



STRATEGIC ECONOMIC DEVELOPMENT PLAN 1998-2008

Report of the Texas Strategic Economic Development Planning Commission

Mission Statement

“Texas must develop a knowledge-based economy that maximizes prosperity for all its citizens and ensures global competitiveness across all its regions.”

30 October 1998

Dear Governor Bush, Lieutenant Governor Bullock, Speaker Laney:

The Texas Strategic Economic Development Planning Commission is pleased to present the 1998 Texas Strategic Economic Development Plan. This plan contains recommendations that will strengthen the state's economic development resources and make Texas a leading world economy in the next ten years.

The Strategic Economic Development Planning Commission has established a mission statement and set five goals for Texas in the next decade:

MISSION

Texas must develop a knowledge-based economy that maximizes prosperity for all its citizens and ensures global competitiveness across all its regions.

GOALS

Goal 1 Texas must make education and workforce development the state's number one economic development priority.

Goal 2 Texas must develop a business climate that leads the nation in attracting and encouraging value-added businesses. Entrepreneurship and technological innovation must become hallmarks of the state.

Goal 3 Texas must become the transportation and information center of the Western Hemisphere – allowing for the efficient movement of goods, capital and information throughout the world.

Goal 4 Texas must develop an economic development marketing strategy that drives the state's national and international business development efforts.

Goal 5 Texas' high-growth economic strategy should be inclusive of all regions of the state.

The top priority for Texas is building its workforce – a challenge that requires action at all levels of the state's educational and workforce training institutions. A knowledgeable and skilled workforce is the greatest economic development tool the state can acquire, and will rank Texas favorably with other internationally competitive regions.

It is the opinion of the Commission that accomplishing the above goals will position Texas as the preeminent international location for high growth businesses.

Respectfully submitted,


F. L. (Steve) Stephens
Chairman


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Vice-Chairman



Executive Summary

The Texas Strategic Economic Development Planning Commission was formed on September 1, 1997. The Commission operated under a legislative mandate SEC481.031 on behalf of the Governor, the Lieutenant Governor and the Speaker of the House. After several months of testimony, business surveys and analytic work, the Commission established the following mission statement for the plan:

Texas must develop a knowledge-based economy that maximizes prosperity for all its citizens and ensures global competitiveness across all its regions.

This mission statement is critical in the development of key concepts within the plan. “Knowledge-based economy” refers to the importance of a skilled workforce as the surest path to economic growth. All industries are now technology-driven. The knowledge base required to remain competitive is constantly growing. The phrase “maximizing prosperity for all citizens” describes principally a healthy economy that provides opportunity for all Texans in all regions of the state. Finally, “global competitiveness across all regions” refers to the need for Texas to be a global economic leader and seek international market opportunities in every area of the state.

The Commission established five goals for the plan with specific strategies and recommendations for each:

Goal 1 Texas must make education and workforce development the state’s number one economic development priority.

Goal 2 Texas must develop a business climate that leads the nation in attracting and encouraging value-added businesses. Entrepreneurship and technological innovation must become hallmarks of the state.

Goal 3 Texas must become the transportation and information center of the Western Hemisphere – allowing for the efficient movement of goods, capital and information throughout the world.

Goal 4 Texas must develop an economic development marketing strategy that drives the state’s national and international business development efforts.

Goal 5 Texas’ high-growth economic strategy should be inclusive of all regions of the state.

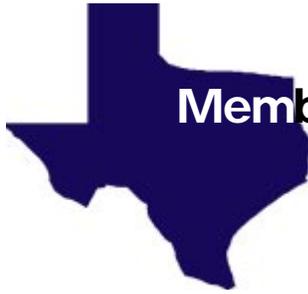


Further, the Commission believes that workforce development is the single most important economic development issue facing the state. The Commission is of the view that workforce concerns cannot be addressed without a strong and unequivocal commitment to education. In this context, both basic education and higher education are essential to the development of a successful economy.

Many of the state's most significant challenges – especially along the Texas-Mexico border – can be addressed most effectively through this commitment to education and training. It is clear that Texas faces enormous challenges in its quest for educational excellence, and these challenges can best be met by setting higher standards and then enlisting the support of schools and businesses to reach those standards.

While the 1999 legislative session is an opportunity to introduce many of these concepts, the Commission understands that the strategies being proposed in this plan will extend into future.





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Introduction

The Strategic Economic Development Planning Commission has been charged by the Texas Legislature with developing a comprehensive statewide strategic plan. “Economic development,” for the purposes of this report, refers specifically to public policy that maximizes the economic prosperity of all Texas citizens and regions. Using this approach, benefits are measured through job opportunities, capital investment and a competitive environment for the state’s industries.

A strategic plan is one that is concerned with long-term issues – examining the overall conditions necessary for growth rather than at one specific business sector or one area of the state. In other words, this strategic plan seeks to establish guiding principles for the creation of overall wealth through a dynamic and competitive business sector. The Commission has targeted a ten year planning horizon.

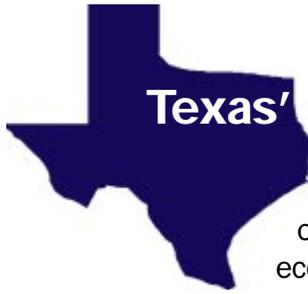
The Commission met its charge by soliciting testimony from over 100 individuals, by surveying 33 companies representing more than 100,000 employees, by analyzing economic growth sectors and by assessing the state business climate in relation to other states. These “inputs” helped the Commission establish the following five areas on which to focus:

- workforce
- business climate
- infrastructure
- marketing and international trade
- regional prosperity

The methodology employed by the Commission was straightforward: concentrate on those issues in which state involvement would have the greatest impact. This approach was based on examining sector growth in Texas on an historical basis, then projecting future trends on a cluster basis. This methodology relied on occupational forecasts as well as anticipated technological changes affecting all industries.

Finally, the plan sets forth specific benchmarks for monitoring and implementation of the Commission’s recommendations.

Several broad issues that were presented to the Commission include: illegal immigration, utility deregulation, export taxation, and the federal unemployment tax. While important, the Commission did not address these issues in the report.



Texas' Competitive Position

The recent economic success of the Texas economy is a result of the state's inherent advantages coupled with aggressive economic development efforts driven primarily by local development organizations. Legislative actions such as reform of the civil justice and worker compensation systems and state agency reorganizations have made it easier to do business in Texas. When compared with other states, Texas has significant advantages for economic growth:

- Strategic trade location – enhanced by the passage of NAFTA
- Large labor force – with growth in technology employment
- Developed transportation infrastructure
- Strong industry clusters
- Favorable business climate
- Abundant natural resources

These advantages, however, must be considered in the context of a world economy that is in the first stages of transformation. In the broadest sense, Texas must build a knowledge-based economy. This is true whether or not a particular business is “high-tech.” From the smallest business occupying a niche market to the largest multi-national corporation, technology furthers competitiveness. Sales and marketing have become global. Production facilities move freely from continent to continent. Distribution of goods can be far removed from either customers or manufacturers. Electronic commerce has transfigured business transaction models in finance, services and assembly. According to International Data Corporation, commerce conducted over the Internet will reach more than \$400 billion by 2002, reflecting a five year annual growth rate of 103%. We routinely purchase airline tickets electronically and manage our bank accounts from home. These are not 21st century changes; this is the reality of our everyday lives.

This emerging economy will require different structures to support it: more skilled workers, a greater ability to move information and capital, and a shorter time-to-market in the production of goods and services. Building the infrastructure for these needs is categorically different from what was required by the public sector in a natural resource-based economy:

- improved educational attainment is vital in a knowledge-based economy where technically skilled employees are in high demand
- the business climate must support capital-intensive basic industries and research and development that creates new technologies
- telecommunications needs will meet or exceed those of traditional transportation needs
- public-private partnerships will become increasingly important

This plan is aggressive in addressing these challenges. Industry is changing too rapidly to assume that old economic development models will be adequate. The plan is also candid about where the state's weaknesses lie and where Texas stands in relation to other states and regions.

A proper response by the public sector begins by knowing what industry requires. With the regulatory improvements of the last three legislative sessions, the primary focus must now be on building a trained workforce. Given the changing structure of the national and state economy to one that is technology-based, the competitive advantages or "critical success factors" required by expanding or relocating businesses are challenging Texas' economic development professionals. No longer is it possible for communities to recruit businesses with financial incentives only.

While Texas is projected to add more than 2 million jobs by 2008, growing domestic and international competition for economic development projects will challenge the state's ability to attract new businesses and support expansion of home-grown businesses.

STRENGTHS AND WEAKNESSES

As a starting point for developing the strategies and recommendations in this report, the state's competitive position was compared with Arizona, California, Illinois, North Carolina, and Washington. These states were selected based on recent corporate relocations and the progressive approach these states have taken to economic development.

Economic Base

Texas has a strong statewide economic base with excellent potential for continued growth. Texas' economy is growing at an annual rate double that of California and triple that of Illinois. The state has already begun the shift from a resource-driven economy to a technology-driven economy, and can expect continued, self-reinforcing economic expansion.

Texas' economy is highly integrated and dependent on international trade, especially given the state's strategic proximity to Mexico. In fact, Texas manufactures 12 percent of all the goods exported by the U.S. A challenge facing the state will be to expand international business opportunities outside the NAFTA nations of Mexico and Canada and into other international markets.

Labor Market

Texas is no better than average in comparison to other states: strong by virtue of the number and age of workers, weaker as a result of limited skills and lower educational attainment. Since unemployment rates are at historic lows, Texas is facing an unprecedented labor shortage for both skilled and unskilled workers. Texas' unemployment rate of 4.9 percent does not represent unique problems for the state when compared to its main competitors, California (4.6 percent) and North Carolina (3.6 percent).

While Texas' competitor states are experiencing similar labor shortages, the state's education system is not providing enough qualified workers to existing businesses. In addition, long-term forecasts indicate a decrease in the percent of Texans receiving high school, bachelor, and post-graduate degrees.

Infrastructure

This is a competitive advantage for Texas. Texas has more hub airports than all of the other competitors, is second only to California in terms of total cargo (by weight) landed at its airports, and has more miles of highway than the other states. The vitality of the Port of Houston and the potential for growth in other Texas gulf ports allows Texas to claim additional advantages in its access to Latin and South America.

Although Texas has an excellent transportation infrastructure, increasing traffic and congestion along Texas highways could become a barrier to economic growth. Texas' competitor border states, Arizona and California, are facing similar problems and are developing strategies to increase border traffic flow.

Increased exports, substantially prompted by NAFTA, are straining border transportation infrastructure. Trucks carrying goods across the border must often wait for hours as U.S. and Mexican officials clear cargo. These delays cause huge traffic problems in border communities and add to the cost of delivering goods to and receiving materials from Mexico. The additional costs hurt the competitiveness of manufacturing operations in Dallas, Austin, Houston, and other cities across the state.

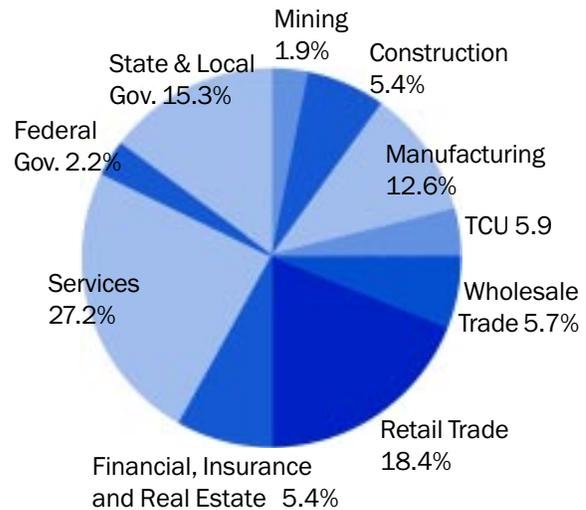
The telecommunications infrastructure in Texas varies widely between rural and urban areas. Access to high-speed data transfer is not readily available outside the metropolitan areas and there are few local initiatives to provide fiber optic connection to every home, school and business. With the U.S. leading the world in Internet usage, the opportunity to put Texas in the forefront of electronic commerce and information access is a real possibility.

Business Climate

Texas has an above average business climate when compared to its competitor states. Recent legislative improvements regarding tax policy, workers compensation, and civil justice reforms have made a traditional asset even stronger.

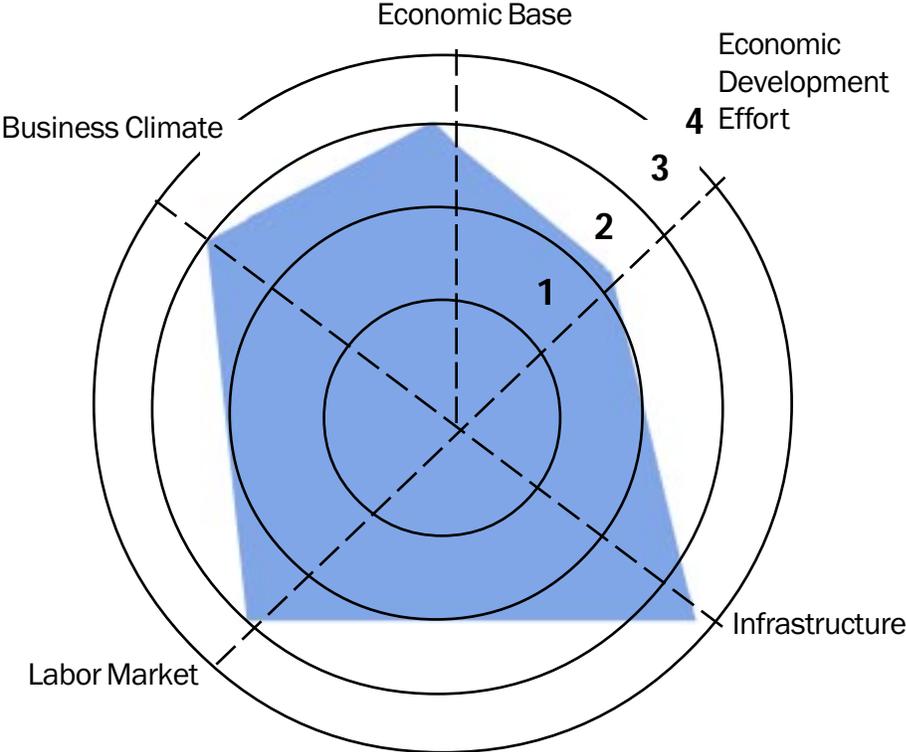
The key factor that lowers Texas' business climate rating is the lack of research and development (R&D) and capital investment tax credits. Although Texas ranks well in terms of R&D expenditures (sixth nationally

Texas Employment Composition 1997



Source: Texas State Comptroller Office

The following chart represents Texas' economic development profile based on the five critical success factors influencing expansion and relocation decisions: economic base, business climate, labor market, transportation infrastructure, and economic development effort. The larger the shaded area, the stronger Texas' competitive advantage (any point outside the second circle indicates an above average rating).



Scale: 1 (Below average) → 4 (top of class)

with \$8.4 billion invested), its per capita standing is much lower and the competitive response from other areas is becoming more intense. Currently, 30 states offer either R&D or capital investment credits. The lack of investment and R&D tax credits coupled with relatively high property tax rates place Texas at a significant disadvantage when competing with other states for high capital investment projects.

The absence of individual and corporate income taxes is compelling to potential investors and businesses. Among competitors examined, only Washington does not impose these taxes. In addition, average electric rates in Texas are the lowest among competitor states, improving the state's overall business climate.

Economic Development Effort

Texas' economic development programs at the state level have far fewer resources than those of competitor states. Texas makes up the difference through greater reliance on local economic development incentives. Most significantly, Subchapters 4A and 4B of the Texas Revised Civil Statutes

permit local governments to raise funds through the sales tax to support local economic development efforts.

Greater reliance on local economic development organizations has limited the state’s ability to create and implement an integrated economic development marketing strategy. Local economic development agencies must rely upon localized marketing strategies in the absence of a state-wide marketing plan and vision.

For the most part, Texas’ competitor states are more actively involved in the recruitment of major national and international businesses. The Texas Department of Economic Development is not organized around corporate recruitment.

THREATS AND OPPORTUNITIES

Assessing the competitive environment in which Texas operates is important, but does not provide a complete picture of how the state might respond to changing economic conditions. The following matrices give a brief overview of the major threats to the state’s competitive position – and how they might be dealt with. The recommendations in this report are a direct response to these opportunities.

Texas can overcome its threats and leverage its opportunities by developing a globally competitive workforce and a business climate that promotes R&D, capital investment, and value-added businesses. This strategy also involves creating a highly advanced information infrastructure. This infrastructure must consist of the ability to move data at high speed, to communicate rapidly in various media, and to provide network linkages on a global basis.

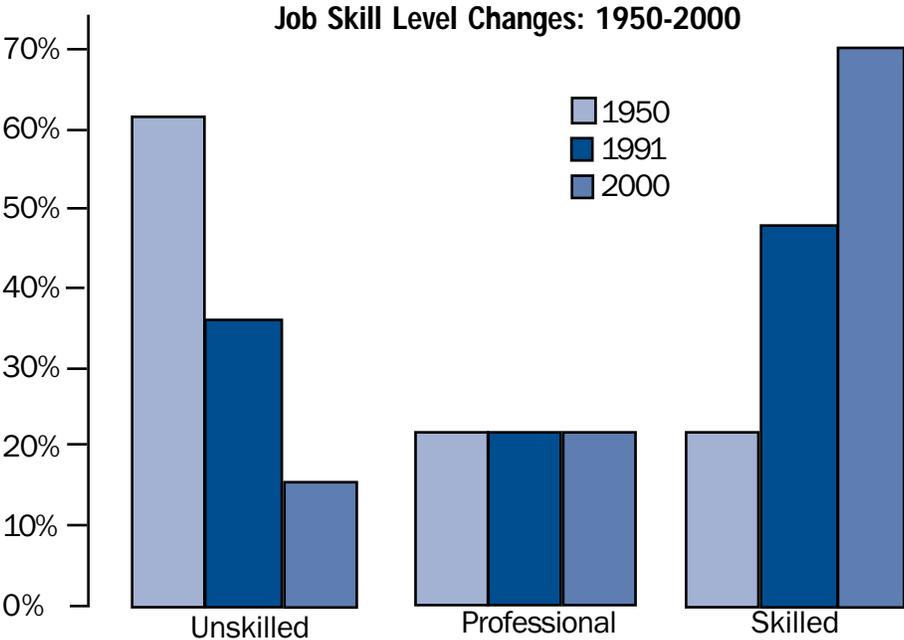
Threats	Opportunities
Texas’ lead in technology job creation is compromised by a decline in worker skills	Build a diversified economy for manufacturing and service, with job opportunities at high wage levels and skills training to allow advancement
High value-added businesses seek locations with more favorable investment and research conditions	Initiate tax credits that favor investment and R&D activities
The physical infrastructure becomes strained, leading to water shortages, highway congestion and a lower quality of life	Ensure a level of sustainable development through planning and progressive legislation
Texas fails to promote its position internationally and loses ground to other regions with a more aggressive approach to international marketing	Texas positions itself as a globally competitive region, taking advantage of its proximity to Mexico, ties to Canada and developing access to world markets

Individual Texas industries will also have to face these threats and opportunities during the next 10 years. As with the overall economy, industry threats also center on having adequate resources to compete globally. Industry opportunities often involve the application of advanced technologies or adding value to production processes. Two important factors demand consideration:

- The demand for technically skilled workers will increase. Within ten years, almost all Texas jobs will require technical skills.
- According to the Center for Demographic and Socioeconomic Research and Education at Texas A&M University, the Hispanic population is expected to be the largest ethnic segment in Texas by 2030. Hispanic participation in technically skilled professions, however, is disproportionately low. Current workforce and education projections show no sign of this trend reversing.

That these trends are headed in opposite directions is of grave concern. While technical skills will continue to be in demand, the largest projected population sector is not accessing these jobs. Since technical jobs also pay the highest wages, the implications are particularly troubling.

A quickly growing, unskilled segment of the Texas population poses a major threat to meeting the labor demands of future industry, even as it increases the strain on social programs. Texas, however, will not lack workers: the state has a young and growing population. To take advantage of this opportunity, the state must dedicate significant resources to education and training, with particular attention to the Hispanic population.



Source: Bureau of Labor Statistics; Texas Business and Education Coalition

Industry	Threats	Opportunities
Oil and Gas	Larger reserves and lower costs in other countries	Technology applications that reduce costs at all levels of exploration, production and refining
Agriculture	Increasing imbalance between production costs and market price, as well as international competition	Attracting value-added agriculture industry to Texas
Manufacturing	U.S. slowdown due to lower labor costs abroad	Integrating automation technologies to reduce production costs
High Tech	Lack of technically skilled workforce	Improving basic core education; linking technology with the educational infrastructure of community and technical colleges
Services	Filling knowledge-based service industry jobs	Increasing linkages between service industry and future high growth sectors
Telecom. and Utilities	European competition in information technology	Linking Texas technology sectors and increasing public R&D contribution



Goal 1 Workforce Development

Texas must make education and workforce development the state's number one economic development priority.

BACKGROUND

Texas has made significant progress in improving education over the last four years. TAAS scores have improved for every ethnic group; math scores are up and minority achievement is at its highest level in over a decade. These improvements are driven by local school districts and by a governor and a legislature who recognize the importance of education for individual achievement as well as for economic success.

Texas needs the finest education system possible to ensure a quality workforce. The state's competitiveness in the 21st century economy will depend on its ability to produce skilled workers. This conclusion is supported by the Commission's findings.

An employer survey of satisfaction with the condition of Texas' workforce indicated profound concern with overall technical skills and job readiness. Ninety percent of survey respondents stated that the top employee deficiency in Texas is a lack of technical skills. Additional deficiencies include poor literacy and inadequate knowledge of the English language.

Testimony presented to the Commission consistently indicated a lack of employer satisfaction with the products of Texas' educational system. This dissatisfaction ranges from basic skills to the availability of engineers. The entire network of education and training will require changes to keep pace with economic trends and employer needs. Basic education, worker training and programs to re-train the existing workforce are falling behind employer demand.

National workforce and education data demand a reconsideration of Texas' educational performance:

- According to a report by the National Institute for Literacy, Texas has the third lowest level of literacy in the U.S., ranking ahead of only Louisiana and Mississippi.
- According to most estimates, Texas falls in the lowest quartile in the U.S. in many basic educational attainment categories. In a June 1998 index appearing in "Inside Economic Development" Texas ranked 41st among the 50 states on ACT scores and 42nd in overall graduation rates.

Strategic Economic Development Mission Statement

Texas must develop a knowledge-based economy that maximizes prosperity for all its citizens and ensures global competitiveness across all its regions.

The following pages describe the five goals that support this mission statement.



- According to the National Association of Educational Progress, Texas continues to lag behind other U.S. states in math and science skills. Almost half of Texas' eighth grade students score below basic achievement levels in science, while 41% fall below basic achievement levels in math.

Texas must support knowledge-based industries with a skilled workforce as the foundation of a globally competitive economy. The Commission recognizes that only by mastering the core educational skills can students compete at a world-class level. The state's educational and training systems must anticipate the skill demands of Texas employers. Government has a critical role to play in this process, both through its educational system and through its support of workforce development initiatives. Today, these two areas of government effort are, at best, tenuously linked. Tomorrow, they must not only be linked but be parts of a common strategy designed to make the highest quality skills available to workers, not only as they prepare to enter the workforce for the first time but also throughout their working careers. Texans should have more outlets for lifelong education. Changes in the state's demographic composition require a flexible response from colleges and universities. These institutions must be active in attracting students from all ethnic groups. In addition to providing our children with the highest quality education possible, Texas must be responsive to the needs of adults – setting as a goal the opportunity for life-long learning. The dramatic shifts anticipated in the future global economy require no less.

STRATEGY 1

Substantially improve basic educational performance

We must demand more of our students in the years to come. Texas has strengthened its education system and made it more accountable, but work remains. Despite state accountability standards, school districts continue to exempt students from performance testing. School rating systems carry inadequate consequences for under-performance. There are several important steps that can be taken to meet this recommendation. Studies show that students do respond to being challenged.

Every child in Texas should be provided an opportunity to receive a high quality education. A high quality system of public education is the foundation of this objective. Academic performance of students attending Texas public schools can be improved through the implementation of proven initiatives and innovations. Programs and innovations that may improve the academic performance of public school students merit meaningful piloting and evaluation to prove their efficacy before they are implemented on a large scale.

Texans must teach their children to strive for personal success, but we must also ensure that they are aware of their obligations to society: their families, their communities, their state. In large measure, this part of

their education must begin and end at home. The state and its school districts cannot replace the family as a source of social responsibility. But the schools have a role, and the Commission has determined that lagging academic performance needs to be addressed both academically and socially. We should encourage our children to adhere to a basic code of conduct and behavioral standards that recognize individual responsibility and the importance of responsibility in society and in the workplace.

Recommendation 1

Implement more rigorous academic standards

- End social promotion (automatic promotion of students who cannot pass minimum skills tests) in Texas and provide intensive remedial instruction for students not meeting standards.
- Require that all students be able to read and write at least at grade level by the 3rd grade and thereafter and require schools to provide immediate and intensive instruction to those students needing additional assistance.
- Require that ESL students be able to read and write English as quickly as possible. Require schools to begin more intensive English development training for students who have been in ESL training for two years and still have limited English proficiency.
- Require that all students take at least two years of Spanish language classes.
- Expand the Texas Scholars program statewide. The Texas Scholars program motivates students to complete a rigorous academic high school curriculum.
- Increase funding for Advanced Placement and programs such as International Baccalaureate programs throughout Texas. The Advanced Placement curriculum offers high school students the opportunity to receive college credit for such courses. The International Baccalaureate is an accelerated high school academic program designed to prepare students for college with an emphasis on international studies.

Recommendation 2

Preserve and strengthen Texas' strong accountability system

- Significantly reduce TAAS exemptions statewide. The Texas Assessment of Academic Skills (TAAS) is a test administered by local school districts in accordance with state law. Students must pass this test in order to graduate from high school. Current state law allows exemptions based on English proficiency and other factors.
- Raise the standard for exit exams from Texas public schools so that Texas students rank in the top quartile of all states.

Recommendation 3

Enhance teacher preparedness and continued proficiency

- Enhance teacher training processes at colleges and universities to improve overall subject mastery and teaching techniques. The Commission recommends that education majors maintain a “B” average in their core subjects.
- Provide incentives (such as tuition reimbursement) to recruit top students into the teaching profession.
- Measure teacher performance and provide assistance for those not meeting standards.

Recommendation 4

Promote character education in public schools through codes of conduct, behavioral standards and discipline

- Incorporate character education into the educational curriculum through programs such as “Building Good Citizens for Texas,” “Character First,” and “Character Counts.”
- Enhance and enforce behavioral standards in all public schools. Empower teachers and administrators to employ a level of discipline that will maintain order in the learning environment, minimize distractions, and teach children a required level of responsible behavior.

Recommendation 5

Encourage innovation in academic delivery systems

- Support and monitor performance of charter schools.
- Provide meaningful financial incentives for high levels of performance for teachers and schools. Performance improvements will be benchmarked not only against state criteria but also current performance at the local level.
- Encourage legislative review of pilot programs that encourage competition and innovation, that empower parents, and improve the overall level of performance of Texas schools for the benefit of its students.
- Texas higher education institutions should pursue an active and innovative strategy in marketing to, attracting, and facilitating matriculation of students that reflect the diversity of the Texas population.
- Ensure that schools not meeting accountability standards are promptly brought up to appropriate levels of performance.

STRATEGY 2

Strengthen skill-based job training in the Texas education system

A key element in educational excellence is the willingness to be innovative. A creative approach to the transition process from school to career could bring measurable benefits to Texas. The Commission encourages support for efforts, already underway, linking students and teachers directly to employers. Many programs work well; others can be further strengthened.

One of the greatest single strengths Texas has is its college and university system. We must use this resource strategically to help build the Texas economy. The Commission believes that a key component of this process is linking our colleges and universities more closely to business and economic development – not in the sense that businesses directs the broad scope of higher education and its mission, but in the sense that businesses and universities work together wherever possible to help higher education play a prominent role in the state’s development.

Recommendation 1

Foster innovation and support of school-to-career linkages

- Strengthen career exploration opportunities beginning in middle school.
- Encourage businesses – through state franchise tax credits – and business organizations to offer summer internships for students and teachers.
- Increase funding for high school programs designed to assist students entering scientific and technical fields and expand these programs. TexPrep and TechPrep are good examples of such programs. TexPrep is an eight-week no fee program of classroom and laboratory assignments designed to enhance students’ problem-solving and analytical skills, and allowing them to explore career opportunities in science and math. TechPrep is a six-year curriculum in science or technology beginning in high school and continuing through college.
- Make programs available to public schools that assess career requirements and measure the skills of students seeking to enter particular fields. ACT Work Keys and other programs help accomplish this need.

Recommendation 2

Support higher education linkages to businesses and economic development

- Increase the research and development budgets of Texas universities through programs such as the Advanced Research Program and the Advanced Technology Program.
- Increase business-university research partnerships.
- Provide support and funding for a Vice President of Economic Development position at every state university system.
- Designate a workforce-community coordinator at community and technical colleges.

STRATEGY 3

Produce a workforce training system that meets the needs of Texas businesses and employees

Efforts to overhaul the state workforce system in 1995 were a good start. Texas state government, however, has not completed development of a consolidated system of workforce training to keep the state competitive. The Legislature merged 28 job training programs scattered among 10 agencies into the Texas Workforce Commission (TWC). Two of the state's primary job training programs, however, continue to be divided between two state agencies – the Texas Workforce Commission and the Texas Department of Economic Development (TDED). More importantly, the thrust of workforce development in Texas continues to be local. This is a good strategy since local officials make the best decisions for their communities, but the state still needs a comprehensive vision and plan to ensure that state programs meet statewide labor needs.

In this regard, as the state's primary workforce development agency, the Texas Workforce Commission's mission should be training workers to meet the job demands of a growing Texas economy. There is no unified effort to implement a statewide vision of worker development.

Strictly local job development programs will not meet all of the state's needs in the next decade. Statewide information on where job opportunities can be found is essential to regional development and to all parts of the economy. This strategy is designed to increase the state's role in workforce development and to move toward a structure that has both a strong local element and a critical statewide overlay. To make this work, the state must gather timely and useful labor market information and target training funds at unmet needs. It must also become a hub for information – available to employers and prospective employees, allowing them to communicate and interact efficiently across the state.

Using the power of the Internet, the state can link businesses directly with prospective employees. No single company can do this. No local workforce agency can do this. Only the state, with its links to public and private sectors, is in a strategic position to join the spokes of this job development wheel.

Recommendation

Build capacity for job training

- The Texas Workforce Commission (TWC) and Texas Department of Economic Development (TDED) should cooperate directly on project funding decisions. The Skills Development and Smart Jobs programs should jointly promote quality value-added worker training and support for economic development activities. Further, the legislature should monitor the effect of this coordinated effort. The state should ensure adequate funding for state-of-the-art workforce training programs.

- Make community and technical colleges the presumptive public sector training providers and ensure adequate infrastructure funding for this assignment.
- Ensure that the workforce training system maximizes opportunities for all Texans from all regions of the state.
- Ensure that the increase in funding for training programs meets statewide needs while maintaining and enhancing accountability of local workforce development boards.
- TWC should operate in an anticipatory mode, providing a statewide “early warning system” for changes in workforce composition and skills demand.
- Support Internet based job matching and training.
- Promote distance-learning and training activities of community and technical colleges.

KEY PERFORMANCE MEASURES

The following performance measures are included to provide guideposts for progress made on this goal.

Strategy	Measurement	Time frame	Primary Action
1. Improve basic education	<ul style="list-style-type: none"> • Increased high school graduation rates and increased college enrollment • Improved composite rank in standardized scores (ACT, math, science) to the top quartile of all states 	<p>on-going over the next ten years</p> <p>2008</p>	Texas Education Agency and local school districts
2. Skill-based job training	<ul style="list-style-type: none"> • Greater participation in advanced high school programs • Increased R&D funding for higher education 	<p>on-going</p> <p>76h Legislative Session</p>	Texas Education Agency and local school districts
3. Workforce training system	Increase the number of individuals moving from job training programs to full employment	on-going	Legislature, TWC, TDED and Texas colleges and universities



Goal 2 Business Climate

Texas must develop a business climate that leads the nation in attracting and encouraging value-added businesses. Entrepreneurship and technological innovation must become hallmarks of the state.

BACKGROUND

Texas has historically been an attractive location for businesses. The state's abundant natural resources, large markets and central location have long been recognized. In the coming decade, these assets will not be sufficient. Strategic advantage will belong to those states that provide the best business climate to attract and hold companies that create high paying jobs, make capital investments and attract other businesses to support their growth and expansion. An over-regulated and prohibitively expensive business climate inhibits growth. Our "knowledge industries" are increasingly sensitive to unnecessary costs and regulatory burdens. Government has a primary role to play in creating the overall business environment, and its general policies must strike a careful balance between business growth and social responsibility.

In recent legislative sessions, Texas has already taken important strides to enhance the business climate and make it more responsive. These include:

- workers compensation overhaul
- trucking deregulation
- civil justice (tort) reform
- sales and use tax exemption on manufacturing machinery and equipment
- freeport tax exemption
- economic development sales tax

In addition to preserving and strengthening these reforms, the Commission supports the following strategies to improve the overall business climate.

STRATEGY 1

Enhance business development through targeted tax incentives

A primary consideration in evaluating the Texas business climate is the burden the current system places on capital intensive industries, many of which are the backbone of the state's current and future "knowledge industry." Because of the current tax structure—and particularly because of the state corporation franchise tax and relatively high property tax

rates—Texas’ tax system falls heavily on these “backbone” industries. This creates a barrier to the fundamental investment the state needs to retain its competitive edge. The state has made efforts to address this problem, but more must be done, particularly in light of the fact that other states have already taken important steps to deal with their own fiscal barriers.

Recommendation

Provide state tax credits on research and development and capital investment. The credits should be subject to annual cost-benefit analyses, accountability measures, annual reporting, and sunset review.

- Provide a state R&D tax credit to businesses in certain high value added industries commensurate with similar credits granted by competitor states.
- Provide a state capital investment tax credit – against the franchise tax – for companies in certain high value added industries making a significant capital investment; the credit should be commensurate with similar credits granted by competitor states.

STRATEGY 2

Foster entrepreneurship in Texas

The strength of the state’s university systems should also be used as a fulcrum to leverage greater investment in entrepreneurship and innovation. Higher education can provide the innovative spark that attracts high value-added development to a state, and it can support the next generation of entrepreneurs who will build the high value-added businesses of the future. We must be strategic in using higher education in Texas to spark innovation in future high growth industries, such as biotechnology and information technology.

Recommendation

Use higher education resources in Texas to spark innovation and entrepreneurship in future high value-added industry sectors

- Require all colleges of business in Texas universities to adopt a rigorous entrepreneurship curriculum.
- Provide incentives to and remove barriers from Texas universities to increase the transfer of technology to private sector business.
- Provide incentives to Texas colleges and universities to link entrepreneurship curricula to science, technology, and engineering disciplines.

STRATEGY 3

Enhance capital availability in Texas

An economy that seeks to foster entrepreneurial activity must have capital available for new ventures. Information about capital sources and an unrestrictive capital market are of immediate benefit to entrepreneurs.

Recommendation

Enhance capital availability in Texas by establishing clearinghouses at Small Business Development Centers to provide information on capital sources, including venture capital and private placements

KEY PERFORMANCE MEASURES

The following performance measures are included to provide guideposts for progress made on this goal.

Strategy	Measurement	Time frame	Primary Action
1. Enhance business development through targeted tax policy	Passing new tax credit legislation	76th Legislative session	Legislative
2. Foster entrepreneurship	• Number of universities offering rigorous entrepreneurial programs	on-going over next five years with target of 100% compliance by 2008	Texas colleges and universities
	• Number of students graduating from entrepreneurial programs	on-going	
3. Enhance capital availability	Number of information clearinghouses created	2 years with 100% compliance	Small business development centers and Legislature



Goal 3 Infrastructure Development

Texas must become the transportation and information center of the Western Hemisphere; allowing for the efficient movement of goods, capital and information throughout the world.

BACKGROUND

Texas has long afforded businesses some of the most outstanding opportunities in the world: from excellent ports to an extensive highway infrastructure to reliable sources of water. Even as the support structures for a knowledge-based economy expand to include telecommunications and more highly skilled labor, natural resources such as water remain vitally important. Water resource management, whether for agriculture or for semiconductor manufacturing, ranks high on the state's list of crucial needs.

Rural areas in particular have an important role to play in the new economy. Just as water needs closely link rural and urban areas, telecommunications must be expanded to include all parts of the state. Highway construction created business opportunities throughout Texas, and telecommunications promises to do the same. The networks that connect businesses to markets are more complex than ever before, but the fundamentals are the same.

STRATEGY 1

Develop Texas' telecommunications network to meet international standards with full statewide access

Texas has taken bold steps to advance telecommunications to all regions of the state. The Telecommunications Infrastructure Fund provided a financial mechanism to achieve telecommunications capacity in rural schools, libraries and health care facilities. This approach should be built upon over the next ten years.

Recommendation

Expand state telecommunications policy to meet the following objectives:

- Ensure connectivity to the Internet for all rural homes and businesses by 2003.
- Adopt a rural telecommunication strategy that ensures that the majority of TIF dollars remain dedicated to rural areas.
- Provide adequate TIF funds for teacher Internet training in rural schools.

STRATEGY 2

Ensure that Texas' transportation infrastructure fully leverages the state's unique geographical position

Numerous studies, grass-roots lobbying efforts, and state planning initiatives focus on transportation issues. These issues include Nafta highway corridors, West Texas – Mexico linkages, and the use of Gulf ports. While a comprehensive review of the state's multi-modal capacity is ambitious, such a plan is necessary to ensure that Texas is home to the fastest, most efficient transportation network in the world.

Recommendation

Develop a comprehensive, multi-modal transportation plan by creating a governor-appointed transportation council

Note: While the Commission is hesitant to encourage additional studies, transportation issues (along with Border concerns in Strategy Four) are so critical and complex that additional attention is required.

The multiple modes of transportation are of increasing importance to Texas. The council should draw from the key industries (airlines, ports, shipping lines and railroads), with support from TxDOT and the Texas Transportation Institute at Texas A&M and other institutions. The transportation council should consider the following items in developing a statewide plan:

- Linkages between statewide transportation assets and national and international markets.
- Linkages of rural and border communities with national and international markets.
- Development of a strategy to make Texas Gulf ports the ports of choice for commerce.
- Means to eliminate congestion at border crossings.
- Access to Pacific ports in Mexico.
- Provision of adequate financing for this multi-modal plan.

STRATEGY 3

Ensure adequate water availability for business expansion, agriculture and population growth

Senate Bill 1 provides a series of far-reaching actions for managing water resources in Texas. Local economic development organizations, however, are not integrated into this process. The rapid expansion and relocation of businesses is a critical element in anticipating water needs statewide. Local economic development organizations are often the first to become aware of these business needs.

Recommendation

Adequately fund Senate Bill 1 and link comprehensive water planning under the bill with state and local economic development efforts

- Require regional water development boards to involve local economic development organizations on water supply issues relating to business recruitment and expansion.
- Adopt and fund alternative water supply enhancement methods, specifically:
 - Weather modification – Rain enhancement is the practice of seeding cumulus clouds to increase precipitation. Seeded clouds increase rainfall by 36% in some areas of Texas.
 - Brush eradication – In brush land areas, only 20% of rainfall that reaches the ground actually recharges the groundwater supply. By reducing juniper ash and other shrubs, groundwater supplies are increased significantly.

STRATEGY 4

Maximize the Border's strategic location through infrastructure and management improvements

A 1992 estimate by the U.S. General Accounting Office and the Border Trade Alliance indicated that more than \$1.5 billion would be required to make infrastructure improvements on the Border. The two greatest needs consisted of surface transportation and water and sewage systems.

Finished goods from manufacturing operations in Dallas, Houston, and Austin, often sit idle for hours as trucks wait to cross international bridges. The delays decrease these companies competitive posture by increasing transportation costs and ultimately the final cost of delivered goods. While delays reduce the profitability of some exported goods, they also make the exportation cost prohibitive because of perishability, or the need for reliable, on time delivery of components or parts.

Recommendation

Create a governor-appointed Border Development Task Force to develop the competitive advantage of the region

Note: While the Commission is hesitant to encourage additional studies, border issues (along with transportation concerns in Strategy Two) are so critical and complex that additional attention is required.

- Work with federal officials to resolve transportation issues involving infrastructure (roads and bridges) to allow for the efficient movement of goods and people across the border.
- Work with federal officials to create a unified federal agency process to streamline border crossing needs.
- Increase funding for the North American Development Bank to assist in the financing of water and wastewater facilities.

- Explore the sale of excess electric power from Texas to Mexico.
- Ensure the continued existence of an office of border affairs function within the Office of the Governor / Secretary of State.

KEY PERFORMANCE MEASURES

The following performance measures are included to provide guideposts for progress made on this goal.

Strategy	Measurement	Time Frame	Primary Action
1. Develop Texas' telecommunications network	Number of rural homes and businesses with fiber-optic connections	2003	Legislature
2. Ensure Texas' transportation infrastructure is fully leveraged	Creation of transportation council	Next 2 years with periodic updates thereafter	Governor's Office
3. Ensure adequate water availability	Funding increases for SB1 and linkages between development organizations and regional water planning boards	Next 2 years	Legislative and regional water boards
4. Maximize border's strategic location via infrastructure improvements	Creation of border task force	Ongoing for next 2 years	Governor's Office



Goal 4 Marketing and International Trade

Texas must develop an economic development marketing strategy that drives the state's national and international business development efforts

BACKGROUND

National and international competition for business development has never been greater. In order for Texas to enhance its prospects for economic growth, a more active and aggressive marketing effort will be required.

States benefit from a central marketing strategy, managed by a single agency. That strategy helps define the state's benefits for business customers and creates a brand identity that Texas can use to differentiate itself from competitors. In domestic recruitment, and especially in international markets, a consistent and clear marketing message is critical.

Currently, the State of Texas does not have an integrated strategy nor a single agency wholly responsible for marketing the state. Efforts are scattered among several agencies with various marketing assignments and approaches. The Commission supports the concept that the Texas Department of Economic Development (TDED) should act as the coordinating agency for all marketing, integrating the activities of its own Tourism Division with the Departments of Agriculture, Transportation and others to deliver a seamless marketing theme.

STRATEGY 1

Commit to a long-term marketing strategy

In every legislative session of the past decade, legislators have wrestled with the question of how best to structure the state's economic development efforts. These efforts have been earnest attempts born of concern for government's role in Texas' economic future and frustration with efforts to date. The state now has a sound basic structure for its economic development efforts. The Department of Economic Development must be recognized as the primary marketing agency for the state as a whole and provided with adequate funding for this task. The recommendations would expand the agency's role in this vital area.

To help the Texas Department of Economic Development with its efforts, businesses must link the word "Texas" with technology, strong market access, a favorable tax climate, and with an excellent work force. Texas must foster and develop these elements of its economy, and ensure that businesses are aware of them. Moreover, this image must be strong both inside and outside Texas. The image must be reinforced by word-of-mouth and enhance the odds that Texas will receive early and favorable consideration for business expansion opportunities. This image should also encourage existing businesses to expand in Texas.

Recommendation

The Texas Department of Economic Development should be the state's primary marketing agency

- Develop a "Brand Texas" theme that will unify the state's marketing efforts.
- TDED, with assistance from TEDC, should develop broad local support for a common theme to market Texas.
- Increase funding to support the state's long-term marketing efforts. At current spending levels, Texas' annual marketing budget is far below that of California (76% less) and North Carolina (91% less).
- Initiate marketing roundtable discussions with corporate executives to discuss their barriers to marketing and the benefits of a single Texas marketing theme.
- Ensure that TDED fulfills its mandate to be the single-source clearinghouse for data related to economic development with appropriate state agencies.
- TDED should be charged with leading and coordinating all state agency marketing efforts
- TDED should take action to enhance Internet marketing

STRATEGY 2

Position Texas to maximize international trade and investment opportunities

International trade is becoming a more significant component of the Texas economy. The state has a clear role to play in promoting a trade-oriented image. In 1996, Texas was second only to California in the total value of exported goods (\$66 billion compared to \$93 billion). Twelve percent of all U.S. exports are generated in Texas, and technology is playing an increasingly large role in export growth. More than 50% of all export growth in Texas this decade can be attributed to technology products. By 2002, technology products will become Texas' number one export.

Recommendation

Develop a comprehensive trade and investment strategy

- Develop a permanent economic development office in strategically located foreign markets. Efficiency and effectiveness of foreign offices could be enhanced through promotion of public-private partnerships with Texas cities that want a foreign presence and fee-for-service arrangements.
- Promote Texas as a world hub for commercial diplomacy by hosting international economic development conferences in Texas.
- Create a Texas World Affairs Council, supported by private business, local chambers and TEDC, to promote state awareness of international business issues.

KEY PERFORMANCE MEASURES

The following performance measures are included to provide guideposts for progress made on this goal.

Strategy	Measurement	Time frame	Primary Action
1. Long-term marketing strategy	Develop comprehensive and coordinated marketing message	2000 and on-going	Legislature, TDED and the Texas Economic Development Council
2. Maximize international trade and investment	• Establishing foreign offices and international conferences	2000	Legislature, TDED and the Texas Economic Development Council
	• Increase Texas' share of national exports from 12% to 17% (matching California)	2008	



Goal 5 Promote Broad-Based Prosperity

Texas' high-growth economy should be inclusive of all regions of the state.

BACKGROUND

Although Texas as a whole has had a vibrant economy in the 1990's, all parts of the state have not shared in that growth. Generally, the state's larger urban areas and suburban communities have experienced the greatest growth benefits, while more rural and Border regions have fared poorly. Consider several examples of these regional disparities:

- Unemployment in Presidio County tops the charts at more than 30 percent, while the rate in Travis County is 3.1 percent.
- Per capita income in Collin County is 130.6 percent of the US average. In Starr County, per capita income is \$7,233 or 29.6 percent of the US average.
- The percentage of the population living below poverty in Texas border counties is 35.7 percent compared to 16.3 percent in non-border counties. Starr County has a poverty population of 30,429 (56.7 percent of the county population is at or below poverty level).
- Educational attainment in the border region also falls below the state average: 37.3 percent of border residents lack a high school diploma compared to 27.9 percent of all Texans.

While the Strategic Plan recognizes that all places will not have the same growth prospects, state policies should help all economic regions overcome development barriers and maximize appropriate opportunities.

STRATEGY 1

Support targeted job creation in distressed areas

Targeting resources to improve the economic performance and development capacity of the state's distressed regions are an important action. The following recommendation focuses on the use of targeted tax credits to attract high value-added business – especially to the Border area.

Although Texas law provides local communities with wide authority to offer local tax and financial incentives, the state offers few tax incentives. A targeted job creation tax credit will stimulate economic development in distressed areas of the state, including the Texas-Mexico border region. The credit also will provide the state with an additional tool to bring new wealth into the state.

Recommendation

Create a job creation state tax credit in economically-distressed areas. The credit should be restricted to companies that pay above average wages. The tax credit program should be subject to annual cost-benefit analyses, accountability measures, annual reporting, and sunset review.

STRATEGY 2

Enhance the resources of universities and colleges in distressed areas

The opportunity to create more jobs in distressed areas must be matched with enhanced training capacity. To meet this requirement, colleges must be given the resources to construct buildings, purchase equipment, and develop start-up curricula.

Recommendation

Adequately fund infrastructure needs of colleges to build capacity for quality work force training

STRATEGY 3

Focus rural development efforts by building on specific regional competitive advantages

Rural areas are vital to the state's interests. The integrated nature of agribusiness provides economic opportunity across a wide variety of industries. These opportunities link producers with transporters, packagers, distributors, processors and equipment suppliers. Texas A&M economists have estimated that agriculture provides at least 20% of all employment in 192 Texas counties.

Growth in agricultural production can be matched with high value-added processing industries. State programs such as the Agritech Corridor Partnership are one example of how rural regions can build on their competitive advantages.

Recommendation 1

Encourage and support the Texas Agritech Corridor Partnership and use it to attract value-added processing and capital investment to rural Texas

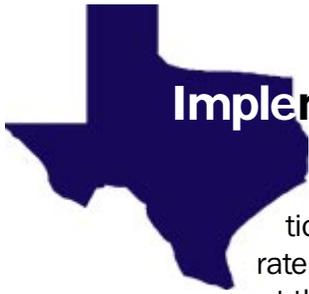
Recommendation 2

Using the Texas Agritech Corridor Partnership as an example, the state's Office of Rural Affairs should develop similar strategies for other areas of the state

KEY PERFORMANCE MEASURES

The following performance measures are included to provide guideposts for progress made on this goal.

Strategy	Measurement	Time frame	Primary Action
1. Targeted job creation in distressed areas	Passing new job creation tax credit legislation	76th Legislative session	Legislature
2. Enhance resources of colleges and universities in distressed areas	Increased funding for infrastructure in colleges and universities	76th Legislative session	Legislature
3. Focused regional development efforts	Attract businesses and capital investment to distressed areas	on-going over 10 years	TDED



Implementation and Benchmarking

A strategic plan for economic development assumes a number of things – including the availability of good data, the cooperation of businesses and communities and state agencies, and first-rate analytical tools. Most importantly, however, it requires a way to put the plan into action.

The enabling legislation calls upon the governor’s office to “provide oversight for the implementation of the strategic plan.” The commission itself is not charged with providing a means for monitoring or implementation. Nevertheless, committee members have expressed a keen interest in implementation.

Recommendations not linked to legislative action, or some other specific enforcement mechanism, are likely to be ignored. This has been the sad fate of many excellent state strategic plans. Since the Texas plan is not limited to the actions of a single state agency, it is particularly important to consider how each recommendation will be handled. Who, in other words, will assume responsibility for executing the vision – and what will be the consequences of not reaching that goal?

The most far-reaching state strategies tie the vision to recommendations that are specifically benchmarked. These recommendations are in turn linked to state agency performance and tied directly to budget appropriations. Other state strategic plans call for the goals to be incorporated into the operating plans of state agencies, while some tie the plan to the legislative agenda. It is no over-statement to say that the link between the vision of the plan and the means of implementation is the weakest part of the process. If implementation is not seen as a direct component of the plan, the likelihood of the goals being enacted is small. And while state agencies are not the only means through which state’s can act, they are integral to the process and their actions must be considered in the recommendations.

The Texas Strategic Economic Development Planning Commission recommends the formation by the Governor of an Implementation Task Force. This task force will consist of the SEDPC chairman and vice-chairman, a member of the governor’s policy staff, and key representatives of the Texas House and Senate. This team will employ four mechanisms to help ensure implementation:

- that each recommendation be considered for legislative and agency action
- that state agencies be required to provide a fiscal and policy response to relevant recommendations
- that legislative and executive agencies assist in the implementation of recommendations
- to update the plan on a continuing basis during interim legislative periods

This approach should be seen as a continuing process. The team would be at the service of the governor and would have the authority to solicit additional support from various sources. A modest annual budget for travel, expenses and follow-up studies is also recommended.

