A Report

from

The Center for Economic Development Research and Service

School of Urban and Public Affairs
University of Texas at Arlington

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by Delbert A. Taebel
and
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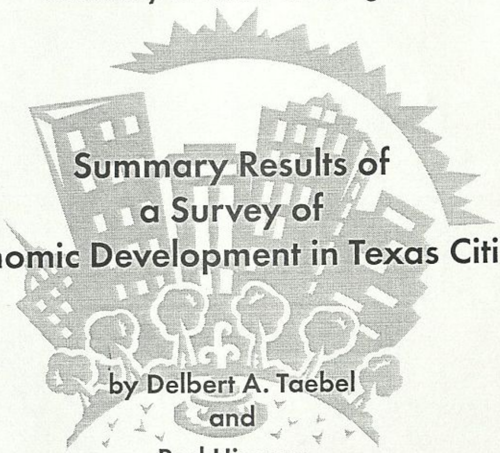

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ECONOMIC DEVELOPMENT IN TEXAS CITIES:

AN UPDATE

by

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Economic development is the new kid on the block in city government. If one looks at any textbook on municipal administration published more than 10 years ago, economic development as a city function would not even have been mentioned. Yet, because of the dozens of conferences and flurry of articles focusing on economic development, it may seem to many that economic development has been around for a long time. Indeed, seven years ago the Institute of Urban Studies published an initial study entitled "Local Economic Development in Texas." Since then, of course, economic development has become a permanent program in most cities, and it now seems appropriate to reassess its growing stature.

In conjunction with the Texas Municipal League, we conducted an expanded survey of Texas cities with a population of 25,000 or more. Of the 67 cities who met this criterion, a total of 56 returned our questionnaire, for a return rate of 83.6 percent. The survey questionnaire was divided into four sections which will provide the outline for this report. In the first section, we will report on the structure and organization of economic development programs. We will then turn our attention to the strategies they have employed. We will then look at policy and accountability and conclude with a discussion of impact.

STRUCTURE AND ORGANIZATION: As already noted, economic development programs are the new kid on the block. Out of the 56 largest cities who responded to our questionnaire, only one established its program before 1970 (Midland,1950), and only an additional three cities established programs in the 1970's. Forty-three cities established their programs since 1980, and sixteen of those were established since 1990.

Most cities report modest funding for their programs,and the average for 1993 was $379,098 in appropriated funds. After cities meet their bills for basic services, there are only modest revenues available for discretionary spending, which includes economic development. Thus, as a proportion of discretionary spending, economic development costs are quite high, and second, one of the fastest growing expenditures for cities as reflected in the following chart:

TABLE 1

Average Direct Expenditures for Economic Development

Year	Average Expenditures	Increase over Prior Year
1991	$275,371	-
1992	$326,808	$51,437 (+18.7%)
1993	$379,098	$52,290 (+16.0%)

In addition, cities expend additional monies which are derived from grants and other sources. For 1991, the average was $372,344, considerably more than direct city appropriations and in 1992 the average jumped dramatically to $460,114. In 1993, however, revenues from grants and other sources for economic development declined to an average of $335,577, less than what cities appropriated directly for economic development from their own tax sources.

When we examine the organizational framework for economic development, we find two distinctive trends in comparison with our 1986 study. In the first place, economic development programs have been increasingly elevated to departmental status. In 1986, economic development in almost half of the cities was placed in the office of the city manager, and only 21% of cities placed economic development in separate departments. Of those cities which directly manage their economic development programs today, 33.9 percent are situated in separate departments and 21.8 percent are a section within an existing department. What's more striking, however, is that almost half (45 percent) of the cities with economic development programs now contract them out to other organizations, such as the chamber of commerce. In contrast, our 1986 study reported that only 3 percent of economic development programs were lodged in "larger community and economic development" agencies.

Since so many programs were contracted out, we conducted a follow-up survey of those cities and asked for information on the extent of their knowledge about how the funds were expended, the extent to which the cities are informed by the contracting agencies of their activities, the degree of control exercised by the city over economic development, and the extent to which the contracting agencies have been independently evaluated for effectiveness. The results of this follow-up survey are reported in the table below:

TABLE 2

MUNICIPAL OVERSIGHT OF CONTRACTED SERVICES

Knowledge of How Money Spent	Complete	Partial	None
	1	6	16
Reports to City	Annually	Quarterly	Monthly
	6	12	5
Independent Evaluation	Yes		No
	3		20
Control	Great Deal	Partial	None
	2	10	11

It is clear that cities which contract out economic development services exercise limited control over the contractors. Almost 70 percent indicate they have no knowledge about how funds are expended, and there are virtually no independent evaluations of contractor effectiveness.

STRATEGIES: What strategies have cities adopted in pursuit of their economic development goals? In our survey we listed 12 economic development strategies, and the table below reports their preferential use in descending order:

TABLE 3

ECONOMIC DEVELOPMENT STRATEGIES

Strategy	**Percentage**
Tax abatements	74.5
Preparation and production of publicity materials about city (brochures, videos,TV ads, etc.)	72.7
Contributing funds to other non-profit economic development agencies	56.3
Establishing an enterprise zone	54.5
Tourist/convention center	50.9
Development of an economic development plan	47.2
Development of industrial parks	41.8
Federal and state grants for economic development	38.2
Approving a freeport exemption	38.2
Creating a tax increment financing district	25.4
Half-cent sales tax	23.6
Changing the liquor laws in city	5.6

The two most popular tools which cities use are tax abatements and publicity materials. Several critics have argued that tax abatements are overused and abused, but it is clear that their use has increased almost fourfold since our 1986 study in which only 18% of cities reported using them as an incentive to attract business.

The size of the city is not a contributing factor in what tools are used. A correlation analysis between city size and each policy indicated no significant relationships. The use of tax increment financing and the approval of freeport exemptions are the only two policies that are weakly correlated to city size. Fewer than half of the responding cities use either of these policies.

By adding the number of policies each city uses we can compute a rough index of intensity of activity. The level of activity ranges from zero to ten of twelve available policies with an average of five policies used. Correlation analysis indicates a positive but weak between city size and the level of economic development activity. It was expected cities of greater size would have greater resources to pursue and administer more economic programs. This is not necessarily the case.

We also test for a correlation between the income level of the city and the use of economic development tools. The strongest relationship is between income and the use of enterprise zones. The correlation is negative as expected. Enterprise zones are most commonly used in economically depressed areas of cities. Economically depressed areas are more common in low income cities that in high income cities.

Income is also correlated to the intensity of economic development. Higher income cities use fewer economic development policies than lower income cities. This indicates cities with relatively weak economies try a wider variety of policies to improve local conditions. It is also possible that high income cities benefit from normally healthy and do not need to be as aggressive as other cities.

Tax abatements were first authorized by the Texas legislature in 1981, but will come up for review under the sunset provisions in the next legislative session. What compounds the difficulty of tax abatements is the fact that school districts rely much more extensively on property taxes than cities, and thus they contribute more when tax abatements are offered. Furthermore, under the Robin Hood plan, rich districts are required to make payments to the state and cannot discount these abatements while at the same time they lose the tax revenues from these abatements.

Since we have already reported that nearly half of our cities contract out their economic development programs, it is not surprising that funding other economic development agencies ranks high. Enterprise zones ranked fourth in our list of economic development tools followed by the establishment of a tourist/convention center.

Recent legislation by the Texas State Legislature authorizing cities to raise their sales tax by one-half cent ranked fairly low on the list, but in terms of tax dollars, it is undoubtedly one of the most costly tools. A recent report shows that 133 cities have passed the economic development sales tax yielding an annual revenue stream of $74,701,000. These are not the larger cities by any means since the average population for all 133 cities is only

13,106. Only 16 of the cities have a population of more than 25,000. An additional 45 cities attempted to pass the tax measure but it failed, and one city, Lubbock, voted to repeal its tax.

The Tax Increment Financing District, although enacted into law more than a decade ago, is declining in use. In 1986, almost 27 percent of cities had adopted the Tax Increment Financing mechanism, but the percentage has slipped to 25.4 percent as of 1993.

POLICY AND ACCOUNTABILITY: Obviously, the decision to mount an economic development program and expend resources is a major policy decision. So what policies have they adopted and how do they maintain accountability? When we asked cities if the council had "adopted written economic development policy guidelines, goals or plans," slightly more than half (55.5%) responded affirmatively. Furthermore, 56.3 percent of the cities reported that a citizens board or commission had been established to oversee economic development. We conducted a follow-up survey on boards and commissions to examine the membership. Fifteen of the boards were public boards, but seven of them were required under the half-cent sales tax law. About 20 percent were quasi-public boards and another 20 percent were actually private boards, usually under Chambers of Commerce. There are two other oversight tools available to city councils to monitor economic development policy. The first is the use of independent studies to evaluate program results, and slightly more than two-thirds of the cities have relied on independent studies. Furthermore, periodic reports can also be used by the council, and all of our cities indicated that the council received such reports, usually on a monthly basis (46%) or a semi-annual basis (30%).

In providing reports and information to the council, it is essential to maintain data which reflect the status of the program. Yet, the maintenance of an on-going data base is limited. Only two-thirds of the cities report that they maintain information on "new dollar investments in construction," even though building permits are on file in city hall. When it comes to the "dollar investment in reconstruction," only half of the cities maintain this type of data. Data on new jobs created, usually thought of as the most popular indicator of economic development, is only maintained by half of the cities. Ironically, only one-quarter of the cities maintain data on "job losses." Obviously, one measure of economic development progress is the net difference between new jobs created and jobs lost. Finally, about 40 percent of the cities maintain data on new dollar investments in land.

Even though the typical tools of policy control may be lacking, council involvement in economic development is relatively extensive. Our survey shows that in 40 percent of the cities "almost all [city council] members are involved in economic development," and in 52 percent of our sample cities, "some members are involved." Only in 7.5 percent of our reporting cities is there "little or no involvement of city council members in economic development."

So what policy perspective best represents the views of city councils? In our survey, we offered three perspectives. The most aggressive policy approach was reflected by the statement that "all types of economic development should be pursued vigorously," and almost half (44 percent) selected this category. A more moderate approach was reflected by the statement that "the goal of economic development should only be to attract 'clean' businesses," and 29 percent of the cities indicated that this statement reflected their policy approach. The most indirect approach is reflected in the third choice which we offered: "Primary efforts should focus on quality of life and infrastructure." Almost a quarter of our cities (22.5 percent) chose this approach. We should note, however, that several respondents provided additional comments concerning their city's policy approach.

THE "BOTTOM LINE": Politics has been defined as "who gets what and why." Two questions on the survey questionnaire may meet this definitional test. The first question asked what groups benefitted from the city's economic development program, and the results are reported in the table below in descending order:

TABLE 4

BENEFICIARIES OF ECONOMIC DEVELOPMENT

Beneficiary	*Percent*
All citizens benefit equally	50.92
Contractors/developers	49.13
Middle-income workers	49.14
Retail business	47.25
Low-income workers	43.46
Restaurants/motels	37.87
Banks	32.18
Unemployed persons	32.19
Members of minority groups	26.41
High-income workers	7.52

It may not be surprising that most of our cities thought that "all citizens benefit equally" from economic development programs. Businesses, especially contractors, retails businesses, restaurants and motels were all perceived to be prime beneficiaries as well as middle-income and low-income workers. Ranking relatively low were unemployed persons and minorities, although the proponents frequently argue that these are two of the key target groups for economic development programs.

The final question simply asked cities to rate their programs in eight different areas on a four-point scale. The results, again displayed in descending order, are reported in the table below:

TABLE 5

RATINGS OF ECONOMIC DEVELOPMENT ACTIVITY

AREA	*Excellent**	*Good**	*Fair**	*Weak**	*AVERAGE***
1. Retaining and expanding existing business/industry	38.9	42.6	14.8	3.7	3.17
2. Developing a positive Image	35.2	46.3	12.9	5.6	3.11
3. Infrastructure improvement	25.0	46.1	25.0	3.8	2.92
4. Attracting new business/industry	18.9	49.1	30.2	1.9	2.85
5. Maintaining quality of neighborhoods	17.3	40.1	36.5	5.7	2.69
6. Enhancing quality of life, e.g. arts	18.9	41.5	24.5	15.1	2.64
7. Redevelopment/ revitalization of CBD	14.0	26.0	36.0	24.0	2.30
8. Redevelopment/ revitalization of older neighborhoods	1.9	31.37	37.2	29.4	2.06

*Denotes percentage of respondents ranking their programs from excellent (4) to weak (1) for each area.

**Based on a 4-point scale

It might come as a surprise that "attracting new business/industry" ranked fourth. It should come as no surprise that developing a "positive image" ranked second since as we noted before the development of publicity materials ranked first among the various tools employed by cities in their economic development programs. Yet, one of the frequent criticisms of economic development programs is that they too often ignore the older parts of the city, and the results of the survey clearly show that redevelopment of both central business districts and older neighborhoods rank at the bottom. Maybe as the new kid on the block grows up economic development programs will take a more balanced approach.