CALIFORNIA BUSINESS MINUTE'S

RAISING THE REPUBLIC

A feature illustrating the positive work that displays the 'Economic Evangelism' by California's political and business leaders who are diligently working to sustain and grow California's economy.

What Caused the Texas Miracle? And How Can California Copy It?

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Presidential candidate Rick Perry likes to go around the country proclaiming that since June 2009, nearly 40 % of the net new jobs created in America were in Texas. Indeed, since Rick Perry became the Governor of Texas in December 2000, the state has created over 1 million net new jobs while the rest of the nation has lost nearly 2.5 million jobs. Texas cities dominated the list of top metropolitan areas for job growth over the past year, with Dallas/Fort Worth creating 82,000 net new jobs; Houston creating over 51,000 net new jobs and Austin creating over 24,000 net new jobs. Since July 2001, the State of California has lost almost 500,000 jobs while the State of Texas has gained over 1.1 million jobs.

As a site selection consultant and economic development expert, I am often asked how Texas has been so successful at job creation in the midst of a crippling world-wide recession. Even Lt. Governor Gavin Newsom has traveled to Texas to find out what Texas is doing to create jobs while almost every other state is losing them.

While Texas has some obvious advantages over states such as California from a regulatory and cost of doing business standpoint, I believe that the real reason for Texas' success stems from a law that was passed in 1979 called the Development Corporation Act of 1979. This law, which is used by almost all Texas cities, allows voters to impose a supplementary sales tax for the purpose of financing that city's economic development efforts. These cities may adopt an economic development sales tax rate of 1/8 1/4, 3/8 or 1/2 of 1 percent if the new local rate of all sales and use taxes does not exceed 2 percent. Proceeds from this economic development sales tax can be used for manufacturing and industrial development. Under the provisions of the law, Texas "Type A" economic development corporations may use funds raised by this sales tax to acquire or pay for land, buildings, equipment, facilities expenditures, targeted infrastructure and improvements for purposes related to:

- manufacturing and industrial facilities, recycling facilities, distribution centers and small warehouse facilities;
- research and development facilities, regional or national corporate headquarters facilities, primary job training facilities for use by institutions of higher education, job training classes, telephone call centers, and career centers that are not located within a junior college taxing district;
- a general aviation business service airport that is an integral part of an industrial park;
- certain infrastructure improvements that promote or develop new or expanded business enterprises;
- airport facilities;
- the operation of commuter rail, light rail or commuter buses;
- port-related facilities, rail-ports, rail switching facilities, marine ports, inland ports; and
- Maintenance and operating costs associated with projects.

Type B economic development corporations are able to use the economic development sales tax to acquire or pay for land, buildings, equipment, facilities expenditures, targeted infrastructure and improvements found to be required or suitable for use for:

- professional and amateur sports (including children's sports) and athletic facilities, tourism and entertainment facilities, convention facilities, public park purposes and event facilities (including stadiums, ballparks, auditoriums, amphitheaters, concert halls, parks and open space improvements, museums and exhibition halls);
- related store, restaurant, concession, parking and transportation facilities;
- related street, water and sewer facilities; and
- affordable housing.

To promote and develop new and expanded business enterprises that create or retain primary jobs, a Type B corporation may provide funds for:

- public safety facilities;
- recycling facilities;
- streets and roads;
- drainage and related improvements;
- demolition of existing structures;
- general municipally owned improvements;
- maintenance and operating costs associated with projects; and
- any improvements or facilities that are related to any of those projects and any other project that the board determines will contribute to the promotion or development of new or expanded business enterprises that create or retain primary jobs.

Generally there is a requirement for new direct or indirect job creation for assistance from a qualified economic development corporation. These organizations must report to the Texas Comptroller of Public Accounts on an annual basis on revenues, expenditures and job creation activities.

The results of this legislation lead to the development of a sophisticated job creating infrastructure in Texas due to the resources and predictability of funding that the law affords local economic development corporations. For example, Abilene, Texas, with a population of about 117,063 people had an annual economic development budget of $9.5 million in 2010, for a per capita economic development spend of almost $82 per person. Big Spring, Texas, with a 2010 population of 24,270 had an economic development budget of more than $2 million, or a per capita spend for economic development of $82.40 per capita. In contrast, California communities typically spend from $2 to $10 per capita on economic development activities and, because most economic development organizations in California are on an annual funding cycle, these spending rates are going down as city revenues have decreased and the state government competes for a shrinking pool of revenue.

The result of California's way of supporting local economic development is an underfunded economic development infrastructure, almost no outreach to expanding domestic and international companies, and chronic personnel turnover as experienced economic developers seek better funded and more financial stable places to work.

Like any business, the world of economic development relies on experienced professionals to provide a safe, welcoming and professional environment for companies considering investing millions of dollars which can't be easily redeployed once the investment has been made. Companies that slash their marketing and sales teams in hard times often find that the tactic is shortsighted resulting in dramatically lower sales and profitability. California's economic development infrastructure has been severely depleted during the economic downturn and resulting budget crisis, further eroding the state's capacity to work with expanding business operations. In addition, state economic development resources have been slashed and economic incentives have been eliminated.

What this all adds up to is a severe mismatch when it comes to California's economic development infrastructure versus the State of Texas' economic development infrastructure. It's like a professional baseball team playing against a high school team. There is no way that the high school team is ever going to beat professionals with more talent, training and better funding. That is the competitive situation that California is facing.

California can better compete with the Texas' of the world if it were to copy the Texas Development Corporation Act of 1979 and enact similar legislation. Leave it up to the local voters to decide if they want to tax themselves to create jobs and investment close to home. We already do it for transportation projects, why not economic development? It has certainly worked for the State of Texas and Governor Rick Perry -- it can work in California too.