Enterprise Fund today, the fund would break even in nine years. Any spending by a person who holds a job funded by the TEF would be considered additional revenue to the state by the tenth year. The Enterprise Fund makes money for the state.

### **The Emerging Technology Fund**

*"One doesn't discover new lands without consenting to lose sight of the shore for a very long time."*<sup>28</sup>

*"Science is one of the coolest things about being a human being--without a doubt."*<sup>29</sup>

The Emerging Technology Fund (ETF) has long been considered (at least by the press) as the "bad boy" of Texas' economic development world. It's the scary looking kid who has a shady reputation at school. You don't quite know what he's up to, so you assume it's nothing good.

The reality is that the Emerging Technology Fund was begun as a way to address a gaping hole in the Texas business world: Good ideas that result in growing companies were not being funded in our state. This is important, because we need them. The technologies and innovations that have created a more efficient workforce are the same technologies and innovations that will create new companies to hire those who have been displaced. Even if Texas managed to attract loads of established businesses into this state, we would still need loads of new ones.

New companies are our best bet: Americans may not be the cheapest labor in the world, and we may not be the smartest people in the world, but we are very, very good at creating things that the world wants. Creativity is our forte and our fortune.

### **Changing the World**

The Emerging Technology Fund's goal was to bring world-changing research to Texas. It was to do that in three ways: invest in start-up companies that showed promise, provide matching grants for research, and bring top researchers to the state of Texas to do their work.

Thus far, about \$200 million has gone directly into start-up companies, and \$216 million into university projects. All of these projects bring follow-on funding; rarely is the state the single investor. During the past few years, the ETF has made university project funding its main focus. Since the state, through its appropriations process, has not always done a stellar job of funding our universities, funding university programs that spur new products, jobs, and research opportunities for our students feels right. The ETF is a true investment in Texas' future.

And the successes are there.

---

In 2006, Texas Tech formed a research commercialization office, receiving funding from the ETF to recruit top talent. The university now has one of the only PhD programs in the world in wind, companies are being created, and eight different innovations are on the market. Texas Tech now has an accelerator to help people start companies, and tech transfer offices in El Paso and Lubbock.

In 2009, Texas State received an ETF grant in the amount of \$4 million for the acquisition of superior talent for advanced materials. That \$4 million was leveraged by an additional \$4 million put in by the university, and a private equipment donation from Freescale Semiconductor. This grant has (thus far) led to the establishment of the advanced functional materials lab on campus and jumpstarted a PhD program in materials science engineering and commercialization. This has led to relationships and presence on campus with industry leaders such as Taiwan Semiconductor Manufacturing Corporation, Sematech and First Solar. Texas State has now been reclassified as an emerging research institution, and the university has opened a 38 acre research park and advanced materials incubator, which is today 90 percent occupied and ready for an expansion. Micropower, a cutting edge thermoelectric technology company, has relocated from Arizona and has invested an additional \$1 million in Texas State and created over 50 jobs in Hays County.

These successes and new initiatives are having a transformational effect on San Marcos and Hays County. The region is growing their advanced manufacturing base and is attracting manufacturing firms. The Greater San Marcos Partnership is currently working 87 projects, 16 of which are considered "hot." The Partnership fields numerous calls and site visits from international companies, and is becoming known globally for being a hub of innovation and advanced material manufacturing.<sup>30</sup>

This is what \$4 million can do for a university once considered a teaching college.

ETF also helped create Texas A&M's Center for Innovation and Advanced Manufacturing, which is currently creating products like a vaccine for pandemic influenza. Researchers in Texas have created a double-leg tourniquet, a device to speed up orthodontia, and microwave technology to sterilize foods.<sup>31</sup>

The Emerging Technology Fund has created a Texas with amazing researchers who are given the opportunity to come up with stunning successes. We're not the hicks on the horses any more.

### **Products on the Market**

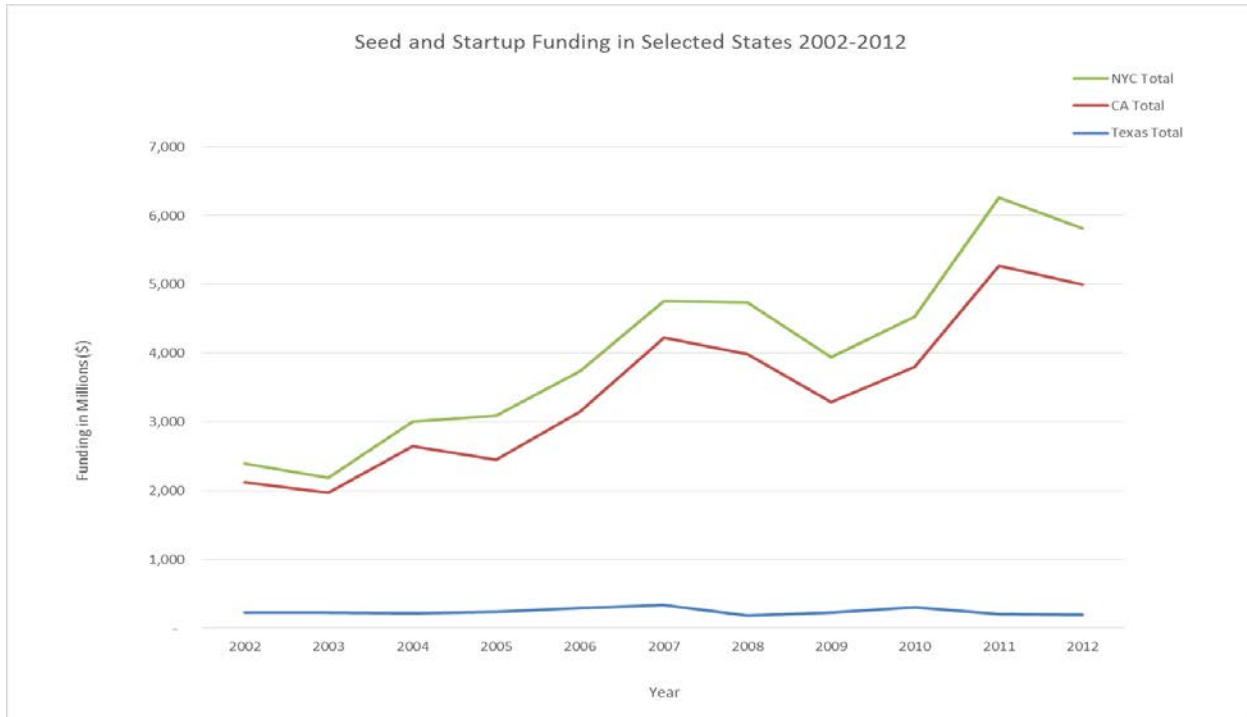
America, and particularly Texas, have big reputations to live up to. We are the creators of new ideas, we come up with the next big thing. That takes money, and federal research and development grants are not enough to keep that pipeline going. The states have to be part of that process, too.

There are many things to consider when measuring the success of a program like the Emerging Technology Fund. Its purpose was never directly jobs; it was to create an environment where technology and talent could come together to create new products, eventually creating jobs as a

---

result of those new products. Creating a pipeline through our universities to commercialize the research that spurs on great ideas. For that reason, products on the market can be considered a good measure of success.

And finally...do we need the ETF? Does the state need to invest in new ideas? Take a look at the graph. The bottom line is Texas.



If you believe that students in our universities working with world-class researchers and creating their own spin-outs is a valuable thing, then there must be a way to fund such a program. It's a chicken and egg concept...venture capitalists will eventually put their money in this state if there are lots of innovative start-ups available for investment. Let's face reality...we're not there yet. The way to get there is for the state to create a funding pipeline that will make spin-outs happen. The program doesn't necessarily have to be the Emerging Technology Fund, but it needs to be something like it. In the same way that this state needs to invest in roads and water, we also need to invest in new ideas.

### **Moving Image Industry**

*"We provide everything a film needs and more. A talented availability of crew members, different locations and nearby towns, good rebates for tax incentives, and plus just an interesting city (Austin) to serve as your home away from home."<sup>32</sup>*

*"Texas Forever."<sup>33</sup>*

---

Subsidizing film and television production is relatively new. Only a handful of states offered film production incentives in the early 2000s, but a majority of states offered them by 2010. As of 2014, 39 states and Puerto Rico offered incentives of some type for film production.<sup>34</sup> The states themselves vary, as some have ended their programs and others have newly joined the film fray.

The Texas program got a boost last session with a record appropriation given by the 83rd Legislature and changes to the incentive rate. Companies spending \$250,000 to \$1 million can receive a five percent base rate incentive. From \$1 million to \$3.5 million, it is ten percent. For \$3.5 million and up, it is twenty percent, with an opportunity to receive another 2.5 percent if the shooting is done in an economically distressed area or in an underutilized area.

Even with a possible top compensation of 22.5 percent, other states continue to offer more. But Texas wins high marks for their cost-saving assets, skilled technology, motivated workforce, industry-specific infrastructure, low cost of doing business, and unique and varied locations.<sup>35</sup>

Applicants have to meet a few basic qualifications to be entered into the program. Seventy percent of the cast and crew or the workers of a video game company must be Texas residents. Only the wages of Texans are incentivized.

### **Digital Media**

*"The average age of a gamer is 31 years old. Fifty-one percent of all households own a dedicated game console. There are more women playing games these days than teenage boys. It's a growth industry."*<sup>36</sup>

Texas currently has 180 video game companies, employing more than five thousand people in the state, with an average wage of nearly \$90,000.<sup>37</sup>

Just a few years ago, Texas was home to the third largest concentration of industry employees in the country. Our incentive program helped to push us to second place, overtaking Washington state, but still behind California. Although Washington is home to Microsoft and Nintendo, Texas excels in that there is no big "brain drain." Creative people tend to stay here.

Other states are in the game, though. Currently, 22 states and Puerto Rico offer incentive programs for video games and digital media. Several are working on legislation to increase the cap and provide more incentives.

Another facet to Texas' success in this industry is that the state is home to four of the top 25 graduate schools (according to Princeton Review) that offer degrees in game design: SMU, UT-Dallas, University of North Texas, and St. Mary's University.

### **Return on Expenditures**

Testimony indicated that the success of the program should be judged by the return on average; money that comes in as the result of expenditures. During the nearly seven years that the

---

program has operated, the state has spent about \$125 million, which resulted in production company spending of \$941 million, and 117,000 production opportunities created.

For every dollar that was spent on incentives for video games, nearly twelve dollars was spent in Texas.

### **Skills Development Fund**

*"Education outweighs any incentive program."*<sup>38</sup>

*"A new U.S. job era has arrived. The availability of better educated talent with up-to-date career skills now largely determines where businesses will be located in the United States or anywhere in the world. Those communities that break down the structural barriers between businesses, education, and community groups and that collaborate to renew their talent creation and economic systems will attract new businesses and retain current ones. Those that don't will wither and die."*<sup>39</sup>

The skills development fund was implemented in 1996, and supports the growth and competitiveness of Texas employers by providing new and existing workers training and new skills development, or upgrading an existing skills set. Employers and community colleges work together to apply for funding to create classes specific to the needs of the hiring employer.<sup>40</sup> The program also works with businesses considering relocation to the state with letters of commitment to train the Texas workers that will be needed. Skills development is quickly becoming one of the best incentives that a state can offer. Why would a business relocate if the skilled workers aren't there?

An example of how this works was the opening of FlexSteel's state of the art manufacturing facility in Baytown. FlexSteel partnered with Lee College to provide training to 79 new and incumbent workers with the skills needed to operate the facility.

Last session, the legislature appropriated \$49 million to continue the program, and instructed that a portion of the skills fund to be used to include certain joint credit courses at school districts who partner with junior or technical colleges.

### **To Keep in Mind**

Many states are beginning to offer skills development courses that pay companies to train their employees, allowing them to keep their curriculum proprietary. This means a lot to companies who are paid by the state to train the best and brightest, and not have to share their training methods with the rest of the world. As long as the company hires the number of people it promised to hire, the state stays out of its business. That's an incentive that all businesses appreciate.

---

## **An Obvious Measure**

No doubt about it, a job training program should be measured by the number of people trained. Since the program began, services have been provided to over 4000 employers by providing training to 95,000 new hires and 205,000 incumbent workers, with an average wage of \$18.22.

## **Chapter 313**

*"This is the most important economic development tool we have for attracting major capital investment in this state."<sup>41</sup>*

It's great not to have a personal income tax, isn't it? It's one of our major assets when recruiting businesses to our state. But, of course, the money has to come from somewhere. In this state, it comes from property taxes. Homeowners hate them. But for businesses that are capital intensive and have a choice to go elsewhere, it's a relationship ender. It's a "Dear John" letter that reads "Dear Texas, it's not us...it's you."

And there are other suitors out there. Of the states that surround us, (Arkansas, Louisiana, New Mexico and Oklahoma), Texas charges the highest rate for commercial structures, industrial structures, commercial equipment, and other industrial machinery and equipment. Of all the other states, only Michigan is worse than we are.<sup>42</sup>

Realizing that our ability to attract manufacturing facilities was hampered by our high property taxes, the legislature in 2001 composed a love letter to future business in the form of the Economic Development Act, otherwise known as Chapter 313 agreements. The legislation gives school districts the ability to attract new taxable property through the offering of a tax credit and an eight-year limitation on the appraised value of a property for the maintenance and operation portion of the school district property tax.<sup>43</sup> After ten years, the property is put on the school's tax rolls at full market value.

It's a convoluted agreement, but it's working. It's convoluted because it necessitates the involvement of the school districts in a state program, and the paperwork can be stifling. But once a manufacturing facility does take the leap and decide to build here, it's not so easy to pick up and move to another state.

## **It's the Investment**

Sometimes, economic development is NOT about the jobs. Sometimes, in the case of Chapter 313, it's about getting large structures on the ground that will be fully taxable someday. Because in this state, we don't tax personal incomes. But we do tax property. And large commercial property, even if tax-exempt for a few years, eventually gets on the books and provides large revenues to taxing entities. So the measurement should be capital investment. And the latest report received prior to last legislative session showed 128 projects that will result in more than \$62 billion being added to the property tax rolls in this state.<sup>44</sup>

---

And yes, jobs are mentioned in statute as part of the measurement of the program's performance. But the main goal of Chapter 313's is to put desirable property on the tax rolls. Jobs, in this case, are secondary.

### **Events Trust Funds**

*"Somebody else's dollar is always a good thing."*<sup>45</sup>

Major events, such as the Olympics, require major funding. Communities that host such events have to consider how to provide the money needed for construction, security, transportation, parking and a myriad of other details that such events require. It is generally assumed that large events result in a temporary upswing in sales taxes for the region, as visitors spend money on hotels, food and souvenirs.

The kind of money needed to host a major event can be difficult to come by. The Events Trust fund, originally created legislatively in 2005, and tweaked during the latest legislative session, helps by providing some security that the bills will be paid.

The comptroller's office works with the community seeking an application to determine the amount of eligible reimbursable taxes that will accrue during a specific window. Reimbursable taxes normally include the general sales and use tax, the motor vehicle rental tax, the hotel tax, the mixed beverage tax, and taxes resulting from Title 5 of the alcoholic beverage code (generally sales of individual drinks and package store sales).

If an application is eligible, the community is notified of the maximum amount of funding available, so the community can plan ahead. After the event, the local community sends to the state its local share, and the state contributes its share. That fund is available to the community to reimburse it for eligible expenses.<sup>46</sup>

Critics of the fund state that general revenue monies, also known as the "state's share," should not be used to reimburse the communities. Supporters state that the extra general revenue wouldn't be there but for the event.

### **An Inexact Measurement**

Measuring the success of the Events Trust Funds is difficult. Do you look at attendance? Hotel night stays? Tax changes? If the event produces more in sales taxes than was originally estimated, is that success? Should it be a certain percentage? If a community estimates that its costs are \$10,000, and tax returns are \$12,500, is that a success? Is the purpose of the Events Trust Fund to assist in attracting events that wouldn't otherwise be in Texas, or is the purpose to assist in offsetting local expenses, even if the event would likely have been in Texas without the program? Should the state assist events that move from one Texas city to another? Yep, that has happened.

Or is this a local incentive? Should the state just let the locals do what they do, and not get worried unless the event fails to return what was fronted? If local communities are satisfied with



---

the program, is that enough? Or should we be assisting local communities with economic development in a different way?

No answers here. And no exact measurement.

#### **4A and 4B Sales Taxes**

*"You bring more tax-based wealth, you get more property tax reduction. Since 2002, we've probably collected about \$6 million for the 4A fund, and we've put back into the economy approximately \$135 million in new investment that's happened in that time period."*<sup>47</sup>

Cities have been allowed to adopt a sales and use tax to support economic development since 1989. Type A taxes, available to cities in counties with less than 500,000 population, are intended primarily to support manufacturing and industrial development. Type B, which are eligible for all cities, can be used to fund Type A projects, but can also include things like parks and events facilities, affordable housing, and public safety facilities. The tax must be approved in an election, and may be levied in increments of one-eighth percent up to one-half percent, as long as the combined local sales tax rate of all local jurisdictions does not exceed two percent.<sup>48</sup>

One of the most dramatic success stories comes from the city of Victoria, which used much of its funding to upgrade infrastructure to make the community more appealing to specifically targeted companies. In 2001, the sales tax corporation invested in land to develop a 320 acre business industrial park. Once the land was acquired, a federal economic development administration grant helped put the infrastructure in place, creating a shovel-ready site.<sup>49</sup>

The availability of the site attracted companies to make an evaluation, including Caterpillar. Although the economic development corporation had planned to attempt to attract several companies to the site, Caterpillar ended up taking the entire tract. Once the company has fully ramped up, Victoria will be 800 jobs richer. Spinoff facilities and those related jobs are already starting to occur, along with new housing, retail and hotels. Direct and indirect jobs over the first thirty years are expected to bring salaries of approximately \$1.4 billion, with the taxing entities in Victoria receiving \$98 million in revenues over the same time period. The \$5 million that the economic development corporation invested in the project is expected to pay back within fourteen years with a 22% rate of return.

#### **Bang for the Buck**

Most economic development corporations will tell you that they measure their success in new jobs and new tax base, and what is considered "successful" will vary depending on the size of the community. The state has provided local entities the opportunity to create their own incentives, many of which eclipse what is offered by the Texas Enterprise Fund.

Last session, there were several legislative attempts to force the economic development corporations to use the money for non-economic development projects. These attempts rose from the belief that the EDCs were sitting on a pot of money that wasn't being used. The EDCs

---

will be the first to tell you that such funds need to be safeguarded for future projects. This program is working, and doesn't need tweaking.

### **The Governor's Office**

*"Every tool is a weapon, depending on how skillfully it is handled."<sup>50</sup>*

Does it really make sense to change what office administers incentive funds? When it comes to the competitiveness of the state's future, it doesn't.

The Enterprise Fund and Emerging Technology Fund testimony indicated that there is real value in being a part of the governor's office. "I'm from the governor's office" opens more doors than "I'm from the Department of Commerce." In addition, the governor's office has auditors, financial analysts, compliance personnel and other staffers that are shared by the TEF and ETF...people that would have to be hired if the programs moved into a new agency. In addition, hundreds of contracts would have to be rewritten and transferred.

### **Thinking Out Loud**

*"Economic development is a process, not an event. It's where policy and free enterprise intersect. It's a long process and a competitive business. Incentives cannot turn a bad location into a good one. A location has to have all of the things that a company needs: A good workforce. The right real estate site. Infrastructure. Things to do, quality of life and so on. But if a Texas community is competing with a community out of state, and all of those factors are equal, the incentive package is the final factor that can make or break the company's decision."<sup>51</sup>*

When the Enterprise Fund came about, it was pretty much in response to an emergency. During negotiations for the Toyota plant in San Antonio, we realized that in comparison to other states, we had nothing in the way of incentives. And it was hurting us.

The Enterprise Fund and the Emerging Technology Fund have worked very well to close that deficiency. So well that other states are copying our successes, and upping the ante.

At the same time, public scrutiny of the ETF and TEF have result in legislative massaging that has improved the program and increased its transparency, but decreased its flexibility. When paperwork and scrutiny mount, and you spend more time defending the fund than using the fund, the programs become like old eggs of Silly Putty. They don't bounce any more. They work better when they are new.

Maybe it's time for Texas to come up with something bigger and better. We're pretty good at that. What would the incentives of the future look like? How can we make sure ours are best? Or maybe we should lay off the legislative massaging for a while to see how the programs really work. Either way, the ante needs to be upped.

---

## Recent Tweaking

We are making some strides in looking towards the future. Supporters of Texas' reintroduction of the franchise tax credit for companies conducting qualified research and development activities in the state claim that the credit is vital for the creation of high-paying jobs in research and technology industries in Texas. This credit has been enacted at the same time that other states are repealing several corporate income tax credits.<sup>52</sup>

Other new incentives being tried out are New York's tax free zones, allowing businesses located in a tax-free New York area to operate 100-percent tax free for ten years; Missouri's creation of significant benefits for new and existing companies that are creating and retaining jobs in that state; and California's income tax credit for businesses relocating or expanding in their state.<sup>53</sup>

Kansas tried incentives another way, with massive tax cuts have harmed the state. The deep income tax cuts have extended the recession's damage to schools and other state services, and those cuts have not helped the state's economy. In fact, since the tax cuts took effect at the beginning of 2013, Kansas has added jobs at a pace modestly slower than the country as a whole.<sup>54</sup>

## Sharing the Wealth

*"If we're not building eight lane highways through the state of Texas, wherever that is not there, it will die. Like the railroads of the last century. We need to look at how to bring that to our communities."*<sup>55</sup>

Two things are happening in Texas: the "triangle" that is bordered by Dallas-Fort Worth, Houston and San Antonio is getting crowded. But those who are looking to escape the congestion have limited opportunities in the rural areas. There is no reason why economic development can't blossom in rural Texas.

The Texas Rural Investment Fund Program, created legislatively in 2009, was to make grants or loans to public or private entities for projects in rural communities that will stimulate local entrepreneurship, job creation, new capital investment, housing development, or innovative workforce education. Grants from the fund were for cities with populations less than 50,000 or counties with less than 200,000.<sup>56</sup> Think of it as a home-grown mini-enterprise fund.

Another way to spread the wealth around would be to make it easier for communities to work together regionally. When Hutto was making a bid for the Tesla plant, Pflugerville helped out with housing incentives. But normally, communities compete against each other, and thus need to keep their work secretive. This has happened naturally because the governor's office will not steer businesses looking to locate in Texas toward any specific community--which is the right thing to do. The governor's office should never be put in the position of picking winners and losers. But there needs to be a way to encourage cooperation and regional promotion.

---

Incentives are a necessary part of our world, so this is not a recommendation to get rid of them. It's an advisement to think about them critically, and try to envision all consequences. It's a recommendation to look ahead, and envision the next generation, carefully. It's a challenge to come up with ideas that are better than everyone else's. And maybe that means tweaking what we've already got. Complacency is the killer of competition.



---

## **Venture Capital**



---

## VENTURE CAPITAL

*"Here we don't have the appetite for the big idea, like they do in Silicon Valley. Silicon Valley had \$12 billion to go into their companies last year, we had \$1.3 billion. So they have a bigger appetite for losing, for risk. We are not as mature a market. We are not there yet."<sup>57</sup>*

*"Only if government fulfilled its responsibility by fostering a robust economy was it reasonable to hold individuals responsible for working hard and striving to do their best."<sup>58</sup>*

*"We are the music-makers, and we are the dreamers of dreams..."<sup>59</sup>*

Venture capital: money for high-risk investment: money used for investment in enterprises that involve high risk, but offer the possibility of large profits. This form of equity financing exchanges capital for share in the enterprises that are funded.

Why is venture capital important? Why should it matter to state governments whether or not venture capitalists are investing in the state?

### Why It Matters

*"We absolutely are creating new jobs, new companies, and entirely new industries...the scale and the pace of creation is astonishing. What these companies are not doing, though, is not hiring a ton of people to help them with their work...They can't find everyone that they need, but they don't need that many people to work in these incredibly large and influential companies. To make that concrete, Apple, Amazon, Facebook and Google are now all public companies. Combined, they have something close to a trillion dollars in market capitalization. Together, the four of them employ fewer than 150,000 people. And that's less than the number of new entrants into the American workforce every month."<sup>60</sup>*

It matters because the end result of venture capital is jobs.

Venture capitalists are the financiers of high-tech innovation. Venture capital has funded Intel, Apple, Genentech, Google and Facebook.<sup>61</sup> Venture dollars add workers, purchase equipment, and bring about new product development.

New companies are important. A study of the 100 largest industrial companies in the world between 1912 and 1995 showed that almost half of them have disappeared.<sup>62</sup> When buggy whip, typewriter and VCR manufacturers disappear, there are ramifications. Shockingly, for the first time since the government began measuring in the 1970s, the United States is now running a deficit between the number of new businesses being "born" and the number "dying" each year. We always ran a surplus of about 100,000, and now it's a deficit of about 70,000.<sup>63</sup>

When a company fails, there needs to be another to take its place, to ensure continued employment for displaced workers. And with technological advances requiring fewer workers, there need to be LOTS of companies.



---

Prior to the dot-com bust in 2001, there were more than a dozen local and out-of-state venture capital firms looking to invest in central Texas businesses with offices in Austin. The only large firm remaining today is Austin Ventures.

### **Silicon Valley Envy**

It may be blasphemy to say so, but California is light years ahead of Texas when it comes to venture capital. And it's not just because of Silicon Valley. In fact, San Francisco is now in first place, pushing San Jose-Sunnyvale to second in investments. Two more of the top ten, (5) Los Angeles and (6) San Diego, are also in California. The "outside California" cities remaining to take top ten honors are (3) Boston, (4) New York, (7) Seattle, (8) Austin, (9) Chicago, and (10) Washington, D.C.<sup>64</sup>

The evolution of Silicon Valley didn't happen overnight. Many believe that the beginning was the establishment of Hewlett Packard in a garage in 1938. Rather, a series of events occurring over a one hundred year period resulted in what we know as Silicon Valley today.<sup>65</sup>

In 1909, Federal Telegraph Company was begun in Palo Alto by a graduate of Stanford University. The young company soon found itself working with the Stanford High Voltage Laboratory to improve its product for World War I navy contracts. After the war, the company generated several spinoffs, including Magnavox, Fisher Research Laboratories, and Litton Industries.

In Texas, the independent oilman flourished because the state had passed anti-trust laws prior to Spindletop, which came just in time to service a fledgling auto industry. In California, Stanford University alumni and World War I converged to birth the electronics industry, and the expansion of related industries throughout the Cold War. Both Texas and California's good fortune came about because a series of events lined up perfectly over a specific period of time. In the same way that it would be hard for another state to duplicate what happened in Texas, it would be difficult for Texas to duplicate Silicon Valley. Both are unique products of their time.

But that doesn't mean that other states can't enjoy a future in oil and gas, and that Texas can't create an entrepreneurial state that interests venture capitalists. It just means that a great head start can't be overtaken overnight. And although Silicon Valley remains a leader, it is less dominant than it once was. Since the late 1980's, venture capital has become more distributed among urban centers.<sup>66</sup>

### **Shifting Capital and Pre-Seed Funding**

*"Gonna do my very best and it ain't no lie, If you put me to the test, if you let me try. Take a chance on me..."<sup>67</sup>*

Meanwhile, A MoneyTree study in April of 2014 shows that funding for U.S. startup companies soared 57 percent in the first quarter of 2014, a level not seen since 2001. This level may not be early startups, however. Venture capitalists are beginning to invest in maturing companies. Later-stage deals are generally larger than early-stage investments, because they help startups

---

expand rather than get off the ground.<sup>68</sup> However, if a firm is investing large amounts of money for their investors, it takes as much paperwork for a \$100 million deal as it does for a \$5 million deal. It takes less man power to do one large deal rather than do \$5 million deals over and over again.<sup>69</sup> So why not concentrate on the larger deals?

But that leaves the startups struggling. Testimony before the committee indicated that the state could be of most help with pre-seed or early seed investments.

Pre-seed describes "proof of concept" capital for entrepreneurs developing an innovation and working through the company formation stage. This stage means that the ideas and resulting product are probably sound, but proof is needed that it works and that there is a market for it. Companies at this formation stage typically have no full-time employees. This stage generally occurs after friends, family, and credit cards have been tapped.

If pre-seed is successful, then seed/early stage would be the next level. Seed capital is the first investor money used to start the business and launch the first product/service.

After seed is later stage and mezzanine capital. In this stage, the technology has been proven to work, customers have shown a willingness to buy the products or services at reasonable prices, and it is believed that the business can sufficiently grow its market share and achieve profitability, or sell to a competitor for a premium price.<sup>70</sup> This level is where the majority of venture capital firms choose to invest. Thus, assistance is needed to get to this level.

## **Scaling Up**

Some industries are more attractive to venture capitalists than others. For instance, a new phone application is relatively easy to create and commercialize and get to market. And, of course, a new cancer drug could be very lucrative once it comes to market. But before that can happen, there would be many years of human testing and FDA approval. It could take decades for investors to realize a return.

This is one reason that technology is so popular. Software and code requires less capital to create, commercialize, and scale. Scaling means to penetrate the market quickly. The quicker a product gets to market, the quicker venture capitalists get their money back.

Texas is known for its oil and gas industry. Extracting, refining, and distributing oil and gas – while lucrative -- is very expensive to do. And energy companies usually have their own capital for expansion (i.e. don't need venture funding). There is also the factor that energy investment isn't a "hot" investment right now. (Thanks a lot, Solyndra). So venture capitalists have another reason to not consider Texas for investment.

The point is that Texas is so much more than oil and gas. But is that message getting out there?

---

## **Hanging Out Together**

*"I can't tell you the number of VCs who say why would I want to get on an airplane in California, fly to Texas, attend a two hour board meeting, and fly back? During that flight, I could attend five other board meetings, I could go visit two or three other companies."<sup>71</sup>*

A deal stream is very important to a venture capitalist. It is preferable for a firm to receive hundreds of business proposals each month, and to select a small percentage for funding. A rule of thumb is that for every ten investments, three are complete losses; another three or four neither succeed nor fail, from which it is difficult to extract the original investment; another two or three return three or more times the initial investment; and one or two return more than ten times the initial investment. Thus, the gains from the home runs cover all the losses. The larger the number of quality investments, the greater the chances of success.<sup>72</sup>

Quality investments come about with quality proposals, the more the better. The way for the proposals to happen is to have lots of intellectual capital, lots of talented people with great ideas for companies. Texas needs to develop that reputation.

Testimony before the committee offered a suggestion for a mini-enterprise fund, one that would target small companies with potential for high growth. These new companies typically put all of their capital into the company, and don't have money for moving expenses. If the state could assist with that, the reasoning goes, then the venture capital firms would realize that there is more potential here than previously imagined. In other words, if we can't grow them ourselves, we could import them.

If the state could attract one major VC firm that is a national player, it is believed that a domino effect could be realized. But Austin Ventures, the big dog in central Texas, is starting to have some company. Several firms have joined in the fun, including LiveOak Venture Partners, Houston-based Mercury Fund, S3 Ventures, and Silverton Partners.

## **Anchor Tenants**

*"When governments produce venture firms, they layer them with apparatus to make sure there is no conflict of interest. And what they achieve, of course, is that there is no interest."<sup>73</sup>*

It has been suggested that Texas create a fund to become an "anchor tenant." In simplest terms, Texas would set a monetary goal for companies looking to raise money for the next stage of development. Once the goal was realized, Texas would kick in the rest, becoming the anchor of the fund. If the money was not raised from others, the state would not provide any funding at all.

This concept is similar to the Emerging Technology Fund. Although the ETF provided start-up funding for new businesses, further funding was dependent on the new business raising a specific amount of money from outside sources.

Having a stable anchor is important to outside sources of funding. Everyone wants to feel that there is a big dog in the room that can be relied upon.

---

The problem with this concept is that Texas is not always seen as a reliable partner. With new changes in leadership coming next session, there is no guarantee that there will be interest in economic development.

Another problem is the very nature of a partner that happens to be the state. The state requires transparency, public participation, and has issues with conflicts of interest. Venture capital is not for the faint of heart. Eventually, the going will get tough. And when the going gets tough, legislators pass laws, which may or may not help the situation from a venture capitalist perspective. We're a wild card. Venture capitalists hang out with long-trusted partners. They don't like wild cards.

### **Jobs for Texas**

The state received a federal grant of \$46.5 million in 2011 for small business credit initiatives. Run by the Texas Department of Agriculture, the program has engaged four investment firms within the state to leverage these dollars against money that the firms are raising to invest in businesses in the state.

Thus far, the program has invested in eighteen small companies, investing \$25.5 million. The emphasis has been on seed/early stage high-potential small businesses. One company has already had a successful exit, and paid back the original investment plus a little bit of earnings. That, combined with earned interest from some of the other investments has returned about \$4.8 million to the state.

The venture capital firms find the companies, using specific guidelines set by the state program. The state reviews all applicants, and gives the yes or no to the venture capital firm.<sup>74</sup>

So it is possible for the state to work with venture capital firms in a positive way.

### **Immigrants**

Something to keep in mind when trying to create an atmosphere of success are our immigrants. Silicon Valley has a great research institute, and a terrific flow of venture dollars. But a good entrepreneurial system requires a steady stream of especially talented people. This means not just scientists and investors, but entrepreneurs with the vision and skills to follow through, executing and building companies. This happens in an environment that is open and diverse, where it doesn't matter where you come from or what you look like. More than half of all the Silicon Valley startups launched over the past couple of decades have had an immigrant on their founding teams.<sup>75</sup>

Definitely worth considering when crafting an immigration policy for the state.

---

## **Independent Assistance - Accelerators and Incubators**

Many universities have programs designed to assist young entrepreneurs. The University of Texas has a seminar for students who might be interested in starting a company. Approximately twelve students with startups participate in a lab every semester. University professors, who are full of great ideas, are also given assistance from the university with their fledgling companies.<sup>76</sup> The University of Texas is not alone. Most Texas universities have some sort of commercialization program.

Research at universities could be a huge economic boost for Texas. Specific suggestions for assistance include grants to bring the accomplishment from the professor's lab to startup status. Massachusetts Institute of Technology (MIT) offers grants of \$50,000 to \$100,000 to professors and students to advance technology to the marketplace.

In addition, many cities are working to develop their own incubators. Dallas, for example, has recently launched their own entrepreneur center. Funded by industry partners, their goal is to bring in people with ideas, match them with mentors, train them, grow their ideas and companies, and use capital in the region to help the company, and thus the economy, succeed.<sup>77</sup> Dallas' efforts are being mirrored across the state by other cities.

## **Recent Successes**

Texas' big success is Austin. During the first quarter of 2014, area firms reaped record investments, raising \$320 million for 23 companies. This is Austin's best showing since the middle of 2001, just before the dot-com bubble burst.<sup>78</sup>

But other areas are seeing success, too. Investment in Dallas-area startups more than quadrupled in 2013 from a year before. DFW's total was also the largest amount since 2001. Frisco-based tech firm Genband secured the largest deal in Texas and nationwide with a \$343.5 million investment.<sup>79</sup>

## **Recommendations**

*"Texas' greatest competitive advantage, in the end, might be that it's come closer than most states to mitigating policy uncertainty. You don't have to wonder what's going to happen in Texas next year or ten years from now, or probably, a hundred years from now: what's good for business is what's going to happen."<sup>80</sup>*

*"Quite frankly, I think people sitting outside the state of Texas get a mixed message. If you listen to some of the debates in this building a year ago, about our financial strategies and our financial management policy, how we are going to apply our resources...I think those kinds of signals outside the state to investors creates some uncertainty."<sup>81</sup>*

Which is right? Does Texas have a reputation for rock-solid certainty? Or not? It's always best to err on the side of caution. In other words, trying not to send mixed messages should be uppermost in legislators' minds as next session approaches.

---

It's tough to make recommendations for new programs. In the current political environment, failure is not tolerated well. And venture capitalists must tolerate failure.

For companies funded by venture capital, a certain amount of secrecy is vital to the success of the company. Yet government is all about non-secrecy. That makes a marriage of venture capital and government a really hard thing to accomplish in a way that makes sense to everyone, while still achieving its objective of furthering the economic development of the state.

In the past, lawmakers have tried to accomplish this objective through CAPCOs, legislation promoting a state New Markets program, and the Emerging Technology Fund. All have had their detractors, and all have suffered from poor perceptions. The next legislative session promises to be one where lawmakers have to save their energy for winnable fights.

For that reason, perhaps lawmakers should concentrate on creating an environment for venture capital to flourish, rather than directly partnering up with venture capital firms. Such an environment would require legislators to keep an open mind when it comes to funding research for state universities, enriching incentives to encourage the same in private companies, and assisting entrepreneurs, incubators and accelerators whenever possible.

The state needs, also, to keep its current incentives programs in place. If it is true that Texas is seen as a stable, pro-business state, efforts must be undertaken to keep it that way. Abolishing programs like the Enterprise Fund would only serve to fuel the whisper campaign of other states that we're a little flaky, and not to be trusted.

If lawmakers do decide to take on a pro-business agenda, perhaps the most helpful thing would be to do something about the permitting process. It should not take months or years to get the appropriate environmental permits to do business in Texas, particularly if neighboring states can promise the necessary documentation in a more expeditious manner. Venture capitalists like to make their money back quickly. The permitting process slows deals down, if not outright stabbing them in the heart.

If the market is promising, and the conditions favorable, the venture capitalists will follow.



---

## **Manufacturing**





---

## MANUFACTURING

*"Overall, manufacturing activity in Texas is at an eleven-month high...it's expanded eleven months in a row. New orders of manufactured goods are at a nine-month high, shipments are at a four-year high, and employment is at a 21-month high."*<sup>82</sup>

*"What does a \$60,000 job bring to the community? It brings \$950 in states sales tax. It brings \$160 in gasoline tax, it brings \$100 in miscellaneous, and over a ten year period, it brings \$12,000 in additional revenue. And that's just one \$60,000 job."*<sup>83</sup>

Who would have ever thought that manufacturing would come back to the United States? We've all read the reports that the Chinese and other offshores had permanently locked us out. The lower wages accepted by people in other countries made us unable to compete. From 2000 to 2010, this country lost approximately six million manufacturing jobs.

And yet, manufacturing is enjoying a renaissance in the United States. Advents of technology strides such as robotics, 3-D printing, and digital technology are requiring higher skills, and thus, higher pay. Also, as China's GDP continues to grow, its wages are rising considerably, narrowing the cost differential with the United States.<sup>84</sup>

Factory job numbers in the United States are now going up instead of down.

### **The Oil and Gas Connection**

And then there's our state's lovely oil and gas industry. America is on track to become the world's largest oil producer by 2015, and at current rates of consumption, we now have a 100-year supply of natural gas. And Texas is a huge part of that.

Texas is now producing 36 percent of this country's oil. Texas production tops 3 million barrels per day, at the same level as Iraq, the number two producing country in OPEC.<sup>85</sup>

What does our oil and gas industry have to do with manufacturing?

Not only does our shale gas boom save manufacturers tons of money in energy costs, we've got so much to spare that we are exporting it. If natural gas were a liquid, we'd be swimming in it. Several liquid natural gas (LNG) plants are being built to convert natural gas into a liquid by freezing it, and then shipping it to other countries.

In addition, petroleum liquids can be converted into chemicals, resins and plastics; the building blocks of many manufactured goods. And thanks again to the boom, cheap building blocks.

And, of course, it's our oil, therefore, our fuel. Shipping costs outside the United States are soaring. The United States is enjoying a period of (relatively) low cost fuel.

### **Making More Stuff**

In other developments, Texas is becoming a major automotive manufacturer. Toyota has just announced it's moving their North American headquarters to Plano. At the 60-year-old General Motors plant in Arlington, a new SUV rolls off the assembly line every minute. Toyota workers

---

in San Antonio are churning out the Tundra and Tacoma pickups. Denton has Peterbilt. Victoria has Caterpillar. And all across Texas, suppliers are making all kinds of supporting parts, such as tires and windshield wipers.<sup>86</sup> Sorry you missed out, Tesla.

SpaceX will soon be launching rockets from Boca Chica Beach. And while those rockets are still being manufactured in California, sooner or later it's going to be awfully tedious to move those large rockets hundreds of miles. Much better to produce them closer to the launch site.

### **Shipping It Out**

Our recent success in the automotive industry is being mirrored across the border. Mexico is fast becoming the largest automotive producer in North America, bolstered by a flood of investment from foreign-based carmakers. The reason: Mexico has some of the most liberal free trade arrangements in the world, and it's making the most of them. Specifically, the U.S. lacks trade agreements with Japan, the European Union and Brazil. Mexico does not.<sup>87</sup>

Texas is the nation's biggest exporting state. Texas' exports have grown 24 percent since their pre-recession peak in 2008. United States exports have also grown, but if you look at the US exports without including Texas, the growth has been just two percent.<sup>88</sup> So it's pretty much all about us.

How much more could Texas do with more liberal trade policies?

### **Legislative Action**

Legislators spearheaded a successful manufacturing agenda last session. HB 3390, extending the Chapter 313 program to December 31, 2022, was enacted into law. This program helps ameliorate the property tax burden for capital-intensive businesses like manufacturers.

HB 800, providing a choice between a franchise tax credit for research and development investment in Texas and a sales tax exemption on items used in research and development for equipment and software, also passed the legislature. Encouraging companies to perform their research and development in this state instead of elsewhere means (eventually) good jobs, and hopefully, manufacturing facilities to put those wonderful inventions into the mass market.

HB 3121 extended the Freeport exemption towards qualifying aircraft parts. Extending the time that aircraft parts can stay in our state before being taxed ups the chances that aircraft manufacturers will choose to locate in our state.<sup>89</sup>

### **Preparing for the Jobs**

*"Thirty five years ago when I got out of school and started my career at Chevron...we hired our production workers for the field by giving them back x-rays and giving them the tools of a pipe wrench and a shovel, and saying, 'these tools will make you successful in the oilfield.' Today the 21st century oilfield worker needs a completely different level of competence. We give them laptops and volt meters and say, 'these tools will make you successful.'"*<sup>90</sup>

*"Mastering creative, analytical or intuitive work is not for everyone, and yet it may become the only path to a productive occupation. Those who cannot make the leap may be doomed to jobs*

---

*that pay too little to be worth automating--cleaning hotel rooms, trimming shrubbery--or face permanent unemployment."*<sup>91</sup>

The manufacturing job of today isn't what it used to be, when workers manually hammered parts together. Today's manufacturing floors have fewer workers and more machines--and the workers must be able to master the machines. Many new manufacturing jobs require at least a two-year tech degree to complement artisan skills such as welding and milling.<sup>92</sup>

The legislature responded with HB 5. The bill provides an alternative pathway of study for students wanting to enter the workforce after high school graduation. This option is to be rigorous, and allows for early exposure to career choices and options which would result in both a high school diploma and a professional certification or license.

HB 5 is not an attempt to put low-performing students into a vocational education track. In fact, vocational education has changed so much, that you have to be motivated and intelligent to master the curriculum.

HB 5 and other initiatives like it are merely trying to solve a terrible problem: many young people are searching for jobs at a time when many good, well-paying jobs are going unfilled. If you are in your late thirties or older, you graduated at a time when a college degree in anything would get you some kind of job. Those days are over. At the very least, it is the duty of government to ensure that young people are well informed about the situation, and that options are offered to provide solutions. Texas wasn't alone in recognizing the need for skilled workers. In 2013, states made at least 78 substantive CTE policy changes via law, rules or executive order.<sup>93</sup>

### **Opportunities to Think**

*"Two percent of the people think; three percent of the people think they think; and ninety-five percent of the people would rather die than think."*<sup>94</sup>

Don't mistake HB 5 as the cure-all for our employment problems. There will always be a place for higher education in America. We need scientists, mathematicians, philosophers. We need higher skills and well-educated people. And we need internships, real-life work experiences for all students to hone their perceptions about what employment really means.

We also need to consider life-long learning. We need to think, to entertain different ideas, to stay out of ruts. We are losing skills such as reasoning, logic, and problem-solving. We need to use our minds, not only for health reasons and improved quality of life, but because passive bystanders do not contribute to a vibrant America. These qualities built our country.

### **Going Forward**

Tweaking legislation is always a popular pastime in the legislature. But tweaks should be made thoughtfully.

The research and development tax incentives should be given every opportunity to work. Chapter 313 programs need to stay in place. Programs to encourage existing businesses to offer apprenticeship programs should be considered.

---

The skills development program and monies need to be maintained by the Texas Workforce Commission. Skilled workers are important to the state of Texas and its ability to attract future businesses.

More money will have to be spent on public education. Vocational training is not cheap. Facilities will have to be developed, and rural areas are going to need assistance. More counselors will be needed to help students make thoughtful decisions about their future.

In addition, we need more internships, more opportunities for our students to obtain real world experience while still in school. Watching reality television doesn't count. The legislature must do more to encourage businesses to offer internships, whether through tax credits, or through the creation of an internship minimum wage. Internships would help address our 22 percent jobless rate of young men aged 16-19. If you can't find a job when you first start looking, a pattern is set.

It is in the best interests of the aging baby boomers that the next generation is fully employed and paying taxes. That requires an investment today. Such investments in public (and higher!) education will bolster economic opportunity down the road.

---

## **Monitoring**



---

## TWC REPORT ON SIGNIFICANT BILLS

### **Enacted by the 83rd Texas Legislature and Provided to the House Committee on Economic and Small Business Development<sup>95</sup>**

Thirteen (13) bills related to programs administered by the Texas Workforce Commission (TWC) were passed during the 83rd Texas Legislature. The bills passed dealt with many issues ranging from changes to the state's Unemployment Insurance (UI) program, adult basic education, workforce training, career schools and colleges, and the collection and dissemination of labor market data. Some bills passed by the committee and ultimately enacted into law were required by recent changes to federal law.

The House Committee on Economic and Small Business Development has primary oversight over TWC, and the following bills passed by the committee impacted TWC and its programs.

#### **Federally Mandated Legislation**

##### **HB 2035 by Vo**

*Relating to the shared work unemployment compensation program*

HR 3630, the Middle Class Tax Relief and Job Creation Act of 2012 which was enacted by Congress, made changes to existing "Short-time Compensation Programs" often referred to in Texas as "Shared Work." Texas has been operating the Shared Work program since it was enacted by the 69th Texas Legislature in 1985. The program provides employers the opportunity to enter into a plan with TWC to allow employees to receive partial UI benefits while working reduced hours instead of being laid off. The required changes to the Shared Work Program were: ensuring the program applies to all layoff situations and not just temporary ones; maintaining a participant's eligibility in employer-sponsored training or Workforce Investment Act training at the employer's discretion; changes to the requirements that employers' Shared Work Plans must meet; and requiring employers to continue to provide health and retirement benefits to employees who are participating in the program if those same fringe benefits are continued for employees not participating in the program. HB 2035 made these required changes to state law in order to allow TWC to continue operating the Shared Work Program.

TWC has fully implemented these changes to the Shared Work Program.

##### **SB 658 by Deuell**

*Relating to the imposition and collection of a penalty for fraudulently obtaining unemployment compensation benefits*

In 2011, HR 2832 in 2011 amended the federal Social Security Act, Section 303, to require that all states impose a minimum 15 percent penalty on fraudulently obtained state and federal UI benefits and that those penalties must be deposited into the state's Unemployment Compensation Fund. SB 658 makes the appropriate changes to state law to enact these new federal requirements.



---

TWC has put into place all process and procedures required to fully implement this bill.

**SB 920 by Eltife**

*Relating to the requirement that an unemployed individual be actively seeking work to be eligible for unemployment compensation benefits*

Changes enacted in federal law by HR 3630, The Middle Class Tax Relief and Job Creation Act of 2012, required that state UI laws contain provisions explicitly stating that UI claimants must be actively seeking work in order to be eligible to receive UI benefits.

The requirement that all UI claimants must be actively seeking work in order to be eligible for UI benefits was already required by TWC through Commission Rule. SB 920 codified the agency's existing requirement to conform the state UI law to federal law. No implementation activities were required under SB 920.

**SB 1537 by Deuell**

*Relating to certain required notices under the Texas Unemployment Compensation Act, including employer liability arising from failure to provide the notice*

Changes enacted in federal law by the Trade Adjustment Assistance Act of 2011 prohibit states from relieving an employer of benefit charges when the employer or an agent of the employer was at fault for failing to respond timely or adequately to the state's request for information related to an unemployment insurance claim, and thus creating an overpayment, and has an established pattern for failing to respond timely or adequately to such requests. SB 1537 made the necessary changes to bring state law into conformity with the changes made to federal law.

TWC will fully implement this bill in July 2014. The bill provided TWC rulemaking authority in order to implement this provision. The rules are now in the process of final adoption.

To ensure employers understood the new change, TWC sent emails to every third-party UI agent serving employers regarding the rules and requirements and asked for comments. The rules and requirements were discussed at the numerous Texas Business Conferences hosted by TWC's Commissioner Representing Employers and were shared with executive management of Texas' 28 Local Workforce Development Boards.

**Non-federally Mandated Legislation**

**HB 809 by Davis, John**

*Relating to the dissemination of information regarding employment opportunities in this state to secondary school students*

The bill requires TWC to provide the Texas Education Agency (TEA) with information each quarter regarding current and projected employment opportunities disaggregated by county or other applicable region in the state. Once the information is provided to TEA, TEA is required to provide that information to school districts for use in planning and implementing career and technical education and training programs.

---

TWC has been providing TEA information from TWC's WorkinTexas.com website each quarter regarding employment opportunities. TWC also is working with TEA on ways to automate the process.

**HB 1296 by Alvarado**

*Relating to information regarding postsecondary education and career opportunities and workforce needs in this state*

This bill serves to determine the workforce needs of the state and ensure that this information is communicated to students in and entering college. The bill requires the Texas Higher Education Coordinating Board (THECB) and TWC to work in conjunction with any other state agency as necessary to collect information and make a five-year projection concerning the workforce needs of the state as well as the educational attainment and training of persons projected to enter the state's workforce. Based on these projections, THECB will identify the types and levels of education and/or training needed to meet the state's workforce needs.

TWC and the THECB have implemented the Texas CREWS (Consumer Resource for Education and Workforce Statistics) website (<http://www.thecb.state.tx.us/apps/txcrews/>) which is an interactive tool providing comparative information about public 2-year and 4-year postsecondary institutions in Texas. TWC and THECB have also provided a link between this system and TEA.

TWC issued projections on workforce needs and information on high growth, high demand occupations the THECB. The next round of occupational projections will be released in September 2014, and the next list of the Top 10 Demand Occupations in the state will be released in October 2014.

**HB 2000 by Thompson, Senfronia**

*Relating to the qualification of certain nonprofit schools and educational institutions for exemption from state laws regulating career schools and colleges and to complaints made against those entities*

Due to changes in federal law, it was necessary to amend state statutes in order to allow students at career schools and colleges to continue to be eligible for federal financial aid in circumstances where it is available. HB 2000 made the appropriate changes to state law, including making changes to the criteria for exemption from regulation as a career school and college by TWC. Specifically, career schools and colleges will not be exempted from regulation by TWC unless either: the school is regionally or nationally accredited or has been continuously operating in compliance with state career school regulation for at least 20 years; or, the school is owned, controlled, operated, and maintained by a non-profit religious organization and awards degrees or certificates relating to religion.

TWC has fully implemented the requirements of this bill which apply to the agency. TWC has made the appropriate changes to the process by which career schools and colleges apply for an exemption from regulation by TWC.

---

### **HB 2015 by Davis, John**

*Relating to the proper classification of workers performing services in connection with governmental contracts; providing a penalty*

Employers are required to report employee wages to TWC each quarter and pay UI taxes on the wages paid to these employees. In some cases, employers misclassify workers as independent contractors instead of employees. The bill provides a penalty of \$200 per employee to be assessed against employers providing services under a public contract if they misclassify their workers.

TWC has fully implemented this new provision. In preparation for the penalty going into effect on January 1, 2014, TWC mailed notices to some 4,000 political subdivisions in the state with information on the new penalty so that this information could be shared with entities seeking public contracts.

### **HB 2478 by Alvarado**

*Relating to the collection, study, and reporting by the Texas Workforce Commission of certain information regarding shortages in high-wage, high-demand occupations.*

This bill requires TWC to prepare an annual report on the projected shortages in high wage, high demand occupations and submit it to the Governor, Lieutenant Governor, Speaker of the House and Chairs of Legislative Committees with primary oversight of workforce development. The report is also to include any recommendations from TWC based on the findings. The legislation mentions specific occupations that must be included in the report such as agriculture, manufacturing, construction, etc.

TWC is on track to release the first annual report on January 1, 2015.

### **HB 3028 by Davis, John**

*Relating to the use of the skills development fund and other funds available to the Texas Workforce Commission to support certain joint credit courses offered by school districts under agreements with lower-division institutions of higher education.*

HB 3028 expanded the use of the Skills Development Fund to support certain joint credit courses offered by school districts that are partnered with public junior or state colleges or technical institutes. The bill allows for a transfer from the Skills Development Fund not to exceed 5 percent of the amount of General Revenue appropriated to the fund each biennium to be used for this purpose.

In January 2014, the Texas Workforce Commission approved the use of \$1 million in Skills Development Funds to enter into an agreement with the THECB and TEA to support the development of Early College High School career and technical education dual-credit programs. The Commission also approved the use of an additional \$450,000 over two years to support an application-based process by which these public colleges and technical institutes can apply directly to TWC for funding to support the creation and expansion of dual credit career and technical education programs in Texas schools. TWC has implemented all processes and

---

procedures for this bill. The agency is in the process of receiving and reviewing applications for funding made available under the bill.

**SB 21 by Williams**

*Relating to drug screening and testing as a condition for the receipt of unemployment compensation benefits by certain individuals.*

With the enactment of HR 3630, The Middle Class Tax Relief and Job Creation Act of 2012, Congress authorized states to administer drug screening and testing to UI claimants under some circumstances. The federal law provides two instances under which states may administer drug testing and screening: (1) if the claimant was separated from his or her very last work due to use of illegal substances; and (2) on claimants whose only suitable work is in an occupation designated by the U.S. Secretary of Labor as one that regularly requires drug testing. TWC already disqualifies claimants terminated from employment based on illegal drug use. SB 21 enacted a drug screening and testing program, to be administered by TWC, on UI claimants in accordance with the second federal law allowance related to a claimant's suitable work.

The U.S. Secretary of Labor has not yet issued guidance regarding how states should administer the program. Upon release of this guidance, TWC will move forward with full implementation that is in conformity with federal law and guidelines.

In the interim, TWC has been taking steps that will allow the agency to implement the bill more quickly once the federal guidelines are issued. TWC has been evaluating process models to determine the most effective and efficient means to implement the changes to the UI program required under SB 21. These changes include capturing claimant occupation data and developing the appeals processes as required by the bill. In addition, we are reviewing potential written assessments and drug testing services.

**SB 307 by Huffman**

*Relating to the transfer of adult education and literacy programs from the Texas Education Agency to the Texas Workforce Commission.*

This bill transfers the responsibility for administering the state's adult basic education and literacy program, including English Literacy/Civics, from TEA to TWC, and sets forth the requirements for the administration of the program, including a report to the legislature each even-numbered year regarding student outcomes. The bill also eliminates the Interagency Literacy Council and replaces it with the Adult Education and Literacy Advisory Committee appointed by the Commission.

The Adult Education and Literacy (AEL) program has been transferred from TEA to TWC effective September 1, 2013. In preparation for the transfer, TWC held stakeholder meetings across the state to hear from all interested parties regarding the program and its transfer. TWC adopted final rules for the AEL program in February 2014 and is currently going through a competitive procurement process to award contracts for both a new professional development and support system and for AEL service providers. TWC also is working with TEA to transfer automated systems used for the AEL program to TWC by July 1, 2014, when the AEL Program

---

Year 2015 begins. The Adult Education and Literacy Advisory Committee was appointed by the Commission in September 2013 and has held meetings since January.

**SB 441 by Birdwell**

*Relating to the establishment of the Texas Fast Start Program to promote rapid delivery of workforce education and development.*

This bill requires TWC to work in collaboration with the THECB to establish and administer the Texas Fast Start Program. The program will develop competency-based, rapid-deployment education delivery models for use by public junior or state colleges and technical institutes. Further, the program must focus on the current and future needs of employers and allow students to obtain post-secondary certifications and degrees in high-demand fields or occupations at an accelerated pace.

TWC has approved the use of \$1.5 million each year of the current biennium to support the implementation of the Fast Start Program. TWC has collaborated with the THECB to develop a Request for Proposal (RFP) to fund the expansion of existing Fast Start programs or the development of new ones. TWC at present has obligated \$356,724 for Fast Start Programs with South Texas College and Alamo Community College based on their responses and proposals to the initial RFP. TWC will be issuing a second RFP which is expected to receive proposals that will allow for the remaining Fast Start funding for both years to be obligated.

---

## WE'RE CHANGING

*"America's two biggest states (California and Texas) have already been trying to figure out how to deal with a young, urbanizing, and increasingly heterogeneous population in the face of globalization, recession, realignment, and structural economic change. If neither of them can manage the transition, the United States is going to have a big problem. If either of them can, the United States should pay attention."*<sup>96</sup>

### **New Demographics**

Texas is younger than the United States as a whole; 27.1 percent of residents are younger than eighteen. Increasingly, they are minorities. By 2050, school aged Hispanics will increase from 48 percent to 63 percent, and the Asian/Other category will grow from 6 percent to 12 percent.

Meanwhile, our non-Hispanic White population is aging. Between 2010 and 2050, this group will increase 259 percent; expanding from 2.6 million to 9.3 million. That means that instead of comprising 10 percent of the Texas population in 2010, they will comprise 17 percent of the population by 2050.<sup>97</sup>

Demographically, the reality:

- If things don't change, the Texas labor force as a whole will be less well educated, work in lower status occupations, and have lower incomes in 2050 than in 2010.
- Texas households in 2050 will be poorer, and have housing that is of lower value.
- The population of minority students will be less well educated and poorer than today. However, if successfully educated, the state could have a younger and more competitive workforce than the nation as a whole.
- Since aging and poorer minority populations are growing more rapidly than other components of the population, medical services are likely to involve increasing numbers of personnel and substantial increases in treatment costs.

Low levels of education, low income, and high rates of poverty create severe problems for the state as a whole. A less educated workforce makes the state less attractive to out-of-state private corporations. Lower income and higher poverty populations impact state service demand and increase costs in areas such as education, Medicaid, and a variety of human service programs.<sup>98</sup>

We must invest in human beings. For the sake of all of us.

### **Punishing Original Thought**

*"Alice laughed. "There's no use trying," she said: "one can't believe impossible things."*

*"I daresay you haven't had much practice," said the Queen. "When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."*<sup>99</sup>

*"We can't do that. Management would kill us."*<sup>100</sup>

---

Our state was built by a motley group of people who were creative thinkers. That was a long time ago.

Solving our future issues means we need to begin encouraging original thought at the state level, and stop wasting time identifying scapegoats.

Although lip service is paid to "thinking outside the box," the reality is that those who do so, and fail, often find their possessions in a box outside of the building.

State employees see and deal with problems every day. Many of them have great ideas for making things better. Those ideas, however, are unproven. If there is no leeway for failure, state employees will not voice their original ideas for solving the problems we face. The risk is too great.

This tendency to punish thought if such thought fails, and find out who is responsible is evidenced through Texas' incentive programs. This state has come up with great ideas to improve our economy; so much so that other states are copying our ideas.

But being first has come at a price. The Enterprise Fund audit has shown that mistakes were made during the first few years of the existence of the fund. The Emerging Technology Fund program has been revised numerous times, because a monetary profit was not immediately forthcoming. Chapter 313, although very successful, has been criticized for not providing the jobs numbers expected by legislators. Formula One approval may have taken a non-conformist path, but it was a successful path.

Programs must be given a chance to work. Mistakes are being corrected. Creativity needs to be encouraged, not stifled. There is not a 100% assurance that all children will be educated successfully. There is not a 100% assurance that the Workforce Commission can find a job for every person who wants one. There is not a 100% assurance that all incentive programs will work all of the time. We obviously have to try to reach that goal, but creative thinkers should not be punished if they fail to meet that mark.

Creative thought built Texas. Turning our back on it now could mean mediocrity for our future.

---

## ENDNOTES

- <sup>1</sup> Andrew Grove, Co-Founder, Intel.
- <sup>2</sup> Fred Purdue, Pitney Bowes Executive, quoted by Jim Collins in "Good to Great," 2001.
- <sup>3</sup> Attributed to Dr. Seuss.
- <sup>4</sup> Melissa LoPalo and Pia Orrenius, "Texas Leads Nation in Creation of Jobs at All Pay Levels," Southwest Economy, Federal Reserve Bank of Dallas, First Quarter 2014.
- <sup>5</sup> James P. Gaines, "The Amazing Rate, Part 2," A Reprint from Tierra Grande Magazine, October 2013.
- <sup>6</sup> Erica Grieder, material from "Big, Hot, Cheap and Right: What American Can Learn from the Strange Genius of Texas," 2013.
- <sup>7</sup> Mary Mapes Dodge, "The Little Hero of Haarlem," 1865.
- <sup>8</sup> Arthur B. Laffer, "Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index," 2014.
- <sup>9</sup> Juan Chuy Hinojosa, "Hinojosa: Investing in Texas' transportation system is an economic and social imperative," Rio Grande Guardian, May 8, 2014.
- <sup>10</sup> Euripides.
- <sup>11</sup> Plato.
- <sup>12</sup> Mark Twain.
- <sup>13</sup> Tim Merriweather, General Partner, Banister Group, LLC, in testimony before the committee, April 10, 2014.
- <sup>14</sup> NcPPP.org. National Council for Public-Private Partnerships.
- <sup>15</sup> NcPPP.org. National Council for Public-Private Partnerships.
- <sup>16</sup> "Sharing Innovative Experiences: Examples of Successful Public-Private Partnerships," United Nations Development Programme, 2008.
- <sup>17</sup> Laylan Copelin, "South Texas City's Goal: Zero Taxes, Zero Fees," Austin American Statesman, March 23, 2014.
- <sup>18</sup> George Tapas, PE, SE, Vice President, National Practice Manager, Alternative Financing and procurement & Public-Private Partnerships, URS Corporation, in testimony before the committee, April 10, 2014.
- <sup>19</sup> Tommy Cowan, FAIA, Texas Society of Architects, in testimony before the committee, April 10, 2014.
- <sup>20</sup> Ryan Holeywell, "Why isn't the U.S. Better at Public-Private Partnerships?" governing.com, February 2013.
- <sup>21</sup> Ryan Holeywell, "Why isn't the U.S. Better at Public-Private Partnerships?" governing.com, February 2013.
- <sup>22</sup> Mary Beth Corrigan, et al., "Ten Principles for Successful Public/Private Partnerships," Urban Land Institute, 2005.
- <sup>23</sup> Jonathan Taylor, Executive Director, Economic Development and Tourism, Office of the Governor, before the committee, April 24, 2014.
- <sup>24</sup> Stephen Minick, Vice President of Governmental Affairs, Texas Association of Business, before the committee, April 3, 2014.
- <sup>25</sup> Post card from the Writer's Workshoppe.
- <sup>26</sup> Jonathan Taylor, Executive Director, Economic Development and Tourism, Office of the Governor, before the committee, April 24, 2014.
- <sup>27</sup> Kelly Rendziperis, "State's Hefty Texas Enterprise Fund Makes it Harder for Other States to Compete," Site Selection Group blog, May 13, 2014.
- <sup>28</sup> Andre Gide, French author and winner of the 1947 Nobel Prize in Literature.
- <sup>29</sup> Joe Rogan, Standup comedian and actor.
- <sup>30</sup> Adriana Cruz, President, Greater San Marcos Partnership, before the Select Committee on Economic Development Incentives, August 27, 2014.
- <sup>31</sup> Terry Chase Hazell, Director, Texas Emerging Technology Fund, before the committee, April 24, 2014.
- <sup>32</sup> Samuel Davis, Texas actor, e-mail conversation, August 5, 2014.
- <sup>33</sup> Tim Riggins, Friday Night Lights, shot in Texas.
- <sup>34</sup> State Film Production Incentives and Programs, NCSL, March 28, 2014.
- <sup>35</sup> Heather Page, Director, Texas Film Commission, before the committee, April 24, 2014.
- <sup>36</sup> Tim Johnson, Associate Director, State Government Affairs, Entertainment Software Association, before the committee, April 24, 2014.
- <sup>37</sup> Tim Johnson, Entertainment Software Association, before the committee, April 24, 2014.
- <sup>38</sup> Brian Corde, Atlas Insights, LLC.
- <sup>39</sup> Edward E. Gordon, "Future Jobs: Solving the Employment and Skills Crisis," 2013
- <sup>40</sup> Aaron Demerson, Director of Employer Initiatives, Texas Workforce Commission, in testimony before the committee, April 24, 2014.



- 
- <sup>41</sup> John Kennedy, Senior Analyst, Texas Taxpayers and Research Association, in testimony before the committee, April 24, 2014.
- <sup>42</sup> James LeBas, in testimony before the House Ways and Means Committee, April 9, 2013.
- <sup>43</sup> "An Analysis of Texas Economic Development Incentives," Susan Combs, Comptroller of Public Accounts, 2010
- <sup>44</sup> John Kennedy, Senior Analyst, Texas Taxpayers and Research Association, in testimony before the committee, April 24, 2014.
- <sup>45</sup> Comment by Cecil Bell, Jr., member of the committee, during testimony on April 24, 2014.
- <sup>46</sup> Robert Wood, Director of Economic Development & Analysis, Office of the Comptroller of Public Accounts, e-mail conversation, July 30, 2014.
- <sup>47</sup> Greg Sims, President, Greenville Economic Development Corporation, in testimony before the committee, April 24, 2014.
- <sup>48</sup> Economic Development in Texas, Texas Taxpayers and Research Association, October 2011.
- <sup>49</sup> Dale Fowler, President, Victoria Economic Development Corporation, in testimony before the committee, April 24, 2014.
- <sup>50</sup> John Malkovich as Blackbeard, "Crossbones," NBC television network, Summer 2014.
- <sup>51</sup> Adriana Cruz, President, Greater San Marcos Partnership, before the Select Committee on Economic Development Incentives, August 27, 2014.
- <sup>52</sup> Timothy Schram, "Credits and Incentives Update," Journal of State Taxation, Summer 2014.
- <sup>53</sup> Crystal Williams, "Credits and Incentives Update," Journal of State Taxation, Spring 2014.
- <sup>54</sup> Michael Leachman and Chris Mai, "Lessons for Other States from Kansas' Massive Tax Cuts," Center on Budget and Policy Priorities, March 27, 2014.
- <sup>55</sup> James Yohe, Executive Director, Nocona Economic Development Corporation, before the Select Committee on Economic Development Incentives, August 12, 2014.
- <sup>56</sup> "Economic Development in Texas: Programs and Incentives," TTARA Research Foundation, October 2011.
- <sup>57</sup> Craig Casselberry, President, Texas Coalition for Capital, before the committee, April 3, 2014.
- <sup>58</sup> Cal Jillson, "Pursuing the American Dream: Opportunity and Exclusion over Four Centuries," 2004.
- <sup>59</sup> Arthur O'Shaughnessy, "Ode," 1873.
- <sup>60</sup> Andrew McAfee, MIT Professor, "Are Robots Hurting Job Growth?" Sixty Minutes, CBS Television Network, January 13, 2013.
- <sup>61</sup> Richard Florida, "America's Leading Metros For Venture Capital," Theatlanticcities.com, June 17, 2013.
- <sup>62</sup> Randall Stross, "Failing Like a Buggy Whip Maker? Better Check your Simile," The New York Times, January 10, 2010.
- <sup>63</sup> Brandon Busteed, "The Education Economy: America's Next Big Thing," Gallup Business Journal, August 19, 2004.
- <sup>64</sup> Richard Florida, "America's Leading Metros for Venture Capital," Theatlanticcities.com, June 17, 2013.
- <sup>65</sup> Martin Kenney, editor, "Understanding Silicon Valley: The Anatomy of an Entrepreneurial Region," 2000.
- <sup>66</sup> Richard Florida, "America's Leading Metros for Venture Capital," Theatlanticcities.com, June 17, 2013.
- <sup>67</sup> Benny Andersson and Bjorn Ulvaeus, "Take a Chance on Me," 1977.
- <sup>68</sup> Venture Investments Highest Since 2001, cbsnews.com, April 18, 2014.
- <sup>69</sup> James Poague, President and CEO, Startech, in testimony before the committee, April 3, 2014.
- <sup>70</sup> "Information and Observations on State Venture Capital Programs: Report for the U.S. Department of the Treasury and Interested Parties in the State Small Business Credit Initiative (SSBCI)," prepared by Cromwell Schmisser, LLC, February 2013.
- <sup>71</sup> James Poague, President and CEO, Startech, in testimony before the committee, April 3, 2014.
- <sup>72</sup> Martin Kenney, editor, "Understanding Silicon Valley: The Anatomy of an Entrepreneurial Region," 2000.
- <sup>73</sup> Bob Metcalfe, Ph.D., Professor of Innovation, University of Texas at Austin, in testimony before the committee, April 3, 2014.
- <sup>74</sup> Bryan Daniel, Chief Administrator for Trade and Business Development, Texas Department of Agriculture, in testimony before the committee, April 3, 2014.
- <sup>75</sup> Richard Florida, "How Startups have Changed the Way American Business Thinks," The Atlantic Cities, January 10, 2011.
- <sup>76</sup> Bob Metcalfe, Ph.D., Professor of Innovation, University of Texas at Austin, in testimony before the committee, April 3, 2014.
- <sup>77</sup> Jeremy Vickers, Vice President for Innovation, Dallas Regional Chamber, in testimony before the committee,

---

April 3, 2014.

<sup>78</sup> Lori Hawkins, "Gold Rush on Again for Tech in Austin," Austin American Statesman, April 27, 2014.

<sup>79</sup> Hana Cho, "Funding Roars Back in Texas," Dallas Morning News, March 2, 2014.

<sup>80</sup> Erica Grieder, "Big, Hot, Cheap, and Right: What America Can Learn from the Strange Genius of Texas," 2013

<sup>81</sup> Stephen Minick, Vice President of Governmental Affairs, Texas Association of Business, in testimony before the committee, April 3, 2014.

<sup>82</sup> Tony Bennett, Texas Association of Manufacturers, in testimony before the committee, April 24, 2014.

<sup>83</sup> Paul Davis, Executive Director, Pasadena Second Century Corporation, before the Select Committee on Economic Development Incentives, August 27, 2014.

<sup>84</sup> Roger Altman, "Surprise: The Economy Isn't as Bad as You Think," Time Magazine, July 28, 2014.

<sup>85</sup> Texas Business Report, Texas Association of Business, July 2014.

<sup>86</sup> Dave Montgomery, "Toyota Heads to Texas," Fort Worth Business Press, May 5-11, 2014.

<sup>87</sup> JoAnn Muller, "America's Car Capital Will Soon Be...Mexico," Forbes, September 8, 2014.

<sup>88</sup> Erica Grieder, "Texas' Economic Outlook," Texas Monthly Burkablog, April 18, 2014.

<sup>89</sup> Molly Quirk, Report on Manufacturing Legislation, 83rd Legislative Session.

<sup>90</sup> Greg D. Yoxsimer, Human Resources Business Partner, Chevron, before the Select Committee on Economic Development Incentives, August 27, 2014.

<sup>91</sup> David Von Drehle, "The Robot Economy," TIME, September 9, 2013.

<sup>92</sup> Rana Foroohar and Bill Saporito, "Made in the USA," Time Magazine, April 22, 2013.

<sup>93</sup> "The Progress of Education Reform," Education Commission of the States, April 2014.

<sup>94</sup> George Bernard Shaw.

<sup>95</sup> Compiled by the Texas Workforce Commission.

<sup>96</sup> Erica Grieder, "Big, Hot, Cheap, and Right: What America Can Learn from the Strange Genius of Texas," 2013.

<sup>97</sup> James Gaines, "The Amazing Rate, Part II," reprint from Tierra Grande Magazine, October 2013.

<sup>98</sup> Steve Murdock, "Changing Texas: Implications of Addressing or Ignoring the Texas Challenge," 2014.

<sup>99</sup> Lewis Carroll, "Through the Looking-Glass, and What Alice Found There," 1871.

<sup>100</sup> A typical phrase uttered every day in every workplace.