



Economic Development

Communities in Texas and throughout the nation are constantly competing to attract capital investment and create more and better-paying jobs for their residents. Such investments increase income and enhance the community's quality of life.

Businesses consider many factors in deciding where to locate or expand, such as the skill of an area's work force, the quality of its schools and infrastructure and the economic incentives it offers. Federal, state and local governments can employ a variety of economic development tools to pursue these businesses, including grants, loans and other incentives.

Economic Snapshot

The Texas economy remained strong in 2007, continually outpacing the U.S. in many key economic indicators. Texas nonfarm employment rose by 2 percent from November 2006 to November 2007, the fifth-highest growth rate among states and nearly doubled the national rate of 1.1 percent. Texas added more jobs over this period than second-place Florida and third-place California combined.²⁷⁶

Even so, Texas employment growth cooled somewhat in 2007; in 2006, the state added 313,000 jobs, a 3.2 percent increase representing the state's fastest growth since 1998 (**Exhibit 43**).²⁷⁷

In January 2007, the Texas unemployment rate dipped below the national rate for the first

DID YOU KNOW?

Sales tax account for 54.9 percent of taxes.

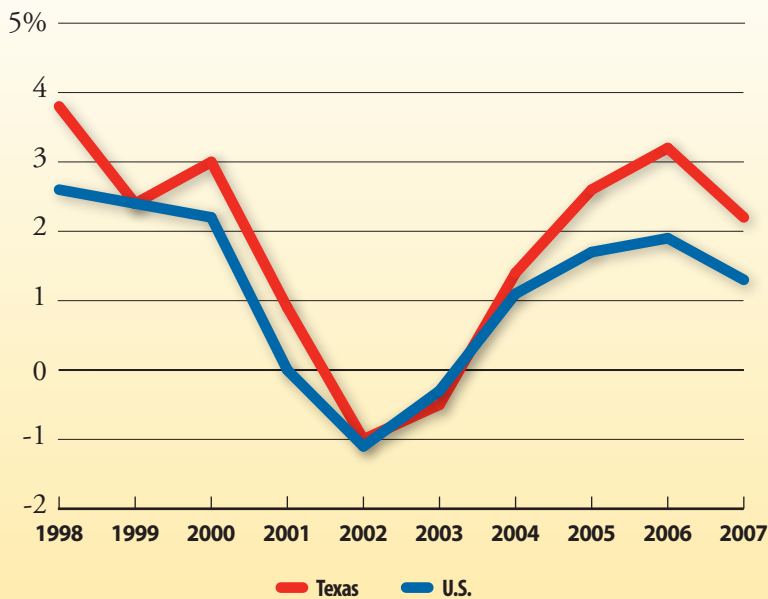
Texas collected \$37 billion in taxes for fiscal 2007, a 10.2 percent increase from fiscal 2006.





Exhibit 43

Annual Employment Change Since 1998



Sources: Texas Comptroller of Public Accounts and Global Insight, Inc.

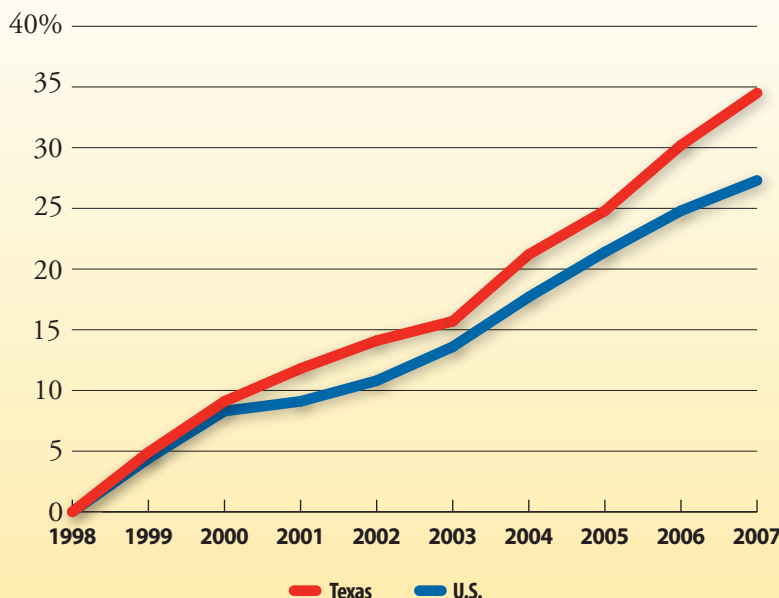
time since 1992, and reached a record low of 4.1 percent in May 2007. As of November 2007, Texas unemployment stood at 4.2 percent compared to 4.7 percent for the nation.²⁷⁸

Growth in Texas' gross domestic product (GDP) also slowed in 2007, to an estimated 3.3 percent, compared to stronger-than-usual growth of 4.3 percent in 2006. Since 1998, Texas' GDP has risen by 34.5 percent, compared to 27.3 percent nationally (**Exhibit 44**).²⁷⁹

Texas' personal income growth also has outpaced the national average, rising by 75.2 percent since 1998 compared to 57.5 percent nationally (**Exhibit 45**). Strong job gains and higher wages both contributed to this growth.²⁸⁰ The Comptroller's office expects personal income growth to decline slightly in 2008 and 2009, mirroring a slow-down in employment gains.

Exhibit 44

Growth in Gross Domestic Product Since 1998



Sources: Texas Comptroller of Public Accounts and Global Insight, Inc.

Texas Employment by Industry

Texas employment is continuing a natural transition towards a service-oriented economy. In 2006, services accounted for 83 percent of Texas jobs and three out of every four new jobs.²⁸¹ Services accounted for 63 percent of Texas' economic output in 2006, compared to a 70 percent share for the U.S., reflecting the state's role as an energy leader and its relatively strong manufacturing sector.²⁸² As **Exhibit 46** shows, Texas' loss of manufacturing jobs since 1990 has been far lower than the nation's as a whole.

The shift toward services was disrupted in 2005 and 2006, however, as rapid employment growth in the oil and gas industry allowed the Texas goods sector to outpace services for the first time since 1998. In 2006,



growth in goods-producing jobs outpaced that of the services industries by 5.1 percent to 2.8 percent (**Exhibit 47**).

Goods-Producing Industries

Natural resources and mining, which includes oil and gas, led job growth in all industries in 2005 and 2006, with an 11.4 percent increase in 2006.²⁸³ This industry also led growth in 2007, as oil and gas exploration continued to expand. Despite some stabilization in fuel prices, Texas had an average of 834 oil and gas drilling rigs in operation at the end of 2007, marking the most active year for exploration since 1984.²⁸⁴

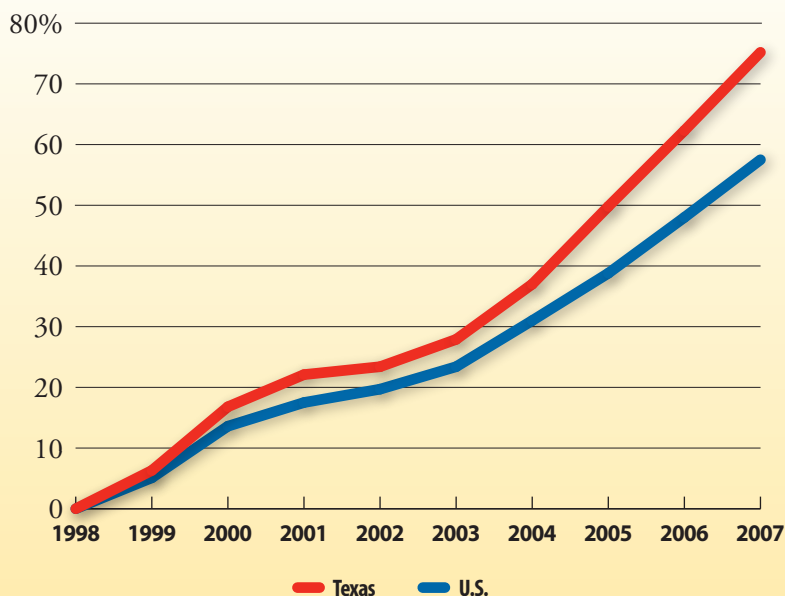
In all, employment in natural resources and mining rose by 8 percent from November 2006 to November 2007; these included many high-paying jobs in drilling and marketing operations. (Note that all subsequent 2007 annual figures refer to the November 2006 to November 2007 period.)

Construction continued to expand in Texas in 2007, although at a slower pace than in the previous year. Due to an increasing number of housing foreclosures, construction for single-family housing declined in 2007, but this decline was nearly offset by increased construction of multi-family housing. Heavy construction projects of pipelines and petrochemical refineries rose considerably, while projects for roads and other infrastructure remained strong. In all, employment in construction rose by 2.4 percent in 2007.

Employment in manufacturing declined by 1.2 percent in 2007, following two consecutive years of increases.²⁸⁵ Despite these losses, manufacturing productivity expanded due

Exhibit 45

Growth in Total Personal Income Since 1998



Sources: Texas Comptroller of Public Accounts and Global Insight, Inc.

to advancements in technology. Output in manufacturing is expected to increase by 3.0 percent in 2007.²⁸⁶

Increased demand for exports prompted additional hiring in chemical manufacturing. Machinery and fabricated metal manufacturing employment rose due to increased oil and gas rig production. On the other hand, computer and electronics manufacturing employment declined due to a slump in prices and lower demand for computers and related technologies. And the housing downturn hurt related industries such as electrical equipment appliances and component manufacturing.

Service-Providing Industries

Service-providing jobs include trade, transportation, and utilities; information; financial activities; professional and business services; educational and health services; and

DID YOU KNOW?

Texas cigarette and tobacco tax totaled \$1.3 billion in fiscal 2007.

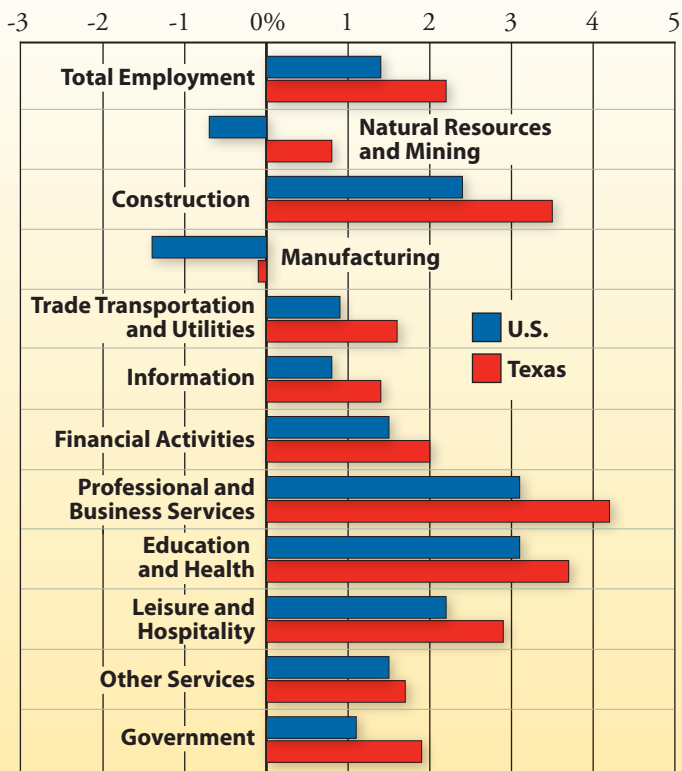
Texas hotel occupancy taxes totaled \$340.6 million in fiscal 2007.

Texas franchise tax totaled \$3.1 billion or 8.5 percent of total tax collections in fiscal 2007.



Exhibit 46

Average Annual Employment Change by Industry 1990-2006



Sources: Texas Comptroller of Public Accounts, Global Insight, Inc. and U.S. Bureau of Labor Statistics.

government. All service sectors experienced job gains in 2006 except for information, an industry that is still recovering from the dot-com “bubble” of several years ago, and contending with increased competition and lower prices. All service industries increased employment in 2007, including a slight increase in the information sector.

In 2006, professional and business services led the services industries both in job growth and the number of jobs produced. This sector is important to Texas, consisting as it does of many knowledge-based, high-paying positions, such as architects, system designers and engineers. Despite a decline in

high-technology manufacturing, computer systems design employment increased by 10 percent in 2007. Demand for professional services related to energy and construction, such as architectural engineering services and management and professional and scientific consulting, also increased.²⁸⁷ In 2007, professional and business services employment continued with an impressive 4 percent growth, or 50,500 new jobs, just lagging gains in leisure and hospitality.²⁸⁸

Despite recent moderation in employment growth, education and health services increased their job counts by an average of 3.7 percent annually between 1990 and 2006.²⁸⁹ Their growth corresponded to a nationwide trend, as more health services are needed as the population increases and ages. This sector added 25,900 jobs in 2007, a 2.1 percent increase.²⁹⁰

Texas Exports

Exports are extremely important to the Texas economy. Texas exports have achieved four consecutive years of double-digit growth and now account for 15 percent of Texas GDP, the highest share of any state. Today, Texas leads the country in export trade and accounts for 14 percent of all U.S. exports.²⁹¹

Texas has emerged as a leading exporter in high-tech manufacturing, including computer and electronics manufacturing. Twenty-six percent of all export-related jobs are in computer and electronics equipment manufacturing, the most skill-intensive work associated with exports. This figure compares to 16 percent for the nation as a whole. Research shows that the higher the skill level among export-related jobs, the greater the

DID YOU KNOW?

Texas added more jobs than any other state in fiscal 2007.



positive effects on technological progress and economic growth.²⁹²

Economic Outlook

As the Texas economy continues to diversify, it will increasingly mirror the U.S. economy, although it has fared better compared to the country during a period of rising energy prices. The Comptroller's office expects the growth in Texas GDP to slow to 3.2 percent for 2007, 3 percent in 2008 and 3 percent in 2009. The outlook in Texas is largely positive, despite this expected slowdown.

Texas must focus on attracting and creating innovative and highly paid jobs to maintain its strong economic development. The following section describes programs to achieve these goals.

Federal Assistance Programs

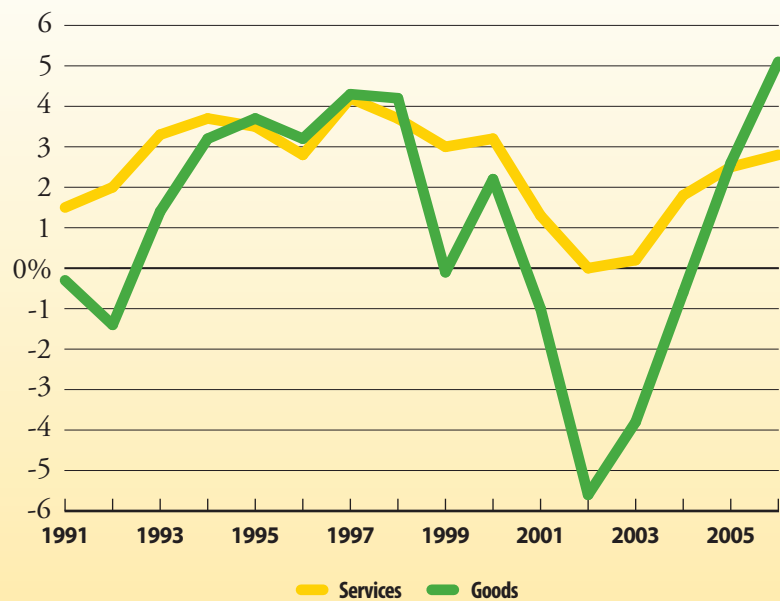
The federal government offers states, local governments and communities a number of economic and community development grants and loans. These provide funds for construction, operations and other projects needed to foster or revitalize economic development. Available funding includes:

Community Development Block Grants (State Programs) — These funds from the Department of Housing and Urban Development (HUD) are distributed to states for the expansion of economic opportunities in both urban and rural communities. For more information, please visit <http://www.hud.gov/>.

Community Facilities Loans and Grants — These loans and grants from the U.S. Department of Agriculture are provided to local and state governments for the construction

Exhibit 47

Annual Change in Texas Goods and Services Employment



Sources: Texas Comptroller of Public Accounts and Global Insight, Inc.

of or improvements to community facilities. For more information, please visit <http://www.rurdev.usda.gov/rhs/cf/cp.htm>.

Grants for Public Works and Economic Development Facilities — These grants from the U.S. Department of Commerce are for improving the physical infrastructure of regions in economic distress to attract new business and industry. States, counties, institutions of higher education and other political subdivisions are eligible for the grants. For more information, please visit <http://www.eda.gov/InvestmentsGrants/Investments.xml>.

State Assistance Programs

Emerging Technology Fund — The ETF provides grants for applied research and development activities for the purposes of creating a commercialized product and acquiring new

DID YOU KNOW?

In 2006, Texas media industries (film, television, commercials, animation and video games) spent \$330.1 million on production spending in Texas. Since 1997, they've spent \$1.8 billion.

In 2006, Texas media industries added about 10,900 permanent jobs and 6,700 temporary crew jobs in Texas.



or enhancing existing research talent at institutions of higher education. The ETF seeks to establish new jobs and medical and scientific breakthroughs. Grants are awarded by the governor. The ETF has \$116.6 million available for fiscal years 2008 and 2009. For more information, please visit <http://www.governor.state.tx.us/divisions/ecodev/etf/>.

Texas Enterprise Fund — The fund was created to provide grants to economic development projects. The governor awards these grants to projects for the purposes of infrastructure development, community development, job training programs and business incentives. Grants are used to attract new businesses and expand existing businesses. The Enterprise Fund has \$224.4 million available for fiscal years 2008 and 2009. For more information, please visit http://www.governor.state.tx.us/divisions/ecodev/ed_bank/tefund.

§4a Sales Tax — This tax can be levied by cities in counties with fewer than 500,000 residents to support manufacturing and industrial development. The funds generated can be used to improve infrastructure; purchase land and buildings; or develop new businesses. For more information, please visit

http://www.window.state.tx.us/taxinfo/taxpubs/tx96_302.html.

§4b Sales Tax — This tax can be levied by all cities, regardless of population, for quality-of-life improvements intended to attract or maintain businesses, such as streets and roads and related improvements. The funds may be used to improve infrastructure and build facilities including sports, entertainment and convention centers.

§4a and §4b are collectively known as the economic development sales tax. For more information, please visit http://www.window.state.tx.us/taxinfo/taxpubs/tx96_302.html.

Economic Development Refund Program — The Property Tax Division of the Comptroller's office administers this program that allocates state refunds for economic development. To be eligible, a property owner must have established a new business in a reinvestment zone or expanded or modernized an existing business located in the zone. For more information, please visit <http://www.window.state.tx.us/taxinfo/proptax/>.

Texas Leverage Fund — This fund allows cities that have adopted the economic development sales tax to leverage future tax revenue for

Low-Income Energy Assistance

Many of those who spend a greater proportion of their income on energy use are those who cannot afford to remedy the problem. The majority of low-income individuals spend more than 40 percent of their income on utilities, often due to older, inefficient home appliances and an inability to pay for home energy efficiency improvements. The State Energy Conservation Office and the federal Energy Star program are combining resources and efforts to facilitate two projects that address such issues with low-income households. Both projects are designed to enable sponsors to provide services and outreach to Texas citizens that might not otherwise participate due to a lack of resources. These projects are some of the first of their kind in the country and are already proving to be examples for others. Energy Star is a joint partnership of the Environmental Protection Agency and the U.S. Department of Energy. For more information, visit the State Energy Conservation Office Web site at <http://www.seco.cpa.state.tx.us>.



the purpose of financing community projects (such as purchasing land or equipment or building public parks and entertainment facilities) and industry expansion. For more information, please visit http://www.governor.state.tx.us/divisions/ecodev/ed_bank/leverage_fund.

Texas Industry Development Program —

This program, administered by the Texas Small Business Industrial Development Corporation, provides communities with funds for job creation and industry expansion. The funds can be used to purchase land, facilities, construction, equipment and infrastructure improvements. For more information, please visit http://www.governor.state.tx.us/divisions/ecodev/ed_bank/TID_loan_program.

Texas Capital Fund — This fund supports four programs, each administered by the Texas Department of Agriculture through the Office of Rural and Community Affairs. The programs are designed to create new jobs or retain existing jobs, primarily for low- or moderate-income individuals, in cities with fewer than 50,000 residents and counties with fewer than 200,000 residents that do not receive direct funding from HUD. For more information, please visit http://www.agr.state.tx.us/agr/program_render/0,1987,1848_6050_0_0,00.html?channelId=6050.

The four programs include the Downtown Revitalization Program, the Infrastructure Development Program, the Main Streets Improvement Program and the Real Estate Development program. These programs provide funds for land acquisition, public infrastructure improvements and real estate development designed to encourage business development and expansion.

Sales Tax Assistance Provided to Escobares

In November 2006, the recently incorporated city of Escobares contacted the Local Government Assistance Division for help related to a sales tax election. Upon meeting with local officials in Escobares, LGA assisted them with drafting documents to hold a sales tax election for city sales tax, street maintenance sales tax, section 4A sales tax and section 4B sales tax; all of which were adopted. LGA continued to work with local officials to help the city implement the new taxes. The city of Escobares received its first allocation from the Comptroller's office in June 2007.

More information on economic development grants, loans and tax incentives for communities can be found at <http://www.window.state.tx.us/specialrpt/fedstate05/> and <http://www.window.state.tx.us/specialrpt/stateloc05/>. In addition to the grants and loans for cities and communities listed above, many other opportunities exist for businesses, industry and farms including the Small Business Association and the U.S. Department of Agriculture.

Comptroller Assistance

One of the many functions of the Texas Comptroller's office is providing economic development information to local governments and other groups, and analyzing the demographic, labor force and other economic factors needed to generate economic growth in communities. Through the Texas EDGE (Economic Data for Growth and Expansion) Program, the agency can run economic models and provide analyses that identify occupational and industry trends and their effects on the regional economy. The Comptroller's office also can provide

DID YOU KNOW?

Texas received \$24.4 billion in federal funds during fiscal 2007, a decrease of 1.4 percent from fiscal 2006.



Texas EDGE

Short for Economic Data for Growth and Expansion, the Texas EDGE program has received more than 100 requests and has assisted many local entities since its inception in August 2007. Here are a few examples of what the Comptroller's Texas EDGE has done for Texans:

- provided a regional economic model (REMI) analyzing the economic impact of the World Cheerleading Hall of Fame on the Houston – Sugar Land – Baytown MSA.
- in response to a request for information on retail sales data for Cameron County, provided Sites on Texas Executive Summary Report for Cameron County and the city of San Benito. In addition, the program calculated sales tax allocation data per capita.
- provided a REMI report for the economic impact of a new biomedical research company that opened in Jim Wells County.
- provided sales tax history for the last 10 years for the city of Gonzales in graph and table form.
- provided information on changes in manufacturing employment in Texas from September 2000 to September 2007.
- provided economic data, including income statistics, on Tarrant County and Southeast Fort Worth, down to the zip code level.
- provided a State of Texas Automated Information Retrieval System (STAIRS) report for Aransas County.
- provided Standard Occupational Classification forecast information for construction professionals from the Texas Workforce Commission for the Gulf Coast Workforce Development Board and for the state.

For more information, visit the Texas EDGE Web site at <http://www.window.state.tx.us/texasedge>.

local demographic data, identify business clusters and provide maps of regional infrastructure including highways, railroads and other public facilities. For assistance, please visit www.window.state.tx.us/texasedge or e-mail texas.edge@cpa.state.tx.us.

Since August 2007, the Comptroller's office has responded to more than 100 Texas EDGE requests. Requests have come from city government officials, county government officials, economic development corporations, private businesses and members of the media. Requests have come in for information on many topics including demographics, economic development, economic modeling and taxes. Most of the

requests thus far, about one third, have been on economic development.

The Comptroller's office also provides local governments with information about tax-related programs and identifies opportunities to raise funds for economic development efforts through property, sales and franchise tax revenues, exemptions and credits. The agency also provides information on special assessments and other opportunities related to disaster relief.

The Local Government Assistance and Economic Development Division at the Comptroller's office can provide a free risk assessment to local governments. A risk assessment can give reasonable assurance that



risks to accomplishing a local government's objectives have been identified. It will also show the controls and mitigations associated with the risks.

Finally, the State Energy Conservation Office (SECO) helps Texas make the most of domestic energy, reduce state and local government energy costs and promote cost-effective clean energy technologies. SECO offers a free preliminary energy audit for local governments. The audit provides recommendations on reducing electricity consumption by improving the efficiency of heating and air conditioning systems and using more efficient lighting.

Sales Tax Assistance Provided to Princeton

In November 2007, the city of Princeton contacted the Comptroller's office seeking information on original ballot language regarding sales tax. The city of Princeton was inquiring as to whether the sales tax collected by the city could be used only for street improvements, or if it could be used for other purposes. The Local Government Assistance Division obtained this information from the State Library and Archives Commission. LGA informed the city of Princeton that sales tax collections may be used for any purpose allowed by the Economic Development Act, allowing it to use tax revenues for new purposes. For more information, visit the Local Government Assistance Division Web site at <http://www.window.state.tx.us/lga/>.

Economic Development Questions for Further Consideration

- What can local communities do to create more and better-paying jobs?
- What strategies can Texas explore to keep the economy diversifying and growing in the future?
- What types of industry do the state and local communities get the most benefit from? How can we encourage those businesses to locate here?
- What information is needed in order to assist prospective employers or local employers that are growing?
- How do we link the economic development goals of our state with our education goals?