

Lone Star State Builds On Economic Strengths

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Little is more emblematic of Texas' aggressive stance toward economic development than the Toyota truck factory employing nearly 3,000 people on San Antonio's economically disadvantaged South Side.

In 2003, Texas beat out other states for the \$800 million investment by quickly cobbling together incentives — such as tax breaks and bonuses for meeting job-creation goals — from a variety of sources. In 2004, state leaders launched the Texas Enterprise Fund based on that experience.

Since then, the Texas Enterprise Fund has grown into one of the state's most effective lures for business development. And many Texas business leaders, not surprisingly, want to see such incentives continue to play a major role in economic development. Texas is known for having one of the most competitive incentive programs in the country.

But cash and tax breaks, experts caution, shouldn't be Texas' only tool.

"If your only advantage as a state is that you write big checks, someone else will eventually write bigger checks and pull ahead," said [Rich Butler](#), a [Trinity University](#) economics professor who has worked on Alamo City economic development initiatives. "Long term, it seems to make more sense to spend resources on things that emphasize your relative strengths as an economy."

Good, but room for improvement

One of those strengths is the Lone Star State's immense, diverse and educated labor force.

But many fear Texas' education and workforce development system is lacking.

"There is a lot of workforce development going on at the state level, but I wish it were a lot more purposeful," Butler said. "It's certainly under-resourced relative to the gains we could see from it."

Texas' favorable tax situation and regulatory environment have fueled a number of recent relocations, but other states are likely to follow Texas' lead, said [David Marquez](#), economic development director for Bexar County, where San Antonio is located.

"The window of opportunity for Texas ... is still open," Marquez said. "But it won't be like this forever. Other states eventually will figure out what companies are looking for."

Besides a stout educational system that produces talented workers, economists said Texas needs to make gains in transportation and water infrastructure, which are deemed behind the curve.

Those fundamentals will be even more crucial to Texas as it tries to lure more businesses here because some incentives — such as capital from the Texas Emerging Technology Fund — is essentially on ice for at least the next two years. In the past few years, the fund has awarded about \$197 million to promising startups, most of which are partnering with public universities. But due to the recession and consequent budget crunch, that fund is almost dry and won't be replenished until at least 2013.

CEOs such as [Kenneth Trevett](#) of the Texas Biomedical Research Institute said Texas, more than ever, must get more attention from venture capital firms on both coasts.

Texas lags rivals California, Florida and Massachusetts in access to venture capital, said Trevett, who is also chairman of BioMed SA. Even in tech-centered Austin and biomed-rich San Antonio, entrepreneurs struggle to find homegrown capital needed to pursue their ideas.

Bigger and better in Texas

Despite the progress needed, the state's total gross domestic product is the envy of the country — going from \$602 billion in 1997 to \$1.2 trillion last year. During the recession, one of five U.S. jobs created came from Texas. And Texas has been lauded nationally recently for sustaining a well-rounded economy.

But the Texas economy is not as diverse as many believe, said [James Gaines](#), research economist at [Texas A&M University](#). He said it is still heavily influenced by the energy industry, although that's a good thing because the sector only gets stronger.

"The Texas economy is different because energy insulates us a little bit," he said.

In general, Texas benefits from a good location, a favorable tax and regulatory environment, an abundant workforce and favorable cost conditions, said [Ray Perryman](#), founder and president of Waco-based [The Perryman Group](#), an economic and financial analysis firm.

"Our health and biosciences sector is quite vibrant on its own," Perryman said. "In terms of technology, Texas has been able to effectively gain a foothold in many new areas, such as gaming and nanotechnology, while maintaining leadership in traditional areas. All of these factors help the state perform better than the U.S."

While Perryman anticipates a declining government sector as it faces budget constraints and layoffs, he predicts the private sector will see ongoing expansion and compensate for the public-sector losses.

Texas' economy never sank into the recession like other states. The housing market is a great example. For the most part, Texas homes have retained their value in recent years, and homebuilders report that business is getting back to normal, largely because of the influx of new Texans taking refuge from states worse off.

"Texas' restrictions on residential lending kept us from getting out of control," said residential developer [Rance Clouse](#) of Austin's Fortis Realty Services. "We didn't have the run-up in unsupported values when the crash occurred, and we didn't have as far to fall. Also, on the demand side, we have been fortunate in this cycle."

Job growth, sales tax collections — from business and consumer purchases — and growth in automobile sales signal that the Texas economy has emerged from the recent recession, Texas Comptroller [Susan Combs](#) said.

Unfortunately, many parts of the U.S. and world are still limping, and uncertainty is prevalent. And while Texas is insulated to some extent from national or global woes, it isn't immune.

“Uncertainty is always a drag on the economy,” Perryman said. “It doesn't affect Texas more than other places, but the tendency to defer investments and hiring impacts the entire U.S. economy. The European and Japanese debt problems, the lack of clarity in U.S. deficit policy and health care costs, and the tensions in the Middle East and other oil-producing regions are all contributing to uncertainty and slower growth. In balancing these factors and others, our current projections call for modest growth in Texas in the next few years, with gross product (growing) at a 3 percent to 4 percent annual rate.”

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