

Texas Today: Economic Development Strategies and Business Success Stories

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Texans have a knack for creating world-class barbecue — and success in culinary endeavors is akin to their strategy for economic development. Seasoned professionals from all levels of government provide juicy financial incentives and mix in industrial diversity to suit a variety of tastes. They combine those and patiently wait for the deals to gel, adding additional perks to spice up the deal, if necessary. The recipe works whether they are cooking up beef or beefing up the economy. Despite the national economic chill, Texas continues to whet the appetites of businesses and not only close those hot deals but keep 'em coming back for seconds.

If Texas were a nation, its economy by gross domestic product (GDP) would be the 12th-largest in the world, according to the Texas Comptroller's 2008 estimates. Gross state product (GSP) for fiscal year 2008 was \$1.182 billion, and according to the Controller of Public Accounts, quarterly estimates indicate that in the fourth quarter of 2008, the GSP grew to \$1.245 billion.

With a continually expanding population, growth seems to gravitate primarily to major metropolitan areas centered around Dallas–Fort Worth and Houston. More people chose to relocate to Texas in 2008 than any other state, according to Allied Van Lines' 41st Annual Magnet States Report, for the fourth year in a row. The United States Census also estimates that two Texas metro areas increased their populations by more than 100,000 people from 2007 to 2008: Dallas–Fort Worth (147,000) and Houston (130,000). The Austin–Round Rock metro area — part of greater Houston — was one of the nation's fastest-growing metro areas between 2007 and 2008, according to population estimates.

A Pro-Business Government

Aggressive and competitive recruitment, low taxes, and a reasonable regulatory environment are just a few of the strategies that help the state scale to the top of lists. Aaron Demerson, executive director of economic development and tourism for the Texas governor's office, says that from December 2007 to December 2008, Texas accounted for 80 percent of job gains in the nine states with increased employment. The state's unemployment rate hovered at 6.5 percent in February 2009, nearly two points below the national average. Employment figures released in January by the U.S. Bureau of Labor Statistics show that the two largest markets in Texas, Houston and Dallas–Fort Worth, registered the nation's biggest gains in private-sector employment between November 2007 and November 2008; Houston added 42,400 jobs and Dallas–Fort Worth picked up 35,100. No other U.S. market gained more than 15,600 private-sector jobs during that 12-month period.

The Lone Star State explores incentives to expand existing industry sectors and cultivate new ones. Demerson reports considerable interest in the state legislature for renewable energy and incentives for the film industry. Currently, more than 100 bills deal with solar, alternative energy, and energy conservation. He projects that some new bills will complement legislation passed in prior sessions to promote alternative energy, such as SB 20 (2005), which enabled the Texas Public Utility Commission to select the state's most productive wind zones to develop a transmission network to move power

from those zones to various populated areas in the state. "We believe that ultimately this project will see a significant reduction in the cost of power," says Demerson. Several other bills have been introduced during this current legislative session that will increase incentives for the production of films, TV, and video gaming industries.

Demerson says activity in the "deal-closing" Texas Enterprise Fund (TEF), has been instrumental in the announcement of nearly 54,000 jobs and a projected investment of more than \$14 billion since its inception. Caterpillar — the global manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines — is an example of one of the most recent participants in the fund. In December 2008, Governor Rick Perry announced Caterpillar's worldwide Assembly, Test & Paint operations would locate in Seguin. "At a time when there is so much economic uncertainty, the more than 1,400 new jobs, and nearly \$170 million in capital investment is very much opportune and welcomed," says Demerson, who notes that details of the project are still in negotiations. Activity in the manufacturing sector continues to contribute significantly to the state's job growth. Recent announcements in the manufacturing sector from such companies as Santana Textiles and TPCO Enterprise Inc. are expected to result in the creation of 2,800 jobs.

In the past year, Texas has witnessed growth in the renewable energy niches, particularly in wind, solar, clean coal, natural gas and nuclear energy, and biofuels. Companies like HelioVolt, a solar cell/module manufacturer and Vestas, a wind energy R&D firm, have found their future in Texas. Texas also remains home to more Fortune 500 headquarters than any other state in the nation. The variety of industry clusters throughout the state contributes to what Demerson calls the state's "economic diversification process."

In 2004, the Governor's Industry Cluster Initiative identified six industry clusters that focused on building the state's competitive advantage: aerospace and defense, advanced technologies and manufacturing, biotechnology and life sciences, energy, information and computer technology, and petroleum refining and chemical products. In November 2007, the governor appointed 29 public- and private-sector leaders to the Governor's Competitiveness Council to identify the issues affecting Texas' global competitiveness within those clusters. "With these reports as guides, we'll be able to foster existing and developing clusters, like the telecommunication industry, biotech companies, semiconductors, and the growing gaming industry," says Demerson.

Ease for Exporting and Logistics

Texas also shares its bounty with other countries. The U.S. Department of Commerce has named Texas the top exporting state in the nation for the seventh year in a row, based on 2008 export data. Texas' exports increased more than 14 percent over the last year, totaling \$192.14 billion. Top export recipients in 2008 were Mexico, Canada, China, the Netherlands, and Brazil. Texas' top exporting industries in 2008 were chemicals, computers and electronics, machinery, petroleum and coal, and transportation equipment.

Logistically, the state provides access to international and national markets in many ways. Starting with more public roads than any other state and a top-ranked railroad system, the state also boasts 13 deep-water ports and convenient air service through Dallas–Fort Worth International Airport and George Bush Intercontinental Airport in Houston.

Big Deals in "Big D"

In the cities surrounding Dallas, company decision-makers have been influenced by such issues as logistics and quality of life. Sanyo Energy (USA) Corporation, manufacturer of rechargeable batteries and solar cells, moved its headquarters to Frisco in fall of 2006. Andrew Sirjord, the company vice

president, says the division had been headquartered from 1987 to 2006 in San Diego, California. "Since a significant portion of our revenue was generated east of the Mississippi, we decided that we needed to get closer to our customer base in Central or Eastern time zones," he says. In addition, state corporate income tax rates, costs of living, costs of doing business, and educational availability were prime factors. "The Dallas area had a strong wage level and low cost of living, so our employees were able to buy a lot more for their dollar when they moved here," he says. "I've been told [by employees with school-age children] that the school system and level of education provided here was a benefit that has wowed our employees."

The city of Denton reports diverse economic development activity. Aircraft maintenance and service company Jet Works Air Center is doubling its hangar and office space at the Denton Airport and adding up to 60 aircraft technicians to its existing staff of 132 people. The privately owned, 13-year-old company is the sole completion center for the Italian corporate aircraft manufacturer Piaggio. The company has leased land on which to build a 45,000-square-foot facility that will include 32,000 square feet of hangar space, with the remainder earmarked for offices and back-shop activities.

Aldi Inc., a discount grocer, is planning what is expected to become Denton's largest distribution center within the next few years. The company purchased a 185-acre tract near the Denton Municipal Airport for the estimated \$40 million, 500,000-square-foot center that will support 25 stores in the Dallas–Fort Worth area. The site's advantages include proximity to Interstate 35 North with easy access to Dallas, Fort Worth, and Oklahoma City. Also in Denton, jewelry manufacturer Jostens' is completing a 13,000-square-foot expansion to its facility that will result in the addition of approximately 175 new jobs to the current 290-employee base, which increases by approximately 200 seasonal and temporary workers during the fall peak season.

Insurance company Torchmark Corporation's long history in McKinney began 14 years ago in 1995, when its Dallas-based subsidiary outgrew its space. "We wanted to relocate that subsidiary," says Mark McAndrew, chair and CEO. "We were leaning toward Oklahoma City, where we already had ample office space, but the city of McKinney really made us a nice offer of incentives." That deal resulted in the construction of a 150,000-square-foot office building. More recently, an incentives package from the state and the city facilitated another 150,000-square-foot expansion for the relocation of the corporate headquarters from Birmingham, Alabama, and consolidation of data center functions from Waco, Texas, as well as Oklahoma City and Birmingham.

McAndrew says McKinney's location on the edge of the Dallas metro area encourages employee recruitment from outlying areas. He also notes that the cost of labor and business is much less than other places with a concentration of insurance companies. "Much of our competition is based in New York and Connecticut," he says. "When I look at their expenses, our expense ratio is about half. By locating here, we can be competitive in the marketplace but still have a very acceptable profit margin in our products."

In Irving, Chris Wallace, president of the Greater Irving–Las Colinas Chamber of Commerce, notes that over the last eight months, technology, energy, oil and gas have been very successful sectors, with eight new, expanded, or retained technology companies and five new or expanded energy companies. Projects include TXU Energy, which added approximately 850 employees at its new 247,000-square-foot headquarters; OptimumEnergy's new 61,339-square-foot office, with 245 new hires; and 167 jobs with Pioneer Natural Resources' 293,000-square-foot expansion.

One of the secrets to Irving's recruitment success is the proximity to Dallas–Fort Worth Airport. Irving is also home to the Las Colinas Development, a master-planned community replete with corporate tenants, including 32 Fortune 500 companies and the global headquarters of Exxon Mobil, Fluor Corporation, Kimberly-Clark, and Commercial Metals. "We lean on our already established companies to help us attract others," says Wallace.

Accessibility, one of the area's selling points, will become even more convenient when a light rail system, currently under construction and slated for a

December 2011 completion, connects Las Colinas to the airport and downtown Dallas.

Attention to “speed-to-market” details has garnered the attention of the city’s larger clients who need quick and efficient transitions into their new facilities. “We were able to recruit Fluor from southern California to Irving three years ago,” says Wallace. “They wanted their building finished in eight months from an empty piece of land; ground to move-in. All of the directors that impacted the project were called around the table at once — the transportation, permitting, building inspector, water guys, the fire marshal, anyone involved with planning, grading, building, or move-in.” He says gathering the principals together created a streamlined process that continues today.

The largest headquarters project welcomed into Las Colinas recently was that of Blackberry maker and wireless technology company Research In Motion (RIM), which is expected to employ 1,000 people over the next few years. However, the community also has attracted about 10,000 small to mid-size businesses such as Omega Environmental Technologies, a manufacturer of automobile air conditioning parts.

Raytheon Company boasts a 13-year history in Texas as Raytheon Company and more than 50 years with its Texas Instruments legacy. With two Raytheon business headquarters in Texas — Intelligence and Information Systems in Garland and Network Centric Systems in McKinney — the company has an additional presence through its Space and Airborne Systems and Financial Shared Services. In all, the firm employs 9,100 people across seven locations in Dallas, Garland, McKinney, Plano, and Richardson, with an annual regional payroll of more than \$700 million, a base of more than 2,700 suppliers, and \$600 million in annual purchases. “Texas offers a diverse, vast pool of top engineering and technical talent necessary to build and sustain our innovative culture,” says Fred Finley, site executive at Raytheon’s McKinney facility. “Living and working in North Texas are made easy with an attractive quality of life, access to excellent education, an appealing cost structure and a patriotic spirit second to none in support of what we do for the brave men and women serving our country.”

Happenings in Houston

The Houston region is comprised of 10 counties — Montgomery, Harris, San Jacinto, Chambers, Fort Bend, Liberty, Austin, Waller, Galveston, and Brazoria — and is home to more than 5 million people. The area boasts the Port of Houston, the largest port in the United States, with a central location on the Gulf Coast. The Houston region’s five major economic sectors are aviation and aerospace, energy and petrochemical, medical and biotechnology, information technology, and nanotechnology.

In March, the governor announced a \$50 million grant from the state’s Emerging Technology Fund (ETF) for the National Center for Therapeutics Manufacturing (NCTM), a flexible therapeutics manufacturing and academic training facility at Texas A&M University in College Station. The NCTM will become an international destination for research and application of new technologies for the development of medications to combat diseases such as cancer, diabetes, and influenza. It also will serve as a model for future strategic national facilities to protect the nation from bioterrorism threats and attacks. The NCTM is planned as part of a “biomedical cluster” that also will include two renowned research institutions — the Texas Institute for Genomic Medicine, jointly operated by the Texas A&M Health Science Center and Texas A&M, and the Texas Institute for Pre-Clinical Studies, operated by Texas A&M.

In a statement to the Pharmaceutical Research and Manufacturing Association, the governor noted that the NCTM’s manufacturing arrangements will allow it to contract with academic, governmental and commercial entities, providing a strong economic boost to the Texas economy by allowing the production of therapeutic drugs in-state that otherwise would have been lost to California, New Jersey, and other locations. The facility will offer both

large and small pharmaceutical companies the flexibility to manufacture clinical grade commercial drugs in Texas. By collaborating with academic researchers and commercial companies, the center will create a new model for producing critical drugs by developing an innovative “flexible-by-design” manufacturing system, which will allow rapid production of drugs in precisely targeted quantities. By comparison, conventional manufacturing plants only specialize in the mega-production of one type of drug.

Also in March, the governor’s office announced it would provide \$250,000 from the ETF to Austin-based AnaLogix Development Corporation for the commercialization of its 3-D movement-based game controller for the personal computer and gaming markets. AnaLogix is working with the University of Texas and the Austin Technology Incubator to commercialize this product. The ETF award will allow AnaLogix to launch and sustain production and marketing of the controllers.

A Silver Lining

While business has waned somewhat in 2009, the state of Texas refuses to simmer over it. “Texas has always depended on a combination of being fiscally responsible, continually working on a business climate that is favorable for investment and the diversification of our economy,” says Demerson. “These things plus the leadership of Governor Perry and our legislative body, have contributed to Texas being recognized by many as having the best business climate in the United States to run a business.”