



*OFFICE of the STATE AUDITOR
AUSTIN, TEXAS*

***BETTER PLANNING AND COORDINATION
ARE NEEDED AMONG
TEXAS ECONOMIC DEVELOPMENT PROGRAMS***

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Members of the Legislative Audit Committee:

Improvements in coordination of economic development services will help ensure that agencies provide greater benefit to Texans from the \$216 million spent or invested annually in these programs. Following our initial assessments of interagency planning and coordination in September 1993, the Texas Department of Commerce launched an economic prosperity planning process in each region of Texas, which will culminate in a statewide plan.

Since September, the Department of Commerce and 12 other state agencies that offer economic development services executed Memoranda of Understanding to enhance their cooperation. Previously, five of 20 economic development services offered by multiple agencies had been coordinated between these agencies.

To better evaluate how well programs are working, agencies need to develop more reliable ways to determine the number of jobs created and average wages in firms that use economic development programs. The current planning process is an excellent opportunity to adopt better measures and measurement techniques.

This review assessed performance regarding the effectiveness with which agencies coordinate and cooperate to carry out the State's role and responsibilities for economic development. The Texas Department of Commerce is the agency responsible for planning, coordinating, and monitoring economic development in the State. The 19 agencies with responsibility to coordinate their economic development services are listed in Appendix B.

We appreciate the cooperation and assistance of the Departments of Commerce, Agriculture, Housing and Community Affairs, and Treasury, and the Higher Education Coordinating Board in this review.

Sincerely,

A handwritten signature in dark ink, appearing to read "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

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Better Planning and Coordination Are Needed Among Texas Economic Development Programs

EXECUTIVE SUMMARY

Texas needs an updated state plan for economic development, and the Department of Commerce has a new planning effort underway

Since 1989, when the last statewide economic development plan was developed, agencies have planned and executed their programs, for the most part, independently. Agencies were not using the statewide plan, when audited in 1990 and 1993, as a guide in managing their individual economic development programs. A statewide plan would help ensure that agencies are providing the most impact with the \$216 million invested or spent for economic development in Texas.

Although each state agency develops its own strategic plan, the State needs an overall economic development plan to clarify its goals and coordinate the efforts of 19 agencies with economic development programs. State law requires that the Texas Department of Commerce develop a statewide plan for economic development. Such a plan needs to be updated periodically and especially when significant changes occur in state leadership.

The objective of this project was to assess performance regarding the effectiveness with which agencies coordinate and cooperate to carry out the State's role and responsibilities for economic development.

In September 1993, the Department of Commerce announced a series of regional economic prosperity planning workshops. The 10 workshops were scheduled for November 1993 through March 1994. The Department planned to finish the statewide plan in Spring 1994, with input from business and local government in all 10 regions and a variety of state agencies.

The new statewide plan needs input that is representative of all businesses and industry groups in the State. To get some indication of business opinions about economic development programs, the State Auditor's Office surveyed 194 of the State's business taxpayers. Although the response rate (106 of 194, or 55 percent) was not adequate to allow projection of the results with confidence to the entire population, the results provided useful information about the opinions of Texas business taxpayers. The respondents indicated that few businesses (25 percent) were aware of economic development programs, and even fewer (13 percent) felt they had benefitted from them. Similar information from business-taxpayers should be used in updating the State's economic development plan to help determine which services are most important and where they are most needed.

The absence of statewide planning also contributed to the other two issues discussed in this report, which deal with coordination and performance monitoring.

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

Better coordination among state agencies with economic development programs should be part of the current planning process

We found evidence of coordination in only five services among 20 economic development services provided by multiple agencies. The Department of Commerce, which is responsible for interagency coordination, was involved in all of the coordination that we observed. The level of coordination for the most common economic development services is illustrated in a table on page 9.

The Department of Commerce has had some success in coordinating among the various agencies. As of March 1994, the Department had been able to develop 12 of the 13-plus interagency Memoranda of Understanding mandated by the Legislature in 1993. These memoranda should provide for coordination when two or more agencies offer similar services, such as loans or business assistance, to a target group.

Texas had several agencies offering similar services, such as business recruitment, export assistance, and loans. Specifically, four agencies offered some type of economic development loans (not counting the Treasury Department, which purchases government-backed loans). Without sharing and compiling the loan information, no one can analyze the distribution of loans among the different regions of the State. The low level of awareness (25 percent of all respondents) and high level of interest (59 percent) in the services identified in the State Auditor's survey of businesses indicated the need for review of program coverage.

State and regional plans need better performance measures to tell state leaders how well economic development programs work

The main economic development agencies had more than a dozen good measures of output (the amount of service they provide). However, the agencies needed additional measures of outcomes (the results achieved by those services). Performance measures are an essential element in strategic planning of the kind currently underway in Texas' ten economic regions. The regional planning process presents an excellent opportunity to improve the existing performance measures.

Established performance measures for certain programs are available from the Urban Institute and the Governmental Accounting Standards Board. Also, the 1989 *Strategic Economic Plan for Texas* had some excellent measures that should be considered for the 1994 plan. A key measure, average income, should be monitored for the direct recipients of economic development services. Average income is a good measure of economic development because one can assume that, all other factors being equal, people are better off when their income rises.

Section I Texas needs an updated state plan for economic development, and the Department of Commerce has a new planning effort underway

Although each agency had a strategic plan, the State did not have an overall state economic development plan describing how the various agencies with economic development programs will work together. Such a plan would help these agencies ensure the most impact with the \$216 million invested or spent on economic development programs.

State law gave responsibility for economic development planning to the Texas Department of Commerce and local councils of governments. Planning is supposed to coordinate the efforts of all agencies participating in economic development. Good planning and coordination can leverage the limited economic development funds to achieve maximum statewide coverage and impact.

A statewide plan for economic development is also an opportunity to establish indicators of the impact of programs. With such data as net job growth and average wages in the State's targeted industries, program officials can demonstrate the impact of business loan, job training, new business assistance, and tourism programs.

Strategic planning is again in the works

The Texas Department of Commerce announced plans on September 30, 1993, to hold 10 regional economic development planning meetings. These two-day workshops were intended to bring together people from business, education, and government agencies that have economic development programs. (See a list of programs in Appendix B.) In November 1993, these people met in Mount Pleasant and Port Arthur, Texas. The workshops continued through March 1994, and if all goes well, the State will have a strategic economic development plan by late spring 1994.

What is "economic development"?

Theorists and practitioners do not agree on the definition of economic development. The following paradigm, however, describes economic development in terms that many experts use.

An economy is said to be *developing* when average income, deflated to constant dollars, increases over a long period. We can assume that people will generally benefit when this happens.

There are two provisos, however, to economic development. The number of people living in poverty shouldn't increase, and the distribution of income shouldn't get less equitable.

Economic *growth*, on the other hand, just means that more goods and services are produced. If the population grows at the same rate as the economy, individuals may not be any better off.

A long period, according to development economists, is important to distinguish real economic development from an upswing in the business cycle.

(See a list of Texas' economic development programs in Appendix B.)

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

The Department of Commerce intended for local consensus expressed in these meetings to help formulate plans for developing the economy of each region. The next step is to consolidate the 10 regional plans into a statewide economic development plan. According to the Department, the statewide economic plan will tie into the State's overall strategic plan, *Texas Tomorrow*.

The last state economic development plan was prepared in 1988

The previous statewide economic development plan, *A Strategic Economic Plan for Texas* (see Appendix C), was not used by agencies other than the Department of Commerce. It had been developed in 1988 by the Strategic Economic Planning Commission for the 71st Legislature, 1989. Over 180 business, government, and university leaders helped develop the vision, goals, and performance indicators for the *Strategic Economic Plan*.

But one year later, when the State Auditor's Office reviewed implementation of the 1989 *Plan*, agencies were not using it as a management tool. The situation had not changed in the spring of 1993.

Texas programs need a statewide economic development plan

The current initiative by the Department may fill the void in interagency planning. Until recently, agencies with economic development programs have not coordinated because they had little incentive to do so. Until the 73rd Legislature passed requirements in 1993 for the Department and any other agencies involved in economic development to execute Memoranda of Understanding, the agencies had no incentive to fit their programs into the broader scheme of statewide efforts and outcomes.

Such a plan needs an institutional process for periodic review by all concerned parties. Involvement of local councils should link state and federal programs to local needs. Plans should be reviewed whenever new leadership or other circumstances occur as well.

Many other states have used strategic plans to coordinate their economic development programs. While their success is difficult to determine, with states spending so little relative to their economies, four states -- Oregon, Kansas, Florida, and Arizona -- have been acclaimed for their planning (as Texas was in 1989). Interagency planning is generally considered essential to maximizing effectiveness.

Input from businesses is critical to planning

One essential planning element, input from the whole business community, had been lacking. All agencies were getting some input from business owners and industry groups, but truly representative input had not been collected. Without input from a representative sample of all businesses, agency managers may not get a complete picture of what businesses need.

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Since the five agencies spending the most on economic development programs had not surveyed a representative sample of the whole business community, the State Auditor's Office selected a sample from each region and contacted a total of 106 businesses (55 percent of the sample) in August 1993.¹ Although the response rate was not sufficient to ensure that the responses received would reflect the opinions of all Texas businesses, they indicated the following:

- 25 percent (26 of the responding businesses) were aware of programs for loans, marketing, community development, import/export, job placement, job training, economic information, or other economic development.

The reason that only a fourth of Texas' businesses knew about economic development programs may be the sheer size of the population: 850,000 businesses in Texas. Merely informing this many customers of an agency's services is expensive. Also, the respondents may not have recognized that certain services of which they are aware had been provided by the government. On the other hand, agencies had not made program awareness a stated goal of any economic programs.

- Overall, 87 percent (93 respondents) reported they didn't receive any benefits from any economic development programs. None of the respondents in the Plains, Border, or Gulf Coast Regions said they had received any of these benefits. The two regions where respondents said they had benefited most (Dallas-Fort-Worth Metroplex and Central Texas) were the same regions that reported mostly average or good business climate. These results could indicate that business owners perceive that they benefited from state programs just because the climate is good, or that services have not reached outlying regions as thoroughly as central ones.
- 59 percent (63 respondents) said they wanted loans or other government assistance. The highest indication of demand (32 percent or 34 respondents) was for "other" assistance, ranging from tax relief to a single-point-of-contact. Second, with 11 percent (13 respondents), was demand for loans.
- Opinions on the business climate varied between regions, with the most favorable opinions in Texas' central corridor. Most business owners in Central Texas, the Dallas-Ft.Worth Metroplex Region, and those headquartered outside Texas said that the business climate was *average or good*, while most of those in the Border, Plains, Gulf Coast, and East Texas Regions saw their climate as *average or poor*. Statewide, 22 percent (23

¹ The survey population was 854,451 businesses paying sales and/or franchise tax to the Comptroller of Public Accounts as of July 2, 1993. The sample was 194 businesses, randomly and proportionately selected from the *Texas Almanac's* six economic regions and those based out-of-state (but not stratified along Standard Industrial Categories). A sample this large can be expected to respond like the whole population more than 95 percent of the time. We attempted to telephone all businesses, but mailed the survey to those we couldn't reach by phone. Although the response rate needed to allow projection of the results to the entire population is 70 percent, this survey's 55 percent response rate exceeded those of all other economic development surveys of which we are aware. The results provide useful information about the opinions of Texas business taxpayers.

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

respondents) of the respondents tagged business climate for their industries as good and 32 percent (34 respondents) as poor.

State agencies have a more difficult challenge in providing appropriate services when they lack thorough information on the needs of businesses they serve. (Complete results of the survey are in Appendix D.)

Lack of interagency planning can lead to poor coordination and performance monitoring

Until recently, each agency had been pursuing its economic development strategies with relatively independent planning, coordinating, and performance monitoring. Without a common set of goals, strategies, and performance measures for the myriad of programs, no one can tell whether the citizens are getting the most for their money.

Planning ties closely with the two following sections, which deal with coordination and performance monitoring. Without a shared plan, state agencies had not adequately coordinated their common services. Likewise, the lack of a comprehensive plan linked to performance measures had resulted in limited ability to demonstrate overall progress toward state goals.

Recommendations to the Texas Department of Commerce and other agencies with economic development programs:

1. During the current region-based planning process, develop a consensus among agencies and businesses on:
 - goals for Texas' economic development programs and strategies for achieving the goals
 - performance measures that can demonstrate progress toward those goals
2. Clarify which customers or clients each program is intended to serve.
 - Periodically survey representative samples of the customers, or use other methods, to get ideas and comments from those who cannot afford to participate in regional planning meetings. Coordinate surveying with other agencies to avoid overlap.
 - Make program awareness among each program's customers a stated goal.
3. Institutionalize a continual planning process.
 - Provide for periodic review of the plan's goals, strategies, and performance measures in the new plan.
 - Involve all agencies that have economic development programs in the planning process.

Section II Planning efforts need to include better coordination among state agencies with economic development programs

Agencies coordinate only a few services at a strategic level

Prior to September 1993, only five of the major economic development services we reviewed were coordinated between agencies. Texas has 19 agencies offering or impacting more than 29 economic development services. (See the list in Appendix B). All of these agencies are involved in the current Regional Prosperity Planning process.

Coordinating economic development means getting the greatest benefit from the \$216 million invested or spent by the State. Coordination can prevent duplication of services and identify areas where services are not being provided.

The Legislature first mandated that the Texas Department of Commerce coordinate the activities of various agencies in 1987. The Legislature added a requirement in 1993 for the Department of Commerce to execute formal Memoranda of Understanding with any agencies involved in economic development. Twelve of these memoranda had been approved as of March 24, 1994, and two others are being finalized.

As Table I, on page 9, illustrates, Texas has several agencies offering similar services, such as loans. These agencies sometimes consult with each other when considering a loan application, but do not systematically coordinate to ensure maximum coverage.

At least four agencies offer some type of economic development loans (not counting the Treasury Department, which purchases government-backed loans). The Departments of Agriculture, Commerce, and Housing and Community Affairs² offer loans to new and expanding businesses, while Texas veterans can apply to both Agriculture and the General Land Office for farm and ranch loans.

Agencies need to share and analyze information on the overall distribution of loans to all parts of the State. Our survey results indicated that only seven percent of the businesses were aware of loan programs, and only a few (in the Metroplex Region) said they had benefited from economic development loans.

² The Texas Department of Housing and Community Affairs makes loans through communities to aid business development.

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Some services were being coordinated

Tourism promotion was one of the best coordinated economic development services. Eight agencies formed the Texas State Agency Tourism Council in the 1980s. Three times each year, representatives of the Departments of Agriculture, Commerce, Parks & Wildlife, Public Safety, and Transportation, Texas A&M University, the Historical Commission, and the General Land Office met to coordinate their tourism activities. The Council revised its strategic plan each year and compared tourism results with performance measures in the plan.

The Legislature formed a Council on Work Force and Economic Competitiveness in 1993 to study the efficiency and effectiveness of work force training services currently being provided to Texans (Senate Bill 642). This council, which began its study in the fall of 1993, was expected to improve the coordination of job training and adult education programs.

Three agencies formed a Tri-Agency Partnership to support Private Industry Councils with funds and information about job training. The ultimate goal was to use federal Job Training Partnership Act funds effectively to meet industry needs for skilled workers. The Department of Commerce distributed the funds, the Texas Education Agency provided information, and the Higher Education Coordinating Board supplied class schedules and curriculums for colleges in each area as part of the Tri-Agency Partnership.

Table I shows where coordination was lacking before these agencies executed Memoranda of Understanding in fiscal year 1994. A few of the 29 services listed were unique to a single agency, but most were offered by two or more organizations. Any time that agencies offer similar or identical services, agency level coordination is called for to prevent duplication and maximize service coverage.

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

Table I Coordination among selected economic development services

Categories of economic development programs	Selected Economic Development Services (** indicates services coordinated prior to 1994 Memoranda of Understanding)	Level of coordination
Rural	Rural business assistance: TDOC, TDA, TAES, COMPT (most rural programs are in the Finance category)	Although some services are coordinated at the project level, TDOC, TDA, and TAES have no system of information sharing.
Community	Tourism assessment workshops: TDOC Infrastructure grants: TDOC, TDHCA ** Needs assessments and plans: TDHCA, GLO	TDOC and TDHCA do routinely work together on these activities, but the GLO runs its program independently.
Finance	Business start-up/expansion loans: TDOC, TDA Young farmer loans: TDA Ag diversification grants: TDA Small business capital expenditure grants: TDOC, TDHCA ** Community/incubator loans: TDOC, TDHCA ** Insured business loan purchases: Treasury Farm/ranch loans available to veterans: TDA, GLO	TDOC and TDHCA also work together on Small Business and Community loans, but do not systematically provide information to or receive it from TDA, GLO, or the Treasury.
Business Assistance	Review business plans: TDOC, TDA, TDHCA Product sourcing: TDA Capital sourcing: TDOC, TDA, TDHCA Site selection assistance: TDOC, TDA	The business plan review coordination between TDOC and TDHCA is the only ongoing liaison in business assistance.
Research & Technology	Research grants: THECB	Coordination is not an issue in this category.
Work Force Development	Community and technical colleges: THECB Training contracts for disadvantaged Texans: TDOC, TDA, TEC Job Opportunity Basic Skill program: TDOC, THECB ** Adult and vocational education: THECB, TAES Smart Jobs training match-grants: TDOC	TDOC coordinates training for disadvantaged Texans and the JOBS program with TDHCA and others, and the Tri-Agency Partnership of TDOC, TEA, and THECB coordinates other services to some extent. The Texas Council on Work Force and Economic Competitiveness is also working to coordinate these services.
Data & Information	Market information: TDOC, TDA, TAES Economic analysis: TDOC, TDA, TAES, COMPT Fiscal studies: COMPT Tax information: COMPT	Each agency collects and publishes information independently, although the Comptroller's Window on State Government has begun to centralize information for those able to make computer inquiries.
Business Recruitment	Industrial recruitment: TDOC, TDA Finding produce sources: TDA	The distinction between agricultural and other industry helps avoid duplication in recruitment, but coordination could only help these efforts.
Export Assistance	Tourism promotion: TSATC ** International marketing: TDOC, TDA	The Texas State Agency Tourism Council (TSATC) coordinates tourism, but international marketing is not coordinated by Commerce and Agriculture.

Agencies: **TDOC**, Texas Department of Commerce; **COMPT** Comptroller of Public Accounts; **TDA** Texas Department of Agriculture; **GLO** General Land Office and Veterans Land Board; **THECB** Texas Higher Education Coordinating Board; **TREAS** Treasury Department; **TAES** Texas Agricultural Extension Service; **TEC** Texas Employment Commission; **TDHCA** Texas Department of Housing and Community Affairs

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

During the current regional planning process and through the recent Memoranda of Understanding, agencies should continue to discuss common ground and goals of economic development programs. Compare the types and locations of each agency's services.

1. Determine, based on services delivered, where information should be shared to avoid duplicating services, such as loans and business recruitment. Analyze loan records to detect borrowers making multiple applications and to determine the geographic distribution of loans.
2. Consider whether programs that offer similar services could be streamlined to cover more of the Texas business population.
3. Look for ways to improve services to the regions that have lower participation in economic development programs, consistent with survey results.

Section III State and regional plans need better performance measures to tell state leaders how well programs work

The main economic development agencies had more than a dozen good measures of output (the amount of service they provide). However, the agencies needed additional measures of outcomes (the results achieved by those services). Although their Legislative Appropriations Requests listed measures for input, output, outcome, and efficiency, the quarterly statistics collected and reported through Texas' automated budget evaluation system included only outputs and efficiency. Some outcomes are reported annually.

Performance measures are an essential element in strategic planning of the kind currently underway in Texas' ten economic regions. The regional planning process is an excellent opportunity to improve existing performance measures. The 1989 *Strategic Economic Plan for Texas* had some excellent measures, and the 1994 planning process should consider including those. Some of the measures currently used by certain agencies for economic development programs should be used by other agencies, too.

Agencies do not monitor the most important impacts

Some of the key measures of impact were not being reported. In addition, the Treasury Department had no measures for its \$200 million loan purchase program, "Capitalize Texas," other than the Department's overall investment yield and efficiency indicators.

The Departments of Agriculture, Commerce, and Housing and Community Affairs, who carry the broadest arrays of economic development programs, had various performance measures, but lacked key measures of how their programs affect Texans' standard of living. While the Departments of Agriculture and Commerce had surveyed their customers, these agencies did not measure the general public's satisfaction with programs. Only the Department of Housing and Community Affairs verified job creation and retention through employment tax records.

The Departments of Commerce, Housing and Community Affairs, and the Higher Education Coordinating Board did have some performance measures that illustrate the impact of some programs. These performance measures are listed in Table II.

The table also includes some suggested impact measures that would indicate for state leaders which programs do the most good. A key impact measure is average wages, because increasing wages is the most direct indication that the standard of living is improving.

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

Table II Some of the Key Impact Measures Now in Use

Department of Commerce	
Current measures of impact:	<ul style="list-style-type: none"> • tourism-related employment, tourist visits, and tourist expenditures • assisted out-of-state firms that relocate to Texas and job opportunities these firms announce • job opportunities announced or retained as results of their technical assistance, trade promotions, trade leads, or incentives • job opportunities announced and business growth resulting from their community assistance • proportion of people who take job training and then work in critical vocations of target industries, the overall employment rate of job training participants, and their hourly wage after 13 weeks
What's needed?	<ul style="list-style-type: none"> • average wages in the tourism industry • actual jobs created (via relocations, loans, business assistance, community assistance, etc.) and their average wages
Department of Housing & Community Affairs	
Current measures of impact:	<ul style="list-style-type: none"> • jobs created/retained through Community Development Block Grants and other contracts awarded
What's needed?	<ul style="list-style-type: none"> • average wages in firms affected by grants
Higher Education Coordinating Board	
Current measures of impact:	<ul style="list-style-type: none"> • patents, licenses, copyrights, and publications resulting from sponsored research • number and percent of grant requests that were funded • additional dollars received by researchers due to Coordinating Board grants • percent increase of graduates in critical vocations • percent increase in Texas research expenditures
What's needed?	<ul style="list-style-type: none"> • economic impact of patents, etc. in sales of new products developed in the funded research projects
Department of Agriculture	only measures of the Department's activity, not its impact on wages in affected businesses
Treasury Department	no measures for the "Capitalize Texas" program

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

Good performance measures can justify continuation of funding

Performance measures should be spelled out in strategic plans so that leaders and others can gauge progress. These indicators can show how many resources went into a program, how much activity took place, and how much impact it achieved: both the direct outputs and the ultimate outcomes.

For example, determining the number of out-of-state firms that got state assistance and relocated into Texas doesn't indicate the benefit to the state economy. Leaders and managers also need to know the number and average wages of the actual jobs that were relocated with those firms to the extent that firms are willing to provide information.

While average income is certainly influenced by many factors beyond the control of any agency, programs that can demonstrate an effect on income, at least in target industries, would be in a better position to compete for continued funding by the State. Economic development theory suggests that average real (un-inflated) income is an important outcome measure. That is because a rise in average real income is a good indication that the standard of living has improved.

Only with reliable figures can program managers convince state leaders that programs should be continued. Using the business relocation example above, contacting the firm or its chamber of commerce to ask the number of jobs relocated is not a reliable process. Economic development program managers need to get verified figures through employment tax reports or other independent means.

National and state organizations have developed some performance measures that state programs can use

Both the Urban Institute and the Governmental Accounting Standards Board have developed measures for certain categories of economic development programs. Some examples of their recommendations are:

for business recruiting programs

- *average wage* of jobs created
- number of projected (announced) job creations vs. actual job creations
- estimated number of workers displaced by assisted firms

for business loan and loan guarantee programs

- average time for review of an application
- loan default rate
- number of actual jobs added or retained 12-24 months after receiving loans

Better Planning and Coordination Are Needed Among Texas Economic Development Programs

Prior to the 73rd Legislature in 1993, the Texas Legislative Budget Board recommended that two Department of Commerce loan programs, the Product Commercialization Fund and the Product Development Fund, track the following performance indicators for the companies they assist:

- job creation
- profitability of assisted projects
- expansion and growth of assisted companies
- economic benefits to the State

Using some or all of these measures would show leaders how effective the economic development programs are from period to period. Any financial institution would require information of this nature of its debtors, and so should state agencies. (For a more extensive list of performance measures, see Appendix E.)

The 1989 Plan had excellent goals for the Texas economy

An excellent set of high-level goals was laid out in the 1989 *Strategic Economic Plan*. Each goal is also a performance measure, with a stated standard of comparison. Although the list is too short to meet the needs of management, it includes reasonable, measurable targets for a variety of economic factors (emphasis added in the original document):

"Decisive state action can help us equal the national average (income) by 2000, and be among the state leaders by 2010."

"To fully achieve our vision, Texas' gross state product must grow faster than the U.S. economy as a whole."

"Texas must sustain an annual growth in employment in excess of the national average to ensure opportunity for all Texans."

"To ensure its competitiveness, the State should increase high school graduation rates so that by 2000, three out of four students entering high school graduate, and our statewide adult literacy rate is at least equal to the national average."

"Texas should rank third in terms of public and private research activity by 2000."

"Texas' business incorporations rate should be at least equal to the national average."

The performance results for these measures are already available, except for the adult literacy rate.

*Better Planning and Coordination Are Needed Among Texas Economic
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Recommendations to:

- Department of Agriculture
 - Department of Commerce
 - Department of Housing and Community Affairs
 - Department of Treasury
 - Higher Education Coordinating Board
1. Use Urban Institute and Governmental Accounting Standards Board examples to develop additional outcome and service quality measures during the current/ongoing strategic planning process. Include some measures of progress toward objectives as well as progress toward goals.
 2. Consider including the following measures from the 1989 *Strategic Economic Plan for Texas* in the new strategic plan:
 - State vs. national average income and annual growth in employment
 - High school graduation rate
 - State vs. national adult literacy rate
 - Public and private research activity vs. other states
 - State vs. national net business incorporation rate
 3. Establish a schedule for periodic re-evaluation of progress toward each goal using performance measures as a tool.
 4. Verify job creation and average wage figures through employment tax reports or other reliable means.

Appendix A

Objective, Scope and Methodology

The objective of this project was to assess performance regarding the effectiveness with which agencies coordinate and cooperate to carry out the State's role and responsibilities for economic development. We conducted our work under the provisions of Section 321.0134 of the Texas Government Code.

The project's scope included those state economic development programs that have the largest appropriations of tax revenue. (See Appendix B.) We reviewed planning, coordination, and performance monitoring during fiscal year 1993 as well as significant changes announced early in fiscal year 1994.

We conducted the audit in accordance with generally accepted government audit standards. The general methodology for the project consisted of three activities: analyzing documents, surveying, and interviewing.

- Document analysis began with extensive study of news and technical literature on economic development. Auditors then reviewed and analyzed legislation and appropriations, agency literature on services and management procedures, and economic performance statistics. This analysis determined the current condition of management controls in the major programs and compared it to legislative and comparative criteria. Where the analysis showed management functions needed improvement, we focused further analysis on the cause and effect.
- We conducted an opinion survey of a randomly selected sample of Texas businesses. Appendix D explains how we selected the sample and interpreted the results.
- Interviews included agency management, leaders of business associations, and noted economists.

Appendix B Economic Development Programs Selected for Review

Programs Reviewed	FY 93 Spending or Investment *	Services
Texas Department of Commerce		
Finance	\$3 million	revolving loans for small businesses with innovative technology through the Product Commercialization Fund; funded jointly by Commerce, the Governor's Energy Office, and the Texas Water Commission
Business Development	7 million (incl. tax abatements)	attracting and assisting businesses by using rural economic development loans, enterprize zone loans, marketplace electronic network, international marketing and partnerships
Tourism Promotion	11 million	advertising tourism destinations, coordinating tourism with other Texas and neighboring state organizations
Texas Department of Agriculture		
Marketing	\$7 million	promotion of Texas products nationally and internationally
Agribusiness Development		assistance to producers and processors in site selection, market information, capital formation for marketing or processing facilities
Finance	25 million	loan guarantees
Texas Department of Housing and Community Affairs		
Capital Fund	\$13 million	supports job creation/retention via business infrastructure, business incubator grants, small/minority business loans, business real estate loans, and the MainStreet program
Community Development Block Grants	46 million	grants to communities with populations under 50,000 for improvement to public facilities, services, and planning (infrastructure not designated as economic development)
Texas Higher Education Coordinating Board		
Advanced Research	\$21 million	granting funds for university research projects in astronomy, atmospheric science, biological and behavioral sciences, chemistry, computer science, earth science, engineering, information science, mathematics, materials science, oceanography, physics, and social science

Appendix B
Economic Development Programs Selected for Review

Programs Reviewed	FY 93 Spending or Investment *	Services
Advanced Technology	40 million	granting funds for university research projects in aerospace science, agriculture, aquaculture, biotechnology, biomedicine, energy, materials science, micro-electronics, marine science, telecommunications, and manufacturing science
Department of the Treasury		
Small Business Initiative	\$22 million	invested in Small Business Administration loans made to Texas businesses
Commodity Credit Corp. (CCC)	15 million	invested in CCC loans made to Texas businesses
EX-IM Bank & FCIA	6 million	invested in Export-Import (EX-IM) Bank certificates and Foreign Credit Insurance Agency (FCIA) loans
Other State Entities Involved with Economic Development Services		
Texas Education Agency		
Texas Department of Human Services		
Alternative Fuels Council		
Texas Parks & Wildlife Department		
General Services Commission		
Texas Historical Commission		
Comptroller of Public Accounts		
Texas Employment Commission		
General Land Office		
Texas Agriculture Extension Service		
Office of State-Federal Relations		
Governor's Office of Budget and Planning		
Texas Natural Resources Conservation Commission		
Commission on Work Force and Economic Competitiveness		

* Source of spending/investment amounts: Agencies' legislative appropriations requests

Appendix C

What Happened to the Previous Economic Development Plan?

Although the State lacks a strategic economic development plan today, Texas had one in 1989. Here is some information about where that plan came from, what it accomplished, and what resulted from that planning process.

Where did the *Strategic Economic Plan for Texas* come from?

The *Strategic Economic Plan for Texas* was developed by the Strategic Economic Planning Commission, which had been created by the 70th Legislature. The Commission's charge had been to recommend ways to improve the State's business climate and to develop a comprehensive, long-term strategic plan for diversifying and developing the economy.

The Commission, which consisted of the governor, lieutenant governor, speaker of the house of representatives, ten at-large appointees, and the six commissioners of the Texas Department of Commerce, presented its Plan to the 71st Legislature in January 1989.

The Plan says that the Commission enlisted the aid of "hundreds of Texans," including 188 people who worked on seven task forces. These task forces developed information for the Commission on:

- Economic Strengths and Weaknesses
- Economic Trends
- Climate for Economic Vitality
- Emerging Growth Industries
- New Business Development
- Traditional Industries
- Building and Supporting Government-Business Cooperation

What did the Plan accomplish?

The Strategic Economic Plan put forth a vision for Texas; identified economic trends, strengths, and weaknesses; and set goals, strategic objectives, and strategies.

The "Vision for Texas" was a broad statement on how the State should make its opportunities and quality-of-life second to none.

Trends identified by the Commission included the increasing global competition, technological change, innovation, and worker skills. The economy's primary strengths were its modern manufacturing base, growing technological center, solid higher education base, and large, young work force. The state economy's main weaknesses were its levels of skills and education, and its tax, regulatory, and legal systems.

Appendix C

What Happened to the Previous Economic Development Plan?

The *goals* developed for the Plan were outlined in Section III of this report. Below are the *objectives and corresponding strategies* to achieve those goals.

OBJECTIVE 1. Develop a competitive business climate through a balanced set of fiscal, legal, and regulatory policies, including investments in infrastructure.

STRATEGY: Develop a fiscal system that provides equity and stability and promotes economic growth.

STRATEGY: Reduce regulatory and legal impediments to economic development.

STRATEGY: Continue timely investments in the State's infrastructure.

OBJECTIVE 2. Provide a skilled, flexible, and internationally competitive work force.

STRATEGY: Improve and expand educational services that ensure fundamental basic skills -- including literacy -- for all Texans.

STRATEGY: Develop a responsive, integrated system for technical and vocational training and retraining.

STRATEGY: Improve the quality and responsiveness of higher education to meet the needs of a changing Texas economy.

STRATEGY: Pursue programs which encourage the positive contributions of all citizens.

OBJECTIVE 3. Encourage innovation and entrepreneurship.

STRATEGY: Aggressively pursue the research, development, transfer, and commercialization of innovative processes and new technologies.

STRATEGY: Increase capital availability.

STRATEGY: Support management assistance programs to assist entrepreneurs and small businesses.

OBJECTIVE 4. Market Texas aggressively.

STRATEGY: Aggressively promote expansion and location of companies in Texas which contribute to fulfillment of the State's strategic objectives.

Appendix C

What Happened to the Previous Economic Development Plan?

STRATEGY: Increase export assistance and international trade development.

STRATEGY: Aggressively market Texas as a place to visit and retire.

What resulted from the planning process?

Because the *Strategic Economic Plan* didn't say *who* would undertake the strategies or *how* intermediate progress would be measured, results are difficult to identify.

Although progress toward most of the Plan's *goals* is reported by the Texas Comptroller of Public Accounts and other agencies, progress toward *objectives* is not. For example, we have statistics on the gross state product, per capita income, and employment goals. The Bureau of Economic Analysis at the U.S. Department of Commerce reports that Texas fell below the U.S. in per capita income (a goal of the Plan) by \$1,835 in 1987 and \$2,035 in 1992. However, that measure doesn't say why Texas isn't closing the gap or what state government should be doing to close it. Even when state product and employment information is included, the causes and solutions remain elusive.

What the Plan needed was indicators of progress toward its objectives. Take the business climate objective, for instance. How many businesses expanded in Texas or relocated some operations from other states or countries? What do business managers think about the climate? Has regulatory and legal action abated or increased? Are infrastructure needs being met? These items would give a clearer indication of whether and how the business climate is inhibiting the state economy and contributing to the production, income, and employment goals.

When more information on progress toward strategic objectives is collected and reported, Texas leaders will be in better position to judge the results of strategic planning.

Appendix D State Auditor's Survey of Texas Businesses

Why survey people doing business in Texas?

The purpose of our survey was to determine how well known the programs were and what effect business people thought the programs had on their businesses and industries. The survey gave indications of the effectiveness of agencies in carrying out the State's role and responsibilities. Although the response rate (55 percent) was not high enough to make statistical inferences reliable, the results provide some useful and insightful information to the opinions of Texas business taxpayers.

Information about how the survey was conducted follows this discussion of the responses.

What were the responses?

The response summaries exceed 100 percent for questions 1, 2, and 3 because some respondents gave more than one answer to some questions. This is acceptable because the design of three closed-ended questions encouraged more than one response each. On other questions, the responses fall short of 100 percent because some respondents did not answer all questions.

The actual survey questions and overall response for each question follows. Refer to the Table on pages 28-30 for complete breakdown of responses by region.

1. What government-sponsored economic-development programs are you aware of?

- (a) loans (7%)
- (b) business referral (such as Texas Marketplace) (4%)
- (c) community projects (3%)
- (d) import/export assistance (1%)
- (e) job placement (7%)
- (f) work force development (education, training) (8%)
- (g) economic information (2%)
- (h) other _____ (6%)
- (i) none (75%)

Three out of four respondents indicated that they are not aware of any state economic development program. If businesses aren't aware of a program that is designed to assist them, they will not be able to take advantage of these services.

When designing a comprehensive approach to economic development in Texas, it is important to note that "loans," "job placement," and "work force development" are all services that were mentioned by at least five percent of the survey respondents.

Appendix D
State Auditor's Survey of Texas Businesses

2. What benefits has your business received from government economic development efforts or programs?

- (a) loans (1%)
- (b) business referral (such as Texas Marketplace) (0%)
- (c) community projects (1%)
- (d) import/export assistance (0%)
- (e) job placement (0%)
- (f) work force development (education, training) (1%)
- (g) economic information (1%)
- (h) other _____ (4%)
- (i) none (87%)

See the discussion of the responses to question 8, which incorporates all relevant "other" comments.

3. In what ways have government programs affected economic development?

1	2	3	4	5
significantly hindered	moderately hindered	no effect	moderately assisted	significantly assisted
5%	10%	60%	13%	2%

4. How has the State's current system of taxation affected economic development?

1	2	3	4	5
significantly hindered	moderately hindered	no effect	moderately assisted	significantly assisted
19%	21%	33%	14%	4%

5. How has the State's current system of regulation affected economic development?

1	2	3	4	5
significantly hindered	moderately hindered	no effect	moderately assisted	significantly assisted
19%	22%	43%	6%	2%

Appendix D
State Auditor's Survey of Texas Businesses

6. What services could the government provide to your organization which would directly result in business expansion or job creation?

- (a) loans (11%)
- (b) business referral (such as Texas Marketplace) (6%)
- (c) community projects (2%)
- (d) import/export assistance (4%)
- (e) job placement (1%)
- (f) work force development (education, training) (6%)
- (g) economic information (7%)
- (h) other _____ (32%)
- (i) none (41%)

7. How would you assess the current business climate (August, 1993) in Texas with regard to your industry?

a	b	c
poor	average	good
33%	35%	22%

8. What other input would you like to give to the Legislature and state leaders?

Answers to this question varied widely. Fewer than half of respondents answered this question. Many who did answer it provided comments on more than one issue. Many of the comments given were repeated by numerous respondents, and these recurring comments are listed below.

Workers' compensation insurance premiums are too high.

The Texas Employment Commission is ineffective and inefficient.

The State should leave economic development to the private sector and concentrate on the fundamentals it has been charged with, i.e. schools, crime, infrastructure (which need plenty of work to be as efficient/effective as possible).

Taxes are too high. Cut government spending.

I'm against an income tax.

The newly modified franchise tax has hurt us.

Lottery proceeds should not go to general revenue; they should go to a designated fund for a purpose that will benefit the future of Texas, such as education, instead of falling into the "black hole" which is state general revenue.

Appendix D

State Auditor's Survey of Texas Businesses

It's too hard to obtain loans (this comment was generally made by businesses with fewer than 20 employees).

Tort reform is desperately needed.

Increasing regulations and taxes hinder job and wealth creation.

Job training is not tied to the labor market.

Business should not have to pay taxes when they lose money.

The State should help business cut through red tape, an ombudsman, a single phone number to call where reliable, timely information on state issues could be obtained, etc.

How were business owners surveyed?

Questionnaire design and testing

We developed eight questions to assess awareness of programs, perception of benefit from programs, and demand for programs. Seven were multiple choice questions and the eighth was open-ended. The eight are listed in full above with the responses.

We pilot tested these questions with five local taxpaying businesses. When we began the survey, we read the questions from a script to each respondent that we reached by telephone. We mailed written questionnaires to those we could not contact by telephone.

Population

The population we wanted to sample was all private firms doing business in Texas. The closest approximation of this population was the State Comptroller's data base of businesses who currently pay either sales or franchise taxes in Texas.

The Comptroller's data base had three differences compared to our defined population. It included failed businesses and excluded two groups of businesses not paying taxes: delinquents and those not levied.

The inclusion of failed businesses that are not *current* taxpayers did not lower the validity of the sample. Instead, the inclusion of this category of business gave us a *more* useful population because businesses that fail represent a majority of all business ventures. Their responses were just as important as those of continuing businesses.

Appendix D

State Auditor's Survey of Texas Businesses

The exclusion of businesses that are not levied either sales or franchise tax (such as small real estate brokerage firms) was a deficiency in our sample. However, the time and resources needed to obtain the names and addresses of businesses that do not pay state taxes was prohibitive, and their exclusion was not material for our purposes.

A final discrepancy between the defined population and the actual population sampled was the exclusion of delinquent taxpayers. We felt that excluding this group, although unintentional, was justifiable in terms of cost and fairness to businesses paying taxes.

Sample Size

The Comptroller's data base included 854,451 businesses on July 2, 1993. The Data Services Division gave us computer tapes, and we selected the sample of 194 records at random. Approximately 28 percent of the businesses in our sample did not have phone numbers listed on the Comptroller's system, so we used telephone books and directory assistance to obtain as many additional phone numbers as possible.

We calculated the sample size to be 194, in order to provide more than a 95 percent confidence level.³

Due to the diverse nature and size of Texas, we decided to use the six regions of Texas that are used by the *Texas Almanac*. (A seventh region was used which incorporates all out-of-state taxpayers.) The businesses were categorized by region based on their county code. Sample sizes for each region were made sufficiently large to obtain the desired 95 percent confidence interval. (Since a 70 percent response rate was not achieved, results from the sample cannot be projected to the population with confidence.) The *Texas Almanac* defined the seven regions as:

- Region 1: Plains
- Region 2: Metroplex
- Region 3: East Texas
- Region 4: Border
- Region 5: Central Corridor
- Region 6: Gulf Coast
- Region 7: Out-of-State

³ Don A. Dillman, *Mail and Telephone Surveys: The Total Design Method*, John Wiley & Sons, New York.

Appendix D

State Auditor's Survey of Texas Businesses

Survey Questionnaire

The audit team designed a survey questionnaire which asked eight economic development questions (seven closed-ended and one open-ended). The questionnaire also asked for the number of employees, the industry the business was involved in, and the title of the person responding.

Pilot Survey

We conducted a pilot survey in order to refine the questionnaire, determine the likelihood of getting usable responses, and to predict the time the survey would take and a possible response rate.

The audit team contacted five businesses at random from the Austin telephone book. Four of the five answered the survey. The average time spent conducting each survey (once we contacted the correct person within the business) was about ten minutes.

As a result of the pilot survey, we determined that closed-ended questions would be easier for respondents to answer and would provide results that we could more readily interpret.

Response Rate

The overall response rate, based on attempted contacts, exceeded 55 percent, and was at least 45 percent in every region. After attempting to call each member of the sample, we mailed the questionnaire (same questions, but format slightly changed to be more appropriate for written correspondence) to all businesses who had not yet given been contacted. Thirty-three respondents subsequently completed and returned their mail surveys, which increased the overall response rate from 39 percent to 55 percent.

Appendix D
State Auditor's Survey of Texas Businesses

SUMMARY BY REGION									
		Plains	Metro-plex	East Texas	Border	Central	Gulf Coast	Out-of-State	ALL
1. What government-sponsored economic-development programs are you aware of?									
a	loans	0%	7%	8%	13%	0%	18%	0%	7%
b	Texas Marketplace	0%	0%	8%	0%	0%	12%	0%	4%
c	community development	0%	0%	8%	13%	0%	0%	0%	3%
d	import/export	0%	0%	0%	0%	0%	6%	0%	1%
e	job placement	0%	14%	12%	0%	0%	12%	0%	7%
f	job training	0%	7%	12%	25%	17%	12%	0%	8%
g	economic information	0%	0%	4%	0%	0%	6%	0%	2%
h	other	33%	14%	0%	13%	17%	6%	3%	6%
i	none	67%	64%	77%	75%	67%	77%	81%	75%
2. What <u>benefits</u> has your business <u>received</u> from government economic development efforts or programs?									
a	loans	0%	7%	0%	0%	0%	0%	0%	1%
b	Texas Marketplace	0%	0%	0%	0%	0%	0%	0%	0%
c	community development	0%	7%	0%	0%	0%	0%	0%	1%
d	import/export	0%	0%	0%	0%	0%	0%	0%	0%
e	job placement	0%	0%	0%	0%	0%	0%	0%	0%
f	job training	0%	0%	4%	0%	0%	0%	0%	1%
g	economic information	0%	0%	0%	0%	0%	6%	0%	1%
h	other	0%	7%	4%	0%	17%	0%	3%	4%
i	none	100%	79%	92%	100%	83%	94%	81%	87%

Appendix D
State Auditor's Survey of Texas Businesses

SUMMARY BY REGION									
		Plains	Metro-plex	East Texas	Border	Central	Gulf Coast	Out-of-State	ALL
3. In what ways have government programs affected economic development?									
a	significantly hinder	0%	0%	8%	13%	0%	12%	0%	5%
b	slightly hinder	0%	21%	15%	13%	0%	18%	0%	10%
c	no effect	67%	57%	58%	63%	67%	53%	69%	60%
d	slightly help	33%	14%	15%	13%	17%	18%	6%	13%
e	significantly help	0%	0%	4%	0%	17%	0%	0%	2%
4. How has the State's current <u>system of taxation</u> affected economic development?									
a	significantly hinder	33%	7%	35%	13%	17%	35%	0%	19%
b	slightly hinder	0%	36%	19%	0%	33%	24%	22%	21%
c	no effect	0%	29%	27%	88%	0%	29%	44%	33%
d	slightly help	67%	14%	12%	0%	50%	12%	6%	14%
e	significantly help	0%	7%	8%	0%	0%	0%	3%	4%
5. How has the State's current <u>system of regulation</u> affected economic development?									
a	significantly hinder	0%	7%	35%	13%	0%	42%	3%	19%
b	slightly hinder	33%	29%	19%	0%	50%	29%	16%	22%
c	no effect	33%	43%	42%	75%	50%	24%	50%	43%
d	slightly help	33%	14%	4%	13%	0%	6%	3%	6%
e	significantly help	0%	0%	0%	0%	0%	0%	6%	2%

Appendix D
State Auditor's Survey of Texas Businesses

SUMMARY BY REGION									
		Plains	Metro-plex	East Texas	Border	Central	Gulf Coast	Out-of-State	ALL
6. What <u>services</u> could the government provide to your organization which would directly result in business expansion or job creation?									
a	loans	0%	21%	0%	63%	17%	12%	6%	11%
b	Texas Marketplace	0%	0%	12%	13%	0%	12%	0%	6%
c	community development	0%	7%	4%	0%	0%	0%	0%	2%
d	import/export	33%	0%	4%	13%	0%	6%	0%	4%
e	job placement	0%	0%	0%	0%	17%	0%	0%	1%
f	job training	33%	0%	12%	0%	17%	6%	0%	6%
g	economic information	0%	7%	15%	13%	0%	6%	0%	7%
h	other	33%	29%	39%	38%	17%	36%	28%	32%
i	none	33%	36%	39%	13%	33%	41%	50%	41%
7. How would you assess the <u>current business climate</u> in Texas with regard to your industry?									
a	poor	33%	14%	58%	50%	0%	47%	13%	33%
b	average	67%	50%	27%	25%	50%	18%	41%	35%
c	good	0%	21%	12%	25%	50%	24%	25%	22%

Appendix E
Performance Measures Recommended by the
Governmental Accounting Standards Board

Program Type	SUGGESTED MEASURES:
Business Finance	<p><u>outputs</u></p> <ul style="list-style-type: none"> • number of technical assistance seminar/workshops conducted • number of applications received • number and percentage of applications approved • average length of time for review of an application • number of loans (or loan guarantees) made • dollar value of loans (or loan guarantees) made • average loan (or loan guarantees) size • number of on-site monitoring visits conducted <p><u>efficiency</u></p> <ul style="list-style-type: none"> • program expenditure per actual job added or retained by assisted firms • loan (guarantee) dollars per actual job added by assisted firms <p><u>outcomes</u></p> <ul style="list-style-type: none"> • total and average attendance at seminars/workshops • number of loan applications processed and decided upon • number of actual jobs added/retained by receiving loans 12/24 months after receipt of loan • total and average amount of private capital leveraged by loans (or guarantees) • loan default rate (percentage of loans made that are currently in default) • percentage of scheduled repayments made on time • percentage of clients rating information on the program, including application instructions, as excellent, good, fair, or poor • percentage of clients rating the knowledge of program staff as excellent, good, fair, or poor • percentage of clients who, after receiving financial assistance, were able to secure additional financing without assistance from the program (i.e. were able to become more self-sufficient)

Appendix E
Performance Measures Recommended by the
Governmental Accounting Standards Board

Program Type	SUGGESTED MEASURES:
Business Attraction	<p><u>outputs</u></p> <ul style="list-style-type: none"> • number of firms that received assistance from programs (by type of assistance) • percentage of leveraged funds used to finance a project • number of contacts made with firms interested in locating • number of businesses from target industries identified that are interested in locating • number and percentage of business prospects identified that are interested in locating <p><u>outcomes</u></p> <ul style="list-style-type: none"> • number of visits by interested business that received assistance • number and percentage of responses to advertising or direct mail solicitations • number and percentage of firms that received assistance and located elsewhere • number of actual jobs created by assistance 12 and 24 months after their initial contact with the program (and comparison with the projected number of jobs to be created) • average wage of jobs created by assisted firms • percentage of clients rating the timeliness of each service they received as excellent, good, fair, poor • percentage of clients not engaging in business for reasons over which the agency had some influence • estimated number of workers displaced by assisted firms <p><u>efficiency</u></p> <ul style="list-style-type: none"> • program expenditures per actual job created at 12/24 months after receiving assistance • program expenditures per estimated tax dollar generated by client firms

Appendix E
Performance Measures Recommended by the
Governmental Accounting Standards Board

Program Type	SUGGESTED MEASURES:
Export	<p><u>outputs</u></p> <ul style="list-style-type: none"> • number of export workshops/seminars • number of trade/catalog shows conducted • number of foreign trips made • number of different firms participating in trade shows • number of different firms participating in catalog shows <p><u>outcomes</u></p> <ul style="list-style-type: none"> • number and percentage of firms that increased their interest in exporting as a result of assistance • number of trade leads generated from trade/catalog shows • number of trade leads generated from international trips • number of clients that began or increase export activities (sales or production, jobs, etc.) • dollar value of actual increased export sales from client firms • number of actual jobs created from increased exports by client firms • percentage of clients rating the timeliness of assistance as excellent, good, fair, or poor • percentage of clients rating the overall helpfulness of assistance as excellent, good, fair, or poor <p><u>efficiency</u></p> <ul style="list-style-type: none"> • program expenditures per actual dollar of increased export sales by clients • program expenditures per actual export-related jobs created by client firms

No standard measures are available for tourism, community development, research, or work force development.

Appendix F Agency Responses



STATE OF TEXAS DEPARTMENT OF COMMERCE

March 24, 1994

Mr. Michael W. Gray, CPA
Project Manager
Office of the State Auditor
Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, TX 78701

Dear Mr. Gray:

I appreciate the opportunity to comment on the Office of the State Auditor's report on economic development in Texas. As the State of Texas' economic development agency, we are always open to independent objective review. State funds are extremely limited and program effectiveness and interagency cooperation are essential if we are to effectively accomplish our goals and objectives as state agencies.

**Section I Texas needs an updated state plan for
economic development, and the Department of
Commerce has a new planning effort underway**

Management's Response:

We agree with the information conveyed by the headings in this section and with some of the conclusive statements. Statewide planning is again in process with the recently completed ten Regional Prosperity Planning workshops. Their purpose is to improve the state's economy based on a strategic economic development plan for the state and each of its regions. Texas programs need a statewide economic development plan and representative input from businesses is critical to economic planning. The *Strategic Economic Plan for Texas* developed in 1988 by the Strategic Economic Planning Commission provided a useful framework for addressing the state's priority economic development issues.

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Appendix F Agency Responses

March 24, 1994
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Although the inclusion of information from the survey done by the State Auditor's Office may be of interest, the response rates were not adequate to draw regional conclusions. The format used to present this information may negate the effect of the statement that the response rate was not sufficient to make projections with confidence. Also, a reminder that the results of the survey may not be representative of the population is not included with the numerous citations of and references to results of the survey.

Ten regional plans have been developed based on regional strategic planning workshops. These regional plans will provide input for the development of a statewide economic development plan. During this ongoing process, considerable effort will be made to address the draft recommendations to set up the necessary policies and procedures to develop consensus on economic development goals, improve interagency coordination and institutionalize a continual planning process.

Section II Planning efforts need to include better coordination among state agencies with economic development programs

Management's Response:

Genuine cooperation and coordination between agencies has continued. This is evidenced, as stated in the report, in that all nineteen agencies offering or impacting more than thirty economic development services are involved in the current Regional Prosperity Planning process. The 73rd Legislature passed requirements in 1993 for the Department of Commerce to execute formal Memoranda of Understanding with eighteen agencies involved in economic development. A majority number of these memoranda have already been approved and we expect to obtain approval for the remainder. Thus, the Regional Prosperity Planning process and the Memoranda of Understanding continue to improve coordination.

We concur that agencies need to share and analyze information to coordinate economic development services. The report acknowledges formation of Tri-Agency Partnership. The ultimate goal of the Tri-Agency Partnership is to support industry's goals in meeting their needs for a skilled workforce. The purpose of JTPA is to establish programs to prepare youth and unskilled adults for entry into the labor force and to afford job training to economically disadvantaged individuals and others facing serious barriers to employment. Actions of the Work Force Council will enhance coordination in this area.

Appendix F Agency Responses

March 24, 1994
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Section III State and regional plans need better performance measures to tell state leaders how well programs work

We agree with the statement in this report that performance measures are an essential element in the strategic planning underway in Texas' ten economic regions. Many of the measures in the *1989 Strategic Economic Plan for Texas* will be considered during the regional planning process.

We are very concerned with the effect of the economic development programs of state agencies on the standard of living of Texans and with public satisfaction. Efforts have been made to obtain input from the public, especially the private sector. These efforts include periodic meetings with Tourism's "Group of 60", Texas' Chambers of Commerce, minority Chambers of Commerce, Private Industry Councils, Texas Industrial Development Council, and in the current regional prosperity planning process.

The LBB is currently in discussions with all state agencies regarding performance measures. Additions to the performance measures of this and other agencies may be recommended at this time. The two Key Impact Measures of average wages in the tourism industry and actual jobs created, listed in Table II of the report, are measures that are available, but the time lag on this data is more than one year.

We concur that performance measures should be specified in the strategic plan so progress and effectiveness may be gauged. We agree that performance measures should clearly indicate the benefit to the state economy and that the sources of data for performance measures should be reliable and timely.

As recommended, Commerce and other agencies will consider the measures developed by the Urban Institute and Government Accounting Standards Board and from the *1989 Strategic Economic Plan for Texas* to develop additional outcome and service quality measures during the current/ongoing strategic planning process.

I would conclude our response by saying that we realize our regional economic development workshops are but one important step in building a statewide plan. We will continue our partnership with other state agencies, local communities and the private sector in this important effort.

Sincerely,



Deborah C. Kastin
Acting Executive Director

Appendix F
Agency Responses



TEXAS HIGHER EDUCATION
COORDINATING BOARD

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March 23, 1994

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Two Commodore Plaza
Suite 1900, 206 East Ninth Street
Austin, TX 78701

Dear Mr. Gray:

Thank you for inviting me to comment on the draft audit report on economic development. Several of our staff members have read the report with interest.

Since the business of our agency is coordination, we understand the importance that the report places on better coordination of economic development programs across the state to reduce unnecessary duplication and to ensure that the resources invested by the state in economic development has the greatest affect possible.

Although the Higher Education Coordinating Board does not administer programs that are solely intended to help the economic development, our Board's center responsibilities are to improve the quality and enlarge access to educational programs, and the relationship between education and a stronger economy is well recognized. We also are charged with administering the Advanced Technology and Advanced Research Programs that are proving successful in strengthening research and advanced education at the same time they are paying off in patents, royalties, and the creation of new companies in the state that add strength to our economy.

Our Board is heavily involved in the Texas Council on Workforce and Economic Competiveness in its effort to pull together the state's workforce training program. The Coordinating Board Chair, Nancy Atlas, and I both serve on TCWEC. We have a history of close relationships with the Texas Department of Commerce, the Texas Education Agency, and the Texas Employment Commission in improving coordination of workforce training and education, and are trying to enlarge our coordination with the other agencies and groups involved with TCWEC. All of this is another way of saying that we understand and subscribe to the importance of coordination in the state's programs, both for education and for economic development.

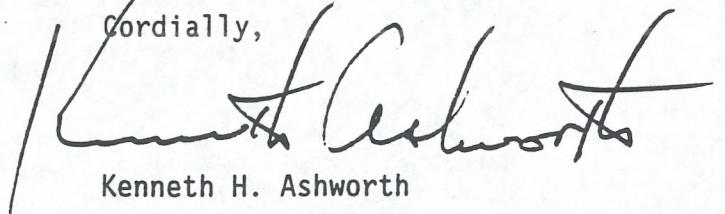
Appendix F
Agency Responses

Mr. Michael W. Gray, CPA
March 23, 1994
Page two

The report makes several recommendations to a set of agencies, among which is included the Coordinating Board. While not all of the recommendations apply to the activities that are under our authority, we will take seriously those that do. For example, we already have begun to apply a system of evaluating the effectiveness of technical and academic programs at community and technical colleges to concentrate resources on programs that are demonstrably important to meeting employer's needs for an appropriately trained workforce.

Thanks again for the opportunity to comment on the draft report.

Cordially,

A handwritten signature in black ink, appearing to read "Kenneth H. Ashworth". The signature is written in a cursive style with a long horizontal stroke at the end.

Kenneth H. Ashworth