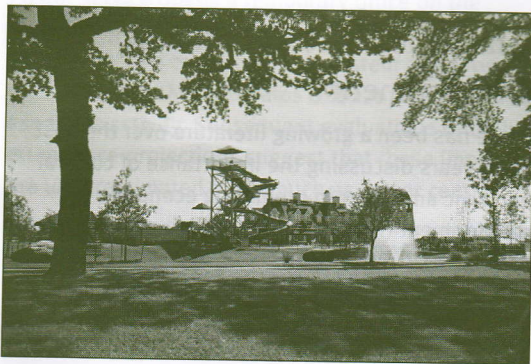




Economic Development, Texas Style: Are There Lessons for Australian Practitioners?

Terry Clower

As a recent visitor to Australia, I was afforded the opportunity to speak with many local and regional economic development practitioners representing service areas across Australia. More than any other nation I have visited, Australia's economic development practitioners are willing to examine the way economic development is conducted 'elsewhere' in their efforts to refine their own development strategies and practices (Beer, Haughton and Maude 2003). The following paints a picture of some of the features and strategies of local and regional economic development in Texas.



Even with strong demand, residential developers are increasingly adding amenities such as community club houses and waterparks to attract homebuyers.

Texas - it's big

Texas is second only to Alaska in land mass in the US. Approximately the size of South Australia, Texas is now home to over 22 million people (Texas State Data Center 2004). With a self-professed low-services/low-tax political culture, Texas has had great success in adapting its economy from

traditional extractive industries, agriculture, and manufacturing industries to services, trade, and high-tech manufacturing.¹ Gross state product now exceeds \$1.1 trillion (AUD), which would make the Texas economy the 8th largest in the world, if it were an independent nation (US Bureau of Economic Analysis 2004; World Bank 2004). With economic opportunities, Texas has seen dramatic inflows of new residents from other states as well as international immigration. International immigration to Texas is dominated by inflows from Mexico, both legal and illegal. In the past 10 years, Texas has added almost 4 million new residents while the ethnic and racial mix has undergone substantial changes (Texas State Data Center 2004). In 1990, Hispanics² represented 25.5 per cent of Texas' population. By the year 2000, that proportion increased to 32.0 per cent and continues to grow (US Census Bureau 2002).



¹ I am not espousing that Texas' economic growth is a result of being a low-tax/low-services state; however, surveys of business leaders will often say that low business taxes is an important characteristic in site location decisions.

² Hispanic is an ethnic, not a racial categorization.

Housing

The increasing population, along with low borrowing costs, have spurred housing construction to the extent that many suburban Texas communities count housing development as a primary economic development activity. While the US and Texas have struggled through a halting economic recovery over the past 3 years, housing construction has continued to be strong. This growth in housing construction provides local jobs, direct economic activity, spinoff (indirect) economic activity, and expands the local property tax base, a primary source of local government funding in Texas. However, even with strong demand, housing prices in Texas remain very attractive. For example, the median price of a single family home in the Dallas-Fort Worth metropolitan region is US\$133,000 (Real Estate Center 2004), which is about 2.7 times median household earnings. Relatively affordable housing holds down the overall cost of living, which is reflected in local wage rates and helps local economic development practitioners sell Texas as an affordable business location. Of course, bringing new households also attracts retail activities, or as we say in the States, rooftops bring retail.

Retail as Economic Development

The structure and funding of economic development in Texas lends itself to the heavy promotion of commercial-retail space development. Taxes paid on retail sales represent the second largest source of revenue to Texas' municipalities. Compared to Australia, local government in the US and especially in Texas has much broader responsibilities for the provision of protective services, education, social services, the administration of federally-supported programs, and economic development. The Texas Department of Economic Development, administratively housed in the Governor's Office, operates on an annual budget of about US\$33 million out of a total state government budget that exceeds \$62 billion or about \$1.50 per capita (Texas Legislative Budget Board 2003).

Local economic development in Texas is largely funded through municipal general revenues and dedicated local taxes. Since the early 1990s, communities located in counties with less than 500,000 population have had the authority to call a local election for the adoption of economic and/or community development sales taxes. Each of these

may include a tax rate of up to one-half of one per cent on all taxable retail sales for a total potential dedicated tax rate of up to one per cent. Almost 500 cities in Texas have adopted one or both of these sources of revenue to support development goals. One Dallas-area suburb, Frisco, has successfully targeted retail as a prime economic development strategy generating over US\$10 million per year in sales tax revenues dedicated to economic and community development, about \$170 per capita (Texas Comptroller 2004). The incentive for development professionals and local elected officials to target retail trade for economic development is obvious. Of course, retail offers lower-paying jobs and has a comparatively small impact multiplier on the local economy. Therefore, the revenues generated by these dedicated taxes are often used to fund a range of incentive programs, activities, infrastructures, and publicly-supported entertainment venues as a way to draw more economically attractive firms.



Stonebriar Mall is a 170,000 square meter retail center located in Frisco.

Amenities-based Economic Development

There has been a growing literature over the past 10-15 years discussing the importance of cultural and civic amenities in promoting economic development (Florida 2002; Gottlieb 1994; Granger & Blomquist 1999, Myers 1988; Wong 2001). While many of these writers talk about the importance of publicly supported amenities such as art museums,



TMS is a medium sized city during race week

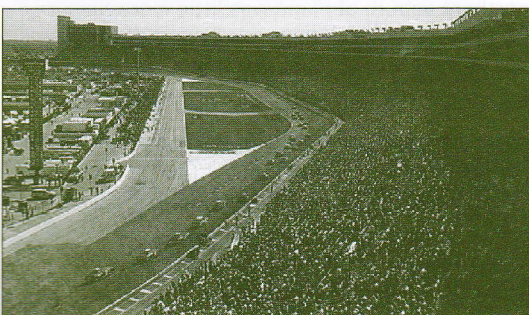
zoological and arborological parks, and symphonies, in Texas, as in many places, broad-based cultural activities means sports - especially professional sports.

Texas has been a full and willing participant in the growing trend of supporting local professional sports franchises and venues with public monies. One example from the North Texas region includes motor racing at Texas Motor Speedway (TMS). In addition to smaller races, TMS hosts one major



Rough Rider Stadium in Frisco

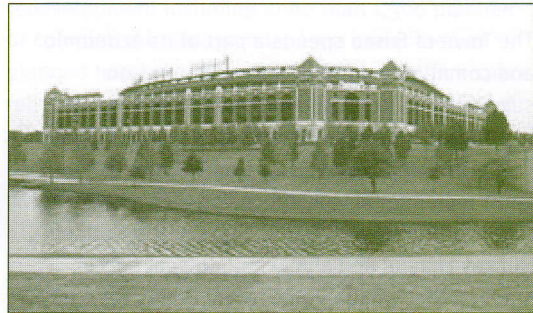
NASCAR event. The NASCAR race held in April is a five-day event culminating in a Sunday main race that draws over 220,000 spectators to the raceway. Importantly, over one-third of these attendees are from outside the region. Enough out-of-area spectators show up for the entire event that the US Postal Service opens a temporary office on the racetrack grounds to serve the thousands of spectators. In a 1996 report, Weinstein and Gross estimated that TMS generates US\$221 million in local economic activity. Subsequent evaluations of their attendance projections suggest that these impacts are underestimated by as much as 15 per cent.



Texas Motor Speedway hosts over 220,000 people at major racing events

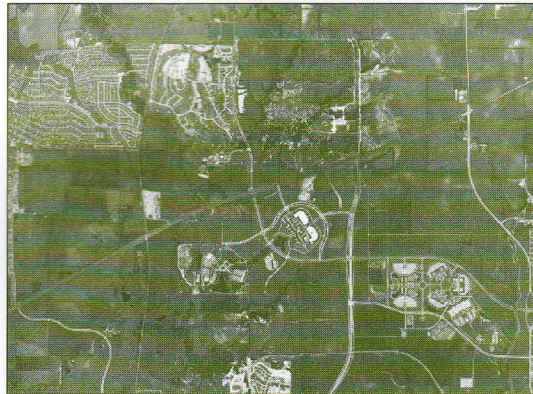
Other examples of sporting venues that are considered an integral component for attracting leisure spending to a community, as well as offering

quality-of-life enhancing entertainment options are the Ball Park at Arlington, home to the Major League Baseball franchise the Texas Rangers, and Roughriders Stadium in Frisco, a minor league baseball venue. The Town of Frisco is one of the best examples of engaging in amenities-based development.

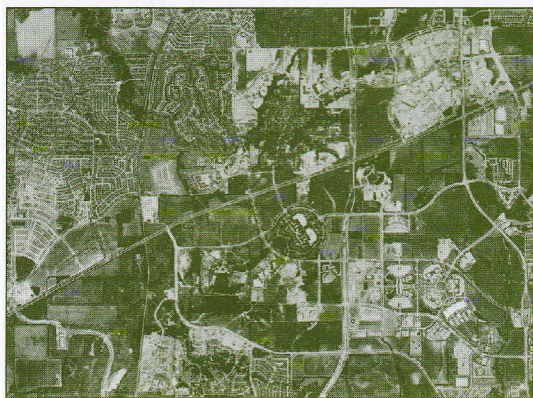


The Ball Park at Arlington

Frisco is located on the extreme northern edge of the Dallas metropolitan area. In 1990, the population of Frisco was 6,138. By March of 2003, the town had grown to 58,787, one of the fastest



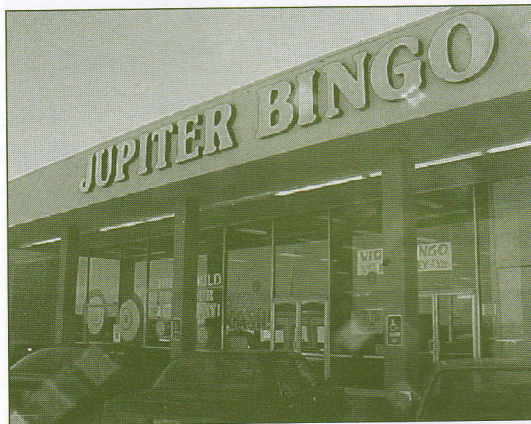
Southern Frisco and northern Plano, Texas 1995



Southern Frisco and northern Plano, Texas 2001. Includes Stonebriar Mall in upper right.

growth rates in the nation (North Central Texas Council of Governments 2003). As noted earlier, with population came retail development opportunities and attendant tax revenues dedicated to economic and community development. The growth in housing and retail development is apparent in the two aerial photographs taken in 1995 and 2001.

The Town of Frisco spends a part of its economic and community development resources on supporting cultural and entertainment venues. In addition to Roughriders Stadium, Frisco is home to the Dr. Pepper/Seven Up Stars Center, a multi-sport recreational venue focusing on ice sports that is affiliated with Dallas Stars of the National Hockey League and a new 20,000-seat soccer stadium that will be home to the Dallas Burn of Major League Soccer. Dedicated revenues are also supporting a 145-acre downtown (Main Street) redevelopment project. In addition, the city uses its substantial tax revenues to support public services. The Frisco Fire Department is rated as the second best in Texas, the police department has received numerous service awards, and the city earned environmental planning awards in three consecutive years (2000-2002). Clearly, Frisco has leveraged early development success into one of the most successful economic and community development stories in the US.



Supermarket reuse strategy

There are other amenities that are used as economic development tools in Texas. Less glamorous, but nonetheless lucrative, entertainment venues such as bingo halls have put new life into long-vacant retail sites in neighborhood strip malls. Other gaming, especially casinos, has proven to be excellent targets of entertainment development on Native-American

reservations. Indian casinos have been the basis for the financial rescue of Native American communities in many states across the nation. The casino shown here is actually located in the State of Oklahoma, just across the Texas border.



Finally, one of the most recent amenities-based development and redevelopment success stories is attached to a traditionally-maligned amenity in Texas, public transportation. In the early 1990s, Dallas Area Rapid Transit (DART) began developing a light rail transit system. The system had been in the planning stages with participating communities including the City of Dallas and several suburbs. Participating cities opted to impose a one per cent dedicated sales tax to support the transit system. Interestingly, due to local tax rate caps under state law, participating suburbs that are otherwise eligible cannot choose to have the economic and community development sales taxes and be a member of a regional transit authority, a rule coming under increasing political pressure.

As the system was built into the suburbs, the light rail stations became a focus of development and redevelopment activity. Forty years ago, the Dallas northern suburb of Plano was little more than a declining farming community. As urban sprawl encompassed Plano, the population boomed to more than 200,000. However, the old town centre



Downtown Plano light rail station

was characterized by abandoned storefronts and decrepit small offices. Almost immediately after a DART light rail station location was chosen adjacent to the old town centre, developers began to buy properties and invest in building redevelopment and/or development.

The picture shown here shows new mixed-used housing and commercial properties as well as remodeled building facades. Property values have risen and new retail activities are boosting economic activity and the city's tax coffers. Other suburban communities are working to promote similar activities. Redevelopment around light rail stations is not limited to suburban projects. The cities of Dallas and Houston have included light rail as an enticement for redeveloping problematic downtown properties.

Central Business District Redevelopment

With little in the way of natural boundaries, urban sprawl has been the defining characteristic of growth in Texas' major cities for five decades. In many cases, the movement of population to the suburbs followed by retail development and later office and other commercial developments, has hollowed out the downtown business districts of central cities creating what is commonly called the 'hole in the doughnut' effect. One approach to address this problem has been to use light rail as a conduit to bring more people to downtown and to engage in transit oriented development in the areas immediately surrounding central business district stations. In Dallas, where the stations have been in place for 6 years, there has been some redevelopment suggesting that light rail is an effective component in a revitalization strategy. Another component of this revitalization strategy is the use of public incentives to subsidize private redevelopment costs.

Tax Increment Financing (TIF) has become one of the most popular sources of funding public incentives for private development. Under TIF schemes a developer is repaid for investments in a property by having the incremental increase in property rates rebated for a set number of years. In theory, when the investments are made to rehabilitate a property, the market value, and thus taxable value, of the property increases. The marginal increase in property tax revenue to the city is directly or indirectly rebated to property owners. In practice, a TIF district with multiple properties is

established to create a pool of incremental tax revenues that can be distributed as grants, loans, and loan guarantees to developers. The Dallas Central Business Tax District was created in 1996 and covers about 40 square blocks of downtown. Using TIF monies and other incentives, the district has seen US\$440 million in new development and redevelopment including more than 1,300 planned or completed housing units, 2,311 completed or planned hotel rooms, and 72,000 m2 of office space rehabilitation and renovation. The taxable value of all properties in the TIF district rose from about US\$900 million in 1996 to US\$1.53 billion in 2001 (Weinstein and Clower 2002).

Logistics and Distribution

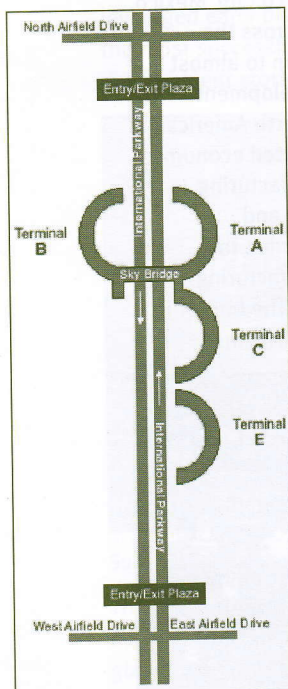
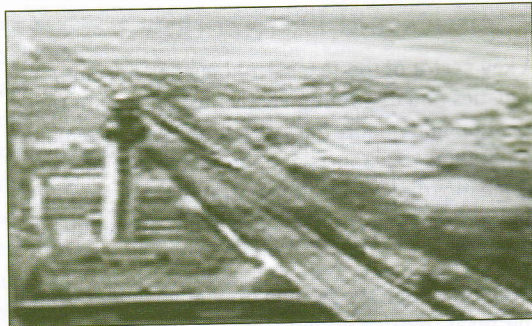
A key sector of the Texas economy has become logistics and distribution activities. With a strategic location and quality infrastructure, Texas is a major conduit for US exports and imports in addition to domestic trade. Road transportation, rail, shipping, and air transportation all have major operations in the state.

Interstate Highway 35 runs from Minnesota through the Texas/Mexico border city of Laredo/Nuevo Laredo and on to Monterey and Mexico City, Mexico. More than 1.7 million loaded trucks cross the border at Laredo each year in addition to almost 366,000 loaded railcars (Laredo Development Foundation 2003). Spurred by the North American Free Trade Agreement, trade has created economic development opportunities for manufacturing, assembly, and of course, distribution and warehousing on both sides of the border. In addition, distribution and even manufacturing activity has been boosted away from the border in San Antonio, Austin, and Dallas/Fort Worth.



Critical port infrastructure has had a great impact on the regional economy of Houston. The Port of

Houston is a 25 mile long (40 kms) complex at the end of a ship channel dredged through streams and swamp land connecting the City of Houston to Galveston Bay. More than 175 million tons of cargo pass through the port annually on over 6,400 vessels. This makes the Port of Houston the second busiest port in total tonnage in the US, first in foreign trade tonnage in the US, and the sixth busiest port in the world. The Port of Houston is also the largest ocean port of entry for the nation of Mexico. Studies conducted for the Houston Port Authority estimate that the port generates more than US\$11 billion in total regional economic activity and supports more than 287,000 direct and indirect jobs (Port of Houston Authority 2003).



Dallas-Fort Worth International Airport also has a tremendous economic impact on its host region. DFW is a joint venture of the cities of Dallas and Fort Worth and is located about halfway between the two cities.

The airport encompasses 7,318 hectares of land, includes 4 terminals, and has 137 gates.

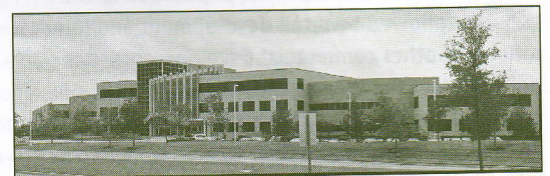
The airport is a hub for several US air carriers and is home to American Airlines. More than 53 million passengers, 4 million of whom are international travelers, pass through DFW Airport each year along with 739,000 tons of cargo. It is estimated that DFW Airport activities boost the regional economy by US\$11.2 billion per year and support about 211,000 jobs.

High-tech

Since the early 1940s, when Collins Radio, later to become Texas Instruments, started receiving contracts to supply the latest communications equipment to the US Army, Texas has had a strong technology sector.

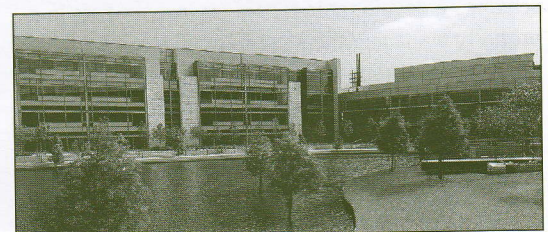


Even after the tech-wreck of 2001, there are about 200,000 people employed in technology and related industries in north Texas. In addition, Austin, the state's capital and home to the University of Texas, has become the perceived technology centre of the southwest. In addition to Texas Instruments, many high-tech firms are based or have significant operations in Texas represented by EDS (Electronic Data Systems), Ericsson, Citizens Communication and others.



Citizens Communication

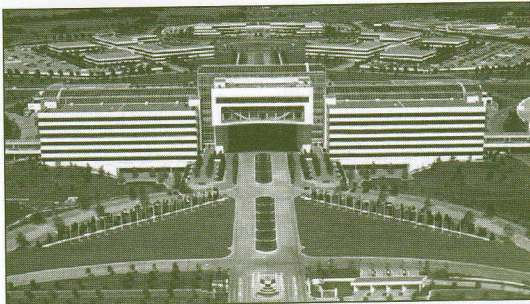
High-tech companies are attracted by the state's competitive cost of living, access to qualified labour, and incentives offered by local and state government. Fortunately, even though there have been significant job displacements in technology fields, especially telecommunications, over the past three years, the downturn in that sector has been nationwide and the pool of available labour has remained in the state. As the technology sector of the economy recovers, Texas locations will be very competitively positioned to be among the first to enjoy increased activity and hiring.



Ericsson North American headquarters

Corporate Headquarters

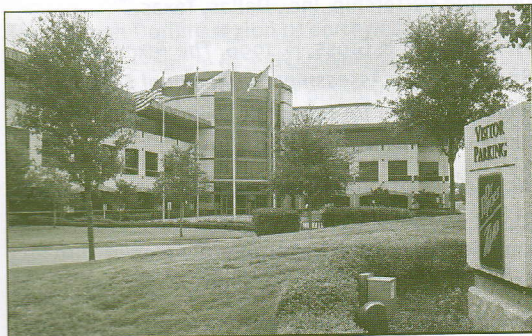
Political leaders, and by extension economic development practitioners, place a relatively high value on being home to the headquarters of major corporations. It is, in part, about bragging rights to say that Dallas, actually the suburb of Irving, is home to Exxon/Mobile Corporation, which means only about 300 jobs in the region. Nonetheless, in touting the the area to business prospects, a laundry list of corporate headquarters will be offered as proof that the region is a 'player.' Some suburban communities have fully embraced this business development strategy. The City of Plano, for example, is home to Dr. Pepper/Seven Up, JC Penney, and Frito Lay among others. These corporate locations are largely the result of a partnership between the city and developers in creating Legacy Park. Interestingly, one of the main beneficiaries of the Legacy Park development has



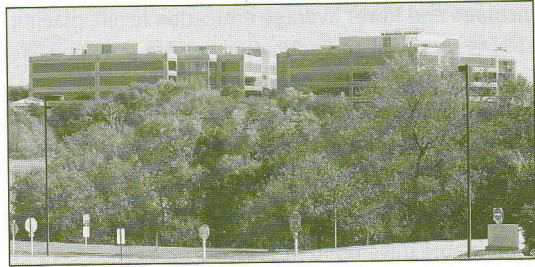
EDS



JC Penney



Dr. Pepper



Frito Lay

been the adjacent town of Frisco, where many of the employees of these firms live and shop.

Some Conclusions and a Few 'buts'...

Economic development in the US, and especially in Texas is more business oriented than that generally seen in Australia. With local governments having a much greater ability to raise revenue and the accompanying responsibilities for providing services, including economic development efforts, local economic development practitioners in Texas typically have more resources at their disposal. One distinct advantage to the Texas system is bringing control to the local level. It is a general political bias in Texas that local leaders will ALWAYS know how to deal with local issues better, or at least be more in tune with the desires of local residents. However, there is a downside to the Texas model of local funding for economic development - cut throat intraregional competition among cities. For example, the Town of Frisco has been accurately accused of stealing companies from neighbouring cities by offering substantial incentive packages funded through their economic development sales tax. Many of the firms moving to Frisco over the past 3 years have not come from other states or regions, but from the city of Dallas and other suburbs. Tempering intraregional competition, probably through law, would encourage a more effective and efficient use of the development resources available to Texas communities.

Texas' inflow of immigrants provides a ready source of workers who are willing to work for very competitive wages and in jobs others find unattractive. This lowers labour costs for commercial and residential construction activities and much of the basic assembly work that is still an integral part of many technology industries. However, in many of our central cities the inflows of immigrants have resulted in declining average

incomes and lower average education levels placing strains on social and education service providers. Failing to address the need to integrate these individuals, especially along economic dimensions, is a looming problem that so far has not gone past political rhetoric.

Except for the odd environmental planning award, sustainable development in Texas means sustainable employment. Little more than lip-service is paid to environmental and social issues by economic development practitioners. This is an area where our practitioners could learn a great deal from their counterparts in Australia. Our economic development professionals also need to expand their interests to issues of community development to better address our increasing challenges of ageing and cultural integration.

Still, the Texas example offers some approaches to economic development that Australian practitioners may find worthy of consideration including increased local control through local funding, taking full advantage of retail opportunities - especially as a potential source of revenue-partnerships with commercial developers, developing housing across all price ranges as an economic development strategy, promoting trade activities, and looking at amenities-based development to keep local communities attractive for the employees of knowledge industry firms. In the Dallas area our competition for economic development has traditionally been Atlanta, Chicago, Denver, Houston, and other major US cities. Now our competition includes Bangalore, Singapore, and increasingly, Australian cities. As competition grows between our cities, it begs the question of will this push our economic development practices to congruity?

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