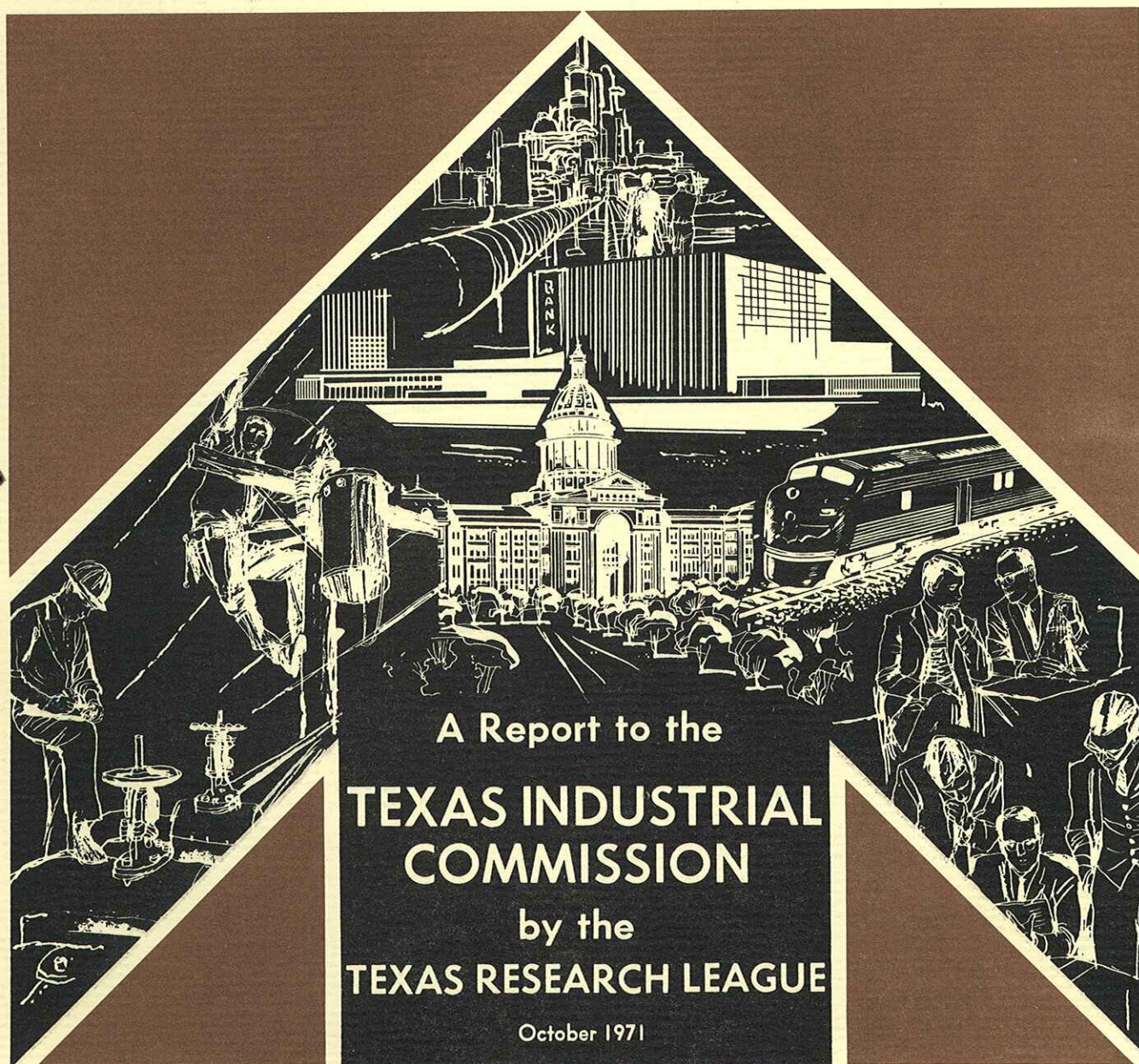


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NEW STRATEGIES FOR GROWTH



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NEW STRATEGIES FOR GROWTH

A Report to
The Texas Industrial Commission

by

Texas Research League

October 1971/Price: \$2.00

James W. McGraw
Executive Director



TEXAS RESEARCH LEAGUE

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October 1971

Mr. Chester C. Wine, Chairman
Texas Industrial Commission
Austin, Texas 78701

Dear Mr. Wine:

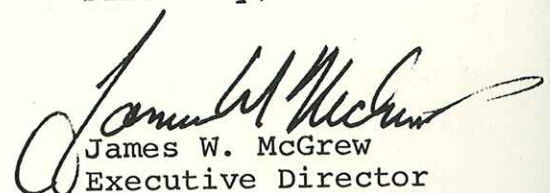
We are pleased to submit this report in response to your request for an evaluation of the current and proposed new programs of the Texas Industrial Commission.

Economic growth is vital to the welfare of the people of Texas and the TIC has an important part to play in encouraging this growth. Accordingly, the Commission's role has been and will continue to be an important subject of public policy. We hope this report will be useful in the ongoing process of defining and implementing an effective mission for the agency.

On behalf of our staff, let me express our appreciation for the courtesy and cooperation which we received from Mr. Harwell and his associates, as well as from members of the Commission.

We appreciate this opportunity to be of service to you.

Sincerely,



James W. McGrew
Executive Director

JWM:mh

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INTRODUCTION

The Texas Industrial Commission was established by the Legislature in 1920 as a mechanism for settling labor disputes - a function which it has never performed.¹ In 1957, the Commission was given the "additional duties" of planning, organizing and operating a program for attracting and locating new industries in the State of Texas.²

In 1959 the Legislature elaborated on the manner in which the Industrial Commission's new duties were to be performed and enlarged its responsibilities to include "protecting the legitimate interest and welfare of Texas business, industry, agriculture and commerce," and aiding various communities "in getting business to locate therein."³

Since the League's last study for TIC in 1968, the State's leaders have begun to focus on Texas' overall long-range goals, as reflected in a speech to the Texas Municipal League by Governor Preston Smith on October 4, 1971. He said in part:

We seek to preserve the quality of the environment, improve individual opportunities, enhance community development, and strengthen local government. [We have] stressed . . . the need for balanced urban development [We believe] that incentives must be established for business and industry to locate in areas where they are needed, and not in areas where they would contribute to unwanted congestion and the demands on the environment.

This statement tends to put industrial development into a broad context of public policy - one in which the State would undertake to exercise a role in influencing the nature and location of private investments. Such a goal can only be effectively implemented by legislative action, and the nature of the action required has not yet been seriously discussed in Texas.

If such a goal should become public policy in Texas, then the function of the TIC would be to enhance the competitive position of Texas relative to other states while working within this broader context. This is not now the function of TIC, and this report, therefore, concentrates on the effective dispatch of those functions clearly assigned to the Commission.

1

VACS, Art. 5190.

2

VACS, Art. 5190-1/2.

3

VACS, Art. 6144e.

A RECORD OF PROGRESS THROUGH COOPERATION

The Texas Industrial Commission was originally given responsibility for promoting the industrial development of the State by legislation passed in 1957, but it was forced to operate with private funds for the succeeding two years until state appropriations were made in 1959. After these state funds became available, the Commission asked the Texas Research League to outline "the most efficient and effective method of operating the Industrial Commission."

THE ORGANIZATION OF INDUSTRIAL DEVELOPMENT IN TEXAS

There are two groups of activities in competitive industrial development. The most common is simply identifying and contacting firms who have made it known that they are considering locating in Texas. The competitive developer needs to "get the word" as early as possible from the target company; he needs the capability of packaging necessary information in its most usable and convenient form. National advertising of Texas' attractions provides enough information about Texas so as to encourage companies from out of the State to give timely signals of their interest in new locations. These activities are essentially *reactions* to signals from target companies; the initiative is predominately with the company rather than with the developer.

A second group of activities is designed to place the initiative with the competitive developer. Analysis of markets, input-output analyses and similar "library" work should give the developer industry prospects even though few firms in the target industry may have considered moving to Texas. The initiative lies with the competitive developer whose factual presentation convinces investors that the firm would be more profitable in Texas than elsewhere.

The first group of activities is substantially carried out in Texas by private businesses and community organizations. These have generally encouraged the State to undertake a significant portion of the national advertising activity. The second group of activities is more readily accomplished by public agencies, partly because the "payoff" is a bit more remote and not necessarily rewarding for a limited geographic area. Greatest effectiveness is dependent on a wholesome respect and frequent interaction between the individuals engaged in the two groups of activities.

First League Study. After its first extensive study, the League recommended that "the Texas Industrial Commission concentrate on: (1) complementing and coordinating existing industrial development programs of private businesses and local communities; and (2) on providing an information center through which a state advertising program can be carried

on and from which factual data pertinent to all phases of industrial development may be obtained."

In the course of its study, the League found that Texas had one of the largest private and local industrial development efforts in the Nation with expenditures totaling \$10 million per year at that time. Duplication of this vast network by the State would have served only to complicate industrial development in the State and would have needlessly cost millions of tax dollars.

The Private and Local Effort. Industrial development is still primarily a function of private business and local community organizations in Texas. The vast geographical size of the State and the diversity of its economic and social resources historically have made impractical the organization of highly centralized industrial development programs like those carried on by many smaller and more homogeneous states. As a result, industrial development in Texas has been built around a complex but cooperative partnership of business, community organizations and the State.

The development programs of major Texas utility companies form the foundation of the private and local effort in the State. A number of major utilities have had an area development department for many years. Others more recently have organized similar departments. Through advertising programs, personal contacts, tips from their local managers and other sources including TIC, these departments attempt to identify companies which can be attracted to Texas. Several departments have a group of field consultants who travel throughout the United States following up contacts with candidate companies and establishing new contacts to generate additional interest in Texas. Through correspondence and personal interviews with company officers and executives, the consultants attempt to develop a sound understanding of company plans and problems and to present the most relevant and useful information about Texas to these officials.

Some utilities have an economics research division within their area development department to perform analyses aimed at indicating location potential in the company's service area and to maintain the most up-to-date economic and social data on the communities which the company serves. With local managers scattered throughout their region, the utilities are able to keep abreast of current governmental and business developments which have a bearing on the location potential of area communities. These managers, also, provide some of the local leadership essential to the attraction of industry. Several utilities also conduct training programs intended to prepare local leaders for the day when a candidate company may visit their community to find out firsthand what it offers.

Texas railroads, banks, chambers of commerce, industrial foundations and other local groups also are active industrial developers. Many advertise, compile economic and social data on their communities, make calls on (and prepare analyses for) candidate companies, and participate in local industrial training programs. Some, admittedly, are more active than others. Small town banks and chambers of commerce do not have the capabilities of those in the State's major cities. Railroads are more interested in communities where they have track. Yet, much of rural and small town Texas

is served by utilities whose headquarters are in large cities but whose service areas include hundreds of square miles and cover a more nonurban than urban territory.

The proven results of the professional private-local network of industrial development in Texas was the basis on which the League recommended in 1962 that the Texas Industrial Commission should have as its primary mission a program designed to support and complement this effort. The principal means for carrying out this mission were to be national advertising aimed at "image building" for the whole State and a research and information service to provide professional industrial developers with hard facts and data useful to them in the location of new and expanding companies in Texas. To underscore the cooperative relationship between the Commission and private and local developers required for success in this mission, the 1962 League report stated: "In organizing a program along these lines, the Commission and its staff should rely heavily on the guidance of professional industrial development leaders."

Second League Study. The Commission took up its recommended mission and carried it out successfully during the following years. The League's reevaluation study of the Commission in 1968 concluded: "The record of the past six years is an excellent one." A number of recommendations for shifting the Commission's program emphasis were made in the League's 1968 report. These included:

- * the community training program should be reduced by half;
- * the major shift in emphasis should be toward development of more factual information of practical use to private and community industrial development practitioners;
- * the TIC should undertake a continuing review of devices used by other states to attract industry so that private and public development agencies in Texas can move promptly to meet the competition; and
- * industry feasibility studies should be encouraged by TIC.

The 1968 League study, also, strongly repeated the injunction from the 1962 report to the Commission that it must remain free from partisan political affairs in order to be effective in the industrial development of the State. According to the TIC Executive Director, the TIC staff has used the suggestions in the previous League reports as operational guidelines on the instructions of the Commission.

TIC ENTERS ITS SECOND DECADE

When the League's first TIC study was made, the total budget for the agency was \$100,000, and that study made it clear that this was an

inadequate sum. By 1968, when the reevaluation study was made, the TIC budget had increased to just under \$310,000. The appropriation for 1972 anticipates the expenditure of more than \$900,000 in state funds - plus the possibility of some \$200,000 in federal planning money.

The components of the state funds appropriated in these three years are as follows:

	<u>1962</u>	<u>1968</u>	<u>1972</u>
Operating Budget (mainly salaries)	\$ 44,220	\$143,916	\$326,393
Advertising Program	55,780	147,500	232,000
Special Programs (planning, trade missions, task forces, etc.)	<u>-</u>	<u>18,000</u>	<u>358,000</u>
Total Appropriation, State Funds	\$100,000	\$309,416	\$916,393

It will be noted that the single most important factor in the 1968-1972 expansion has been the growth of special programs, and the examination of these programs constitutes the major thrust of this report.

In the administrative budget, a substantial part of the increased cost is attributable to (1) general improvement in the state salary schedule and (2) staff expansion. The 1968 staff consisted of six professional positions, including three executives. The 1972 budget calls for 11 professional positions including four new executives added during 1971 at an annual cost of \$62,000. It can be anticipated that at least part of the Special Programs budget will be used to employ additional personnel. This rapid growth has been accompanied by the organization of four new divisions in addition to the International Trade Division discussed in the following chapter.

The Division of Publications and Information consists of the director and one secretary responsible for administering: (1) A national advertising program and direct mail campaign conducted by a professional advertising firm under contract at a cost of over \$160,000; and (2) A \$20,000 per year contract with a private firm for news and information services. This Division also prepares copy for the Commission's bimonthly newsletter and other agency news publications.

The Community Development Division includes a director and three professional staff members, plus secretaries. This division has continued to carry on the community training programs established by the Commission in the early 1960s. Until recently the Community Development staff also assisted the Prospect Development Director. Each member of the staff was assigned candidate companies with which to maintain liaison and for which to provide various kinds of requested information and services.

↗ This staff, in addition, spent substantial time during the past year preparing for inauguration of the Commission's computer service program.

Staff members traveled 22,000 miles during the Spring of 1971 visiting every community participating in this program.

The Prospect Development Division and the Research Division are single-executive offices. The Director of Prospect Development is responsible for INSTA-SITE and other informational services to candidate companies and for liaison with professional developers. The Research Director is in charge of the agency's research efforts.

INSTA-SITE

In the Commission's 1970-1971 budget submission, funds were requested for "development of a Texas Computer Service for Industrial Development." The basic objectives of this program were: (1) to describe Texas communities to industries interested in locating in Texas and (2) to provide Texas communities with a comparison among themselves in terms of their attractiveness as industrial locations. One of the Commission's principal stated aims in attempting to develop this computer service was to be able to provide "a completely objective and instant evaluation of qualified communities for faster referral to allies [private developers] and communities" when the requirements of a candidate company had been specified.

In June 1971, the Texas computer service (INSTA-SITE) became operational after 28 months of preparation. Collection of the more than 7.5 million total community characteristics on the 385 cities and towns covered by the program,¹ together with design and testing of the computer system, is estimated to have cost around \$60,000 in state funds, plus a considerable portion of the time of six professionals on the Commission staff. The time and expense of local volunteers who collected and submitted data for their communities cannot be calculated. - total must $\approx 1\frac{1}{2}$ million

The INSTA-SITE data is divided into 26 categories containing a total of almost 1,500 information items for each community. Much of this information changes slowly and is available from central sources, such as the Bureau of the Census. Other information, however, is subject to rapid obsolescence and must be continually updated at the local level to be useful to a candidate company. Industrial site and building data have the shortest useful life-span, particularly in the case of medium-sized and larger cities. Information submitted by local volunteers was placed in the program essentially without the application of objective tests for validity - a fact which further reduces the reliability of the INSTA-SITE data base. The volume of local data and the Commission's dependence on volunteers for collection has made validity testing a practical impossibility. TRUE - maybe

TIC recently has completed the production of Community Analysis Profiles which compare each community participating in the program with all other

¹

Among larger communities currently not included in the program are: Baytown, Duncanville, Grand Prairie, Irving, Plano and Sherman. Attempts are continuing to include every city with at least 5,000 population.

INSTA-SITE communities in two comparable population size ranges on the basis of 189 characteristics. These profiles were distributed to each affected city or town along with an offer of a visit by a staff member to interpret the comparison. From the profile a community is supposed to be able to determine what it must do to become more attractive for industrial location.

CONCLUSIONS AND RECOMMENDATIONS

Texas has established an excellent record of leadership among the states in the field of industrial expansion. That record has been compiled in an era characterized by an effective partnership between the Industrial Commission and the professional industrial developers of the State.

Development of the computerized information service - INSTA-SITE - has been the major program activity of the Texas Industrial Commission since the League's most recent study for the Commission in 1968. As a comprehensive inventory of community characteristics, INSTA-SITE currently has three basic limitations: (1) its coverage of Texas communities is still incomplete; (2) some of the data which it contains is subject to rapid obsolescence; and (3) some of the data submitted by local officials has not been externally verified. Correction of these limitations and maintenance of a comprehensive current inventory would be quite expensive. If it were undertaken by the Commission through its own staff, it would divert a substantial portion of the agency's resources away from other primary functions. (Some basic policy questions about the Commission's role in economic planning for the State are discussed in the final section of this report.)

The Texas Industrial Commission should continue to emphasize the cooperative approach with private industrial developers which has contributed to the State's successful record of industrial expansion. Further investment in the INSTA-SITE project should be deferred until its potential use has been clarified in terms of the Commission's planning function.

II

PROMOTION OF INTERNATIONAL TRADE

Texas ranked seventh among the top ten states in the dollar volume of manufactured goods exported to foreign markets during most of the 1960s. Its exports grew by 89 percent between 1960 and 1969, increasing from \$779 million to \$1.468 billion. During the same period, the State's reliance on petroleum products in the export economy dropped from more than 20 percent of the total to less than 13 percent.

Table 1

TEXAS EXPORTS OF MANUFACTURED PRODUCTS 1960 AND 1969 (dollars in millions)

<u>Manufacturing Sector</u>	1960		1969	
	\$	%	\$	%
Chemical Products	\$234.3	30.1%	\$ 432.3	29.4%
Nonelectrical Machinery	110.2	14.2	217.4	14.8
Petroleum Products	157.3	20.2	185.3	12.6
Food Products	125.5	16.1	146.2	10.0
Transportation Equipment	19.7	2.5	138.6	9.4
Electrical Machinery	in "all others"		105.3	7.2
Primary Metal Products	69.2	8.9	96.8	6.6
Fabricated Metal Products	in "all others"		43.6	3.0
All Others	62.4	8.0	102.3	7.0
TOTAL	\$778.6	100.0%	\$1,467.8	100.0%

SOURCE: Exports from Texas, 1969, U. S. Department of Commerce, Bureau of International Commerce.

As the table shows, chemical products (derived primarily from petroleum) retained their place as the most important Texas export in 1969. Growth in other products, particularly transportation equipment and machinery, exceeded the relatively slower increases in oil and food products. These shifts have produced a stronger, more diversified export economy for the State.

TEXAS' EXPORT ECONOMY COMPARED

Texas produces more manufactured goods for sales in foreign markets, in terms of the size of its manufacturing economy, than any other of the top ten exporting states except Washington.

Table 2

MANUFACTURING EXPORTS AND VALUE-ADDED
FOR SELECTED STATES, 1966¹

<u>State</u>	<u>Value-Added²</u> <u>-----(in millions)-----</u>	<u>Exports</u>	<u>Ratio of Exports to</u> <u>Value-Added</u>
*New York	\$ 24,588	\$ 1,838	7.5
*California	21,331	1,786	8.4
*Ohio	20,132	1,670	8.3
*Illinois	19,855	1,869	9.4
*Pennsylvania	18,752	1,542	8.2
*Michigan	17,629	1,568	8.9
*New Jersey	12,246	980	8.0
*Indiana	10,117	661	6.5
*TEXAS	9,725	1,100	11.3
Massachusetts	8,378	600	7.2
Wisconsin	6,832	620	9.1
Connecticut	6,185	489	7.9
North Carolina	6,133	560	9.1
Missouri	5,808	369	6.4
TOTAL	\$187,711	\$15,652	
U. S. Total	\$250,880	\$21,299	
*Washington	\$ 3,289	\$ 602	18.3

*Top ten exporting states in 1969.

¹

Latest data available for value-added.

²

"Value-added" means the increase in value of a product attributed to the manufacturing process.

SOURCE: Annual Survey of Manufacturers, 1966, U. S. Department of Commerce, Bureau of the Census; and Survey of the Origin of Exports by Manufacturing Establishments, 1969.

As Table 2 shows, Texas had a ratio of exports to value-added equal to 11.3 percent compared with 18.3 percent for the State of Washington, but the latter represents a special case. Transportation equipment alone (aircraft, primarily) accounts for almost 60 percent of Washington's exports, with forest products contributing another 20 percent. Together, these two items make up more than 50 percent of the value-added by manufacturing in that state - indicating the narrow economic base on which it must rely.

Of the 50 states, only ten have a ratio of exports to value-added by manufacturing of at least ten percent - including Texas and Washington.

None of the other nine in this group have an economy even half as large as that of Texas.

Among all states with economies exceeding \$5 billion a year in value-added (together accounting for 75 percent of all value-added by manufacturing in the United States), Texas ranks first in the extent to which its manufacturing production is sold in foreign markets.

THE COMMISSION'S FUTURE PROGRAM

International trade by Texas' business not only has been successful but also constitutes a strong and important feature of the State's economy. The Texas Industrial Commission has played a part in this success.

In 1966 an Assistant Director, Export Development, was added to the TIC staff. The Commission conducted a trade mission to Australia and New Zealand in 1967, and operated an International Trade Center at HemisFair in 1968. In 1970 an International Trade Division was created in the agency by addition of one staff position to work with the Assistant Director, Export Development, and another trade mission was conducted, this time to Mexico.

In its 1972-1973 biennium budget request, the Commission asked for a total of \$85,000 each year in order for Texas "to exert itself even more in the field of Export Development." The request recommended that "an overseas office in Mexico City . . . be established in '72 and that in 1974 two additional foreign offices be established." It further recommended "that the State conduct two foreign trade missions a year." The 62nd Legislature appropriated \$300,000 for the biennium, and the Governor's veto of all 1973 state appropriations left \$150,000 available for an international trade program in the 1972 fiscal year.

Foreign Trade Offices. The Mexico City office was opened officially on October 1, 1971. The budget request estimated the annual operating costs of the office at \$60,000, but the request contained no documentation of need for the office and provided no explanation of the functions to be performed or the policies and procedures to be followed. On inquiry, the League staff was told that no written plan of operation for the office had yet been prepared. *

In July, the League staff undertook a mail survey of TIC's counterpart agencies in the other nine of the top ten exporting states to review their experience with foreign offices. The TRL letter asked a number of questions about the organization, operation and financing of these offices. (A copy of the letter is included as Appendix A.)

Of the nine states, all but New York responded to the survey. Only Illinois reported that it currently operates a foreign office. California and Ohio opened offices during the latter half of the 1960s, but both states had closed them by the end of 1970. *

Illinois opened an office in Brussels, Belgium, in January 1968 with two executive personnel, now increased to four, plus a secretary for each.

The annual cost of operation is financed from state funds, and is reported to vary between \$100,000 and \$150,000, excluding "the budget allocated to the Illinois-based staff that serves as a back-up to the foreign operation." Illinois' U. S.-based international trade staff included 20 professional positions in addition to secretarial assistance.

The four primary objectives of the Brussels office are: "(a) promote the sale of Illinois manufactured and agricultural products in Europe; (b) encourage European investment in Illinois; (c) stimulate the use of Illinois seaports and seaport facilities; and (d) attract European tourists to Illinois." The office pursues these objectives through personal contact, direct mail campaigns, advertising and public relations activities, participation in industrial development seminars and conferences and other promotional efforts. In addition, the office reviews European markets for trade leads and potential port users and assists Illinois manufacturers generally in identifying and reaching European markets for their products. "In effect, this organization has become a European chamber of commerce for Illinois, and assists firms by guiding them through the initial stages of marketing their products in Europe."

Apparently, no definite method for evaluating the effectiveness of the Brussels office has been established. While specific trade shows have resulted in substantial projected sales and a large plant has been located in Illinois by a Brussels firm, the role of the Brussels office "as a catalyst [in international trade makes] numerical evaluation extremely difficult."¹

According to an article by Professor James D. Goodnow of the University of Michigan, appearing in Michigan Business Review², five states - Alaska, Illinois, Ohio, New York and Virginia - were operating foreign offices in 1969. Goodnow found that full-time offices in Europe cost between \$50,000 and \$115,000 annually; Tokyo offices, between \$20,000 and \$80,000; and Latin American offices, about \$30,000. The TRL survey found that Ohio spent a total of \$90,000 for its offices in Brussels, Tokyo and Caracas during their final year of operation in 1970.

In reply to the TRL survey, the Director of the Michigan Office of Economic Expansion wrote:

Michigan has carefully considered the idea of foreign offices on several occasions in the past eight years. We have never recommended such offices for legislative support for the following reasons:

¹

This description is based on a letter from Thomas F. Slattery, Manager, International Marketing, Department of Business and Economic Development, State of Illinois, August 19, 1971.

²

James D. Goodnow, "American Overseas Business Promotion Offices," Michigan Business Review, January 1970, pp. 6-11.

- (1) The federal government has more than 100 offices, many with commercial attaches, in every major country. ✓
- (2) The back-up staff in the U. S. required to justify a branch office in another country would be larger than our International Trade Division staff. ✓
- (3) States that establish foreign offices consistently eliminate them after a few years in most cases.

This is not to say that success cannot be achieved and a return on the investment obtained, because in several cases good results have been forthcoming. However, we feel that several other areas of international trade development activity have better potential returns because they work through the established American foreign offices rather than duplicating their services or competing with them.

In summary we try to look at it from the customer's point of view, and in any foreign capital foreign businessmen prefer to deal with one American office than with 10 or 20 state offices.¹ *

Michigan exports increased more than those of any other state in the past decade, from an estimated \$936 million to just over \$2.6 billion. Probably 50 percent of this increase is attributable to transportation equipment - principally motor vehicles. The other 50 percent, however, over \$800 million, exceeded Texas' total export gain for the same period.

Trade Missions. Trade missions are often utilized in an attempt to reach foreign markets. With the \$90,000 remaining in the 1972 appropriation to the Commission (after allowance of \$60,000 for the Mexico City office) the agency apparently will be able to consider at least two trade missions during the fiscal year, since only \$25,000 was requested for this purpose.

To review the trade mission activities of the Commission, the League staff sought an evaluation of the 1970 trip to Mexico from participants whose names were furnished by the TIC staff. However, less than half of the participants could be identified by the type of business they represented.

1

Letter from Mr. B. M. Conboy, Director, Office of Economic Expansion, Department of Commerce, State of Michigan, July 12, 1971.

Figure A

PARTICIPANTS IN THE
1970 TIC TRADE MISSION TO MEXICO

<u>Type of Business*</u>	<u>Number of Participants</u>
Business Association	2
Financial Institution	2
Architectural Firm	1
Transportation Company	1
Retailer	1
Manufacturer	5
Unidentified	<u>14</u>
TOTAL	26

*Source: TIC staff and Directory of Texas Manufacturers.

Fifteen of the 26 participants completed and returned the questionnaire mailed to them by the League staff. The questionnaire was aimed principally at determining whether and to what extent new exports to Mexico resulted from the trade mission, although other information was also requested. (A copy of the questionnaire is included as Appendix B.) Figure B shows the export results reported by participants who responded.

Figure B

EXPORT RESULTS OF MEXICO TRADE MISSION

<u>Type of Business</u>	<u>Number of Responses</u>	<u>Estimated First 12 Months Exports on Closed Sales</u>
Business Association	1	not applicable
Bank	1	not applicable
Transportation Company	1	not applicable
Retailer	1	\$ 0
Wholesaler	3	0
Professional Services	1	0
Manufacturer	<u>7</u>	<u>30,000¹</u>
	15	\$30,000

1

One of the seven manufacturers indicated he expected to close sales soon, estimated at \$250,000 for the first 12 months.

Manufacturers responding to the questionnaire ranged in size from under 10 to more than 500 employees. Three of the seven had previously engaged in exporting, two to Mexico. On the question of participation in a future TIC trade mission to another country, three respondents said they would go; two would not (one because only Mexico is in its market area); and two were not certain.

Figure C

PAST EXPORT EXPERIENCE AND FUTURE
INTEREST OF MANUFACTURERS

Size by Number of Employees	Number of Mfgs.	Previous Export Experience		Participate in Future TIC Trade Mission		
		Yes	No	Yes	No	Maybe
Under 20	2		2			2
20 - 99	3	2	1	3	1	
100 or more	2	1	1		2	
TOTALS	7	3	4	3	2	2

RELATED
PROMOTIONAL EFFORTS

Programs of Selected Texas Chambers of Commerce. For several years chambers of commerce in Texas have conducted trade missions to various parts of the world. A survey by the League staff of chambers of commerce located in Dallas, Fort Worth, Houston and San Antonio and the four regional chambers found that they have conducted seven missions during the past three years. The East Texas Chamber of Commerce has conducted a mission annually for the past 18 years. At least five missions are being organized by four of the eight major chambers to be staged within approximately the next twelve months - to Australia, Mexico (2), Japan and Western Europe. In interviews with the League staff, Commission personnel indicated that they had no knowledge of these planned missions.

In addition to active trade mission programs, some of the chambers have organized international trade departments which maintain libraries; sponsor conferences, seminars and workshops; answer inquiries; and perform numerous services for the business community in support of international trade promotion. Three of the four major city chambers have a combined budget of more than \$75,000 for these departments. The volunteer work of chamber world trade committees contributes further to development of international business in their areas.

United States Department of Commerce Programs. Many trade missions conducted by the larger chambers of commerce in Texas are sponsored by the U. S. Department of Commerce under the Industry-Organized, Government-Approved (IOGA) trade mission program. The IOGA program makes both the U. S. and foreign office staffs of the Department of Commerce available for planning and conducting trade missions. IOGA missions are scheduled jointly by the local organizer and the Department of Commerce to meet

the requirements of participants and the availability of Commerce personnel at home and abroad. Commerce coordination enables IOGA participants to organize missions which:

- * make full use of Commerce market research capability and have the U. S. Government as official mission host with embassy or consulate personnel actively participating as mission personnel and making all arrangements for facilities and appointments;
- * attract a group of the most interested potential buyers, distributors, dealers and other foreign businessmen with American foreign office personnel available to help solve legal, financial and other problems which arise during negotiations; and
- * avoid conflicts with other trade missions to the same country or city or in the same lines of business.

In addition to trade mission programs, the Department of Commerce sponsors trade fairs, operates permanent trade centers and participates in joint export associations. Using its U. S. and foreign offices, the Department of Commerce provides the largest single source of international business information in the Nation. The Department continuously compiles and publishes market studies, directories and other documents of general use to international traders and undertakes special types of studies for individual businesses on a fee basis. Through its 42 field offices, two of which are located in Texas (Dallas and Houston), the Department of Commerce promotes international business through an education program aimed at increasing participation in world trade and provides specific information on markets, procedures and requirements for doing business around the world.

CONCLUSIONS AND RECOMMENDATIONS

Texas today has a diversified and growing export economy. Texas industry is strongly oriented toward world trade and has placed the State high among the leaders in international business.

The international trade program of the Texas Industrial Commission, begun only five years ago, has played a small part in Texas' international trade success. State appropriations of \$150,000 for the program in fiscal year 1972 probably exceed the amount which the Commission can effectively utilize. In fact, it appears that the Commission did not envision and has not planned a program of this magnitude.

The Commission requested and received funds to open an office in Mexico City in what may be viewed as an experimental venture. The record of such ventures by other leading export states is mixed at best, and the leader among top exporting states during the 1960s has never found such offices necessary. The proposed expenditure for the Mexico City office is significantly larger than those reported by other states for Latin American offices in a recent survey. *

It is imperative that the Commission carefully evaluate the performance of the Mexico City office before launching an expansion into other countries. The preparation of specific, written objectives for the office and precise, stated methods for measuring its accomplishments will be essential to such an evaluation. A plan of operation for the office should be prepared as quickly as possible. Unless a critical and objective evaluation of the office's performance proves that the benefits it produces outweigh the costs of its operation, it should be closed.

The trade mission programs of Texas chambers of commerce suggest a specialized role for the Commission in this field. By seeking information on future missions planned by chambers of commerce the Commission can avoid conflicts and duplication. Statewide missions organized by TIC should be planned with the active cooperation and support of regional or major city chambers of commerce.

In planning future missions the Commission should specifically consider using the Department of Commerce's IOGA mission program. As a matter of Commission policy, trade missions should be organized to permit significant penetration of specific, carefully researched markets on a tightly and efficiently arranged schedule. Every mission should be followed by an evaluation to assist the Commission in determining its effectiveness, and to increase the prospects of future success if their value can be demonstrated.

With both the U. S. Department of Commerce and various Texas chambers of commerce actively involved in promoting international trade and providing services to business in the State, the Commission's international trade program can best be focused on fostering and supporting activities undertaken by business and business groups.

The Commission should place emphasis on:

- * collecting, maintaining and disseminating the most up-to-date information on foreign markets for Texas industrial products;
- * developing and disseminating a storehouse of knowledge on the requirements, procedures and sources of assistance for engaging in international business;
- * publishing information periodically on new developments affecting international business and on achievements of Texas business in international trade; and
- * cosponsoring and participating in conferences, seminars, workshops and similar events organized by business groups, chambers of commerce and others to increase Texas' international business.

FINANCING AND PLANNING INDUSTRIAL DEVELOPMENT

Several actions taken by the 62nd Legislature may have an important influence on the course of future industrial development in Texas. Of the three significant new laws affecting industrial finance, two will add to the responsibilities of the Commission, if they are implemented, and all three may open new opportunities for industry in the State. In addition, the Commission has indicated its intention to prepare a comprehensive State Industrial Plan, using funds appropriated by the Legislature for a Comprehensive Rural Industrial Plan.

INDUSTRIAL FINANCE
LEGISLATION

Business Development Corporations. The Texas Legislature followed the example of over 30 other states in 1971 by authorizing the formation of business development corporations (HB 339) to make loans to businesses unable to obtain financing from conventional sources. Any 25 persons, a majority of whom are Texas residents otherwise qualifying under the Texas Securities Act, now may form a business development corporation.

Banks, insurance companies, building and loan associations, governmental agencies and other institutions "primarily engaged in lending or investing funds" may become members of a business development corporation. Members are required to make loan funds available to the corporation up to the limits and at a rate specified in the law. Loans by these corporations, in turn, may be made to industrial, commercial, recreational and agricultural businesses able to show they have been denied credit by at least two banks or other financial institutions.

In addition to authority to make loans, business development corporations were given the following powers:

- * to borrow money through the use of bonds, notes, debentures or other types of debt instruments;
- * to acquire, hold and dispose of real and personal property;
- * to acquire real estate and to construct industrial and commercial facilities thereon; and
- * to promote establishment within the State of local development corporations and to enter into agreements with them.

Business development corporations will be eligible under federal law to leverage their financial positions by obtaining loans from the Small Business Administration equal to their debt to other lenders. The use of SBA reduced-interest funds will increase the attractiveness of business development corporation loans and will provide further assistance

to businesses located or locating in Texas and unable to meet their credit requirements from conventional sources.

The Commission has no responsibility in the organization or regulation of business development corporations. The TIC will undoubtedly wish to stay abreast of the activities of these corporations, however, to see what effect they may have in providing additional industrial investment capital in Texas.

Laws Affecting Commission Responsibilities. The Constitution of Texas, Article III, Section 52, provides:

The Legislature shall have no power to authorize any county, city, town or other political corporation or subdivision of the State to lend its credit or to grant public money or things of value in aid of, or to any individual, association or company

This provision seems to prohibit the Legislature from granting authority to local governments to issue bonds to finance facilities for use by manufacturing or other private business. In an attempt to remove this restriction, a constitutional amendment to allow legislative authorization of local industrial revenue bonds was submitted to Texas voters in 1968, but it was defeated.

Senate Bill 803 passed by the 62nd Legislature, authorizes cities, counties and conservation and reclamation districts to issue revenue bonds to finance industrial or medical facilities for lease and sale to private business. In effect, this bill enacted the legislation which the defeated 1968 amendment would have permitted, with an extension of the bonding authority to include medical facilities.

In an opinion requested during the legislative session, the Attorney General held (Opinion No. M-825) that in view of the conflict of legal views and case law, only the Texas Supreme Court could decide the constitutionality of a legislative grant of industrial revenue bond authority to local governments and political subdivisions. A test case will have to be tried, consequently, before SB 803 can be implemented.

SB 803 gives the Commission the duty to "prescribe rules and regulations setting forth minimum standards for lease agreements and guidelines with respect to financial responsibilities" of lessees. The Commission must also approve actual lease agreements and the financial responsibility of lessees. Since the medical facility bond portion of the law also is constitutionally clouded by the provisions of Article III, Section 52, it will probably have to be tested in the courts before it is used. If it is held to be constitutional, the Commission will be responsible for setting standards and guidelines, for approving leases and for determining the financial responsibility of private medical organizations leasing facilities under the act. It would seem that this authority might more appropriately be placed with the State Department of Health than with the Commission.

The Texas Rural Industrial Development Act (Senate Bill 931) makes TIC responsible for administering a new program of business loans to be made available from the State. The Rural Industrial Development Fund created under the act is to be financed by legislative appropriations from general tax sources, although no appropriation to the fund was made by the 62nd Legislature. If financed, the fund would be used by the Commission to make loans not exceeding 40 percent of total project costs for feasibility studies, engineering and legal services, planning, site acquisition, construction or purchase of existing facilities and equipment for new or expanding businesses in the State. The wording used in SB 931 may make it applicable to every type of commercial facility as well as to manufacturing plants.

Section 50 of Article III of the Texas Constitution, the companion to Section 52, provides:

The Legislature shall have no power to give or to lend, or to authorize the giving or lending, of the credit of the State in aid of, or to any person, association or corporation, whether municipal or other, or to pledge the credit of the State in any manner whatsoever for the liabilities, present or prospective, of any individual, municipal or other corporation whatsoever

In view of this provision, the constitutionality of SB 931 is questionable. In the ordinary language of finance, the loaning of money is the giving or lending of credit. There is some legal opinion, however, as in the case of Section 52 of Article III, that where a public purpose (as opposed to a private purpose) is served by the extension of credit, the Constitution would not be violated. The Attorney General has not yet been requested to give an opinion on the constitutionality of Senate Bill 931.

The law provides that loans from the new fund may be made only to local nonprofit industrial development corporations for projects located in "rural areas." The Commission is charged with responsibility for designating these areas after public hearings. According to the law, "rural areas" may contain no more than four counties and shall be designated by the Commission if they meet one of the following three criteria:

- (1) *sustained out-migration of population between the then last two federal censuses, or*
- (2) *. . . sustained a gain in population less than the average for standard State statistical metropolitan areas between the then last two federal censuses, or*
- (3) *. . . manufacturing employment [in the area] is less than the average for standard State statistical metropolitan areas according to the then preceding federal census*

The terminology "standard State statistical metropolitan area" is not identical with "standard metropolitan statistical area" authorized and used by the Federal Government but apparently is intended to identify the same area.

Undoubtedly, every Texas county sustained *some* out-migration during the past decade, and the law thus applies to the entire State if criterion (1) is understood to mean any out-migration rather than *net out-migration*. This interpretation, however, appears contrary to the implication of the title of the law and, also, would make criteria (2) and (3) unnecessary.

Criteria (2) and (3) employ the term "average" with regard to population gain and manufacturing employment, and they seem to imply the use of absolute numbers rather than percentage rates in determining the "average." The few largest standard metropolitan statistical areas of Texas, of course, account for the majority of total population gain between the past two censuses and for a large share of manufacturing employment. While final 1970 Census data have not been available for TRL staff use, it would appear from calculations based on estimated 1969 manufacturing employment and preliminary 1970 population reports that 250 of the State's 254 counties may be included in "rural areas" as defined by criteria (2) and (3).

Before approving any loan from the Rural Industrial Development Fund, the Commission must find

that the benefit to the rural area in which the project is situated will exceed the financial commitment of the Commission and that the approval of the particular project will aid in the alleviation of unemployment within the State or assist in the industrial development of the State and that such project will be of benefit to the State and its taxpayers.

This "public benefit" provision in Senate Bill 931 appears to give the Commission some discretion for assigning priorities among requested loans and for utilizing the Rural Industrial Development Fund for projects yielding a higher economic or social return. In the absence of precise standards, however, useful application of the "public benefit" provision may prove highly problematical. Without specific analytical methods by which to estimate the economic and social costs and benefits of each potential project, and without definite legislative guidelines by which to assign priorities to loan applications using these estimates, the Commission may be forced into approving loans on a first-in-time-only basis (if the program is ruled to be constitutional).

Conclusions and Recommendations. The Texas Industrial Commission has a substantial interest in House Bill 339 and Senate Bills 803 and 931 enacted by the 62nd Texas Legislature in 1971. HB 339 authorizes creation of business development corporations to lend money to business enterprises unable to obtain conventional financing. This act may provide a useful tool for encouraging new industries where they otherwise would not be feasible.

Both SB 803 and SB 931 raise constitutional questions which must be settled before they are implemented. The first permits local governmental units to issue bonds for industrial and medical facility development purposes, with administration subject to limited TIC regulation. The legality of SB 803 will have to be determined in a test case, and no immediate action is required on the part of the Commission. However, it is recommended that:

As soon as a case to test the constitutionality of Senate Bill 803 is initiated, the Commission should begin to review the policies and procedures used by other states to administer similar legislation relating to local bond financing of industrial facilities. Development of appropriate and effective methods for administration of Commission responsibilities under the law would be enhanced by a study of the experience of other states.

SB 931 authorizes creation of a Rural Industrial Development Fund for which appropriations have not yet been made. If the act is constitutional, and if funds are appropriated to carry it out, it will be most important for the Commission to be ready to administer the new program effectively from the outset. Without clear policy and careful administration, the opportunities for ineffective use of the Fund and for inefficiency in its management would be considerable.

The Commission should request an opinion from the Attorney General on the constitutionality of Senate Bill 931, and for clarification of its meaning on:

1. Whether or not the term "migration" means "net out-migration"; ✓ ✓
2. Whether or not the language "manufacturing or industrial enterprise" makes the law applicable to commercial and other business projects as well as to manufacturing plants; ✓
3. How the criteria of "average population gain" and "average manufacturing employment" should be interpreted; and AHEH
4. What methods of analysis and what policy standards would be appropriate in applying the "public benefit" provisions of the law. damn near impossible!

If the Attorney General rules that SB 931 is constitutional, the Commission should prepare to implement the program.

1. A complete administrative system from original inquiry to possible foreclosure on state loans should be established. Projected documentation and procedural requirements, including applications, records and reports, inspections, audits, release of funds, investment of idle funds, etc., should be laid out in an operating manual to be followed by the Commission staff and by participating local development corporations.

2. Policy standards and methods of analysis should be developed for application under the "public benefit" provisions of the law. Even if the Attorney General's Opinion concludes that the present provision is inoperative, development of such standards and evaluative techniques would permit "after the fact" determination of costs and benefits for guidance in future decisions and perhaps for improving the language of the law at a future legislative session.

Every safeguard possible should be established to protect the taxpayers' interests if the State is to become involved directly in the financing of potentially marginal industrial development projects. The determination of the public interest in the encouragement of "balanced growth" should be one of the objectives of the planning process discussed in the next section.

INDUSTRIAL DEVELOPMENT PLANNING

In its 1972-1973 budget request the Commission stated:

The past decade has seen Texas lose one-fourth of its employment in agriculture, one-fifth of its employment in the oil and gas industry and one-tenth of its employment in manufacturing - all basic income-producing industries. More counties in Texas showed a decrease in the 1970 Census of population than an increase. Until balanced growth is achieved in the state's economy - rural versus urban, skilled labor versus high unemployment, etc. - Texas is destined for a compounding of these problems.

To enable our agency to meet this challenge, our Commission recommends the development and continuing execution of a Comprehensive Industrial Plan for the State of Texas to be carried out with an annual appropriation of \$100,000.

In "A Special Message to the Members of the 62nd Legislature on Housing and Community Development" on February 17, 1971, Governor Smith made the following statement on a subject he called "Balanced Urban Growth."

I am, today, asking my Division of Planning Coordination to join with local officials and with agencies of the state, such as the Texas Industrial Commission, to jointly develop regional and state urban growth plans that will serve as guides to public and private action to revitalize many of our smaller cities that are losing population and jobs. At the same time, the plans should provide for assistance to larger cities, assuring steps are taken to avoid the central city decay

that is common to other parts of the Nation and to slow the rush of people to the big cities with the attendant strain on public services and facilities.

As a part of this joint state-local planning effort, I am asking the major state agencies to review their policies for location of public facilities and other major public expenditures to determine if there are ways that careful changes in priorities can help alleviate the problems of both small and large cities. Public expenditures can vastly complicate our urban problems or they can help provide part of the solution.

The Commission's budget described the Comprehensive Plan as "an aggressive program for state and local planning to achieve balanced industrial growth." The request did not receive approval by either the House or Senate in their separate appropriation measures. The final state budget adopted by the 62nd Legislature, however, included an appropriation of \$190,000 (plus authorization to spend any available federal funds) "for special projects and studies including but not limited to a Comprehensive Rural Industrial Plan" (added by the Conference Committee on Appropriations).

In his speech to the fourth annual Governor's Conference on Industrial Expansion, Governor Smith said:

The Industrial Commission has begun the initial development for a Comprehensive Statewide Rural Industrial Development Plan. It is the objective of this plan to identify, as an extension of the Goals for Texas program, the needs and desired levels of growth for each of the 21 local regions in this State, to identify each area's potential for industrial expansion, and to launch an effective strategy and development program for future industrial expansion. This represents a decentralization of the State's economic development effort so that we may deal with the needs and the potential of each area on a very localized and specialized basis.

The Governor also noted that he had sponsored a resolution passed by the recent National Governors' Conference "urging Congress to provide tax incentives to industry for location in smaller cities and towns." The Governor further stated: "At the state level, we are also exploring new ways to solve the problem of too much unplanned growth, at too fast a rate, in our urban areas."

Lieutenant Governor Barnes was reported by a major Texas daily to have given his support recently to a state role in encouraging industry to locate in smaller communities. In a speech to an October gathering in East Texas, the Lt. Governor reportedly endorsed legislation to provide

special employee training for industries locating in cities with populations of under 50,000 and state franchise tax deferments for plants established in towns with less than 25,000 people.

Understatement
The Question of Purpose. The Commission has indicated that \$100,000 of its appropriation will be committed to the planning project in the current fiscal year. What remains unclear, however, is the real purpose of the plan. The fundamental question is whether it will be designed to help local leaders achieve their own objectives without state supervision, or whether it will be used to formulate a body of policies by which the State would attempt to direct the course of future industrial development. It would be difficult for a single plan to serve both purposes.

In one form, the plan might be designed to provide practical information and useful promotional tools which Texas' private and local developers could use in their efforts to attract industry to their areas. A plan of this type would focus on localized resources for meeting requirements of particular industries in terms of markets, raw materials, labor supply, transportation, etc. Where the local area was deficient in some respect, the plan could indicate any practical steps which might be taken to overcome the deficiency (such as educational opportunities for an unskilled labor force). If the deficiency could not be remedied (i.e., lack of an essential raw material), the plan might indicate alternative industries for which this problem would not be a factor. Such a plan would still leave to local leaders the basic decision of how much and what kind of industry a given locality might seek to attract.

A plan aimed at promoting "balanced growth," either statewide or by region, presupposes a major political decision to be made effective by the adoption and use of state- or regionally administered incentives and/or disincentives to specific types of industrial development. If a state industrial planning effort is to follow this course, some very basic policy decisions need to be made by the Legislature, including:

1. What constitutes undesirable congestion and what limits should be imposed on the growth of the State's major cities?
2. What pattern of balanced growth should be encouraged? If there are not enough incentives to go around, what size communities should be the beneficiaries? What should be the relationship between scarce resources (such as water in West Texas) and a state growth promotion policy?
3. What tools should the State employ as incentives or disincentives for a desirable growth pattern? Investment in water and transportation projects? Plant location permits? Pollution control regulations? Tax rebates? Subsidized employee training programs? Loans? - *Land Use Planning - Directed by the FEDS?*

In a speech to the 1969 Texas Industrial Development Council annual conference, Governor Smith suggested that Texas should take stock of all

*as Jackson Bills
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 has 73-74*

of these options in the State's competition with other states for industrial development. The Governor's 1971 speech to the Texas Municipal League (noted in the Introduction to this report) suggested that the State should begin channeling the direction of its growth to avoid congestion and preserve the urban-rural balance. In his speech, the Governor specifically recognized that this would require use of the incentives and disincentives such as those discussed above.

"Four Winds Project". The Texas Industrial Commission has already taken one tentative step in the direction of attempting to influence the pattern of industrial growth within the State. At its regular meeting in July 1971, the Commission adopted a resolution to commit \$75,000 during the 1972 fiscal year to a special project in the four counties of Childress, Cottle, Foard and Hardeman, sometimes called the "Four Winds" area. The funds for the project will be taken from the \$190,000 appropriation for a "Rural Industrial Development Plan." ← R10P

Since the "Four Winds" project was not requested by the Commission, and since no public discussion of the project was held when the Commission adopted its resolution in July, not much is known about the details of this expenditure. Apparently, it is intended to provide for the four counties a special program financed by the State to promote the location of industry within their boundaries. The Commission's resolution actually called for a TIC grant of \$75,000 to the local industrial organization serving the area. Since the Texas Constitution (Article III, Section 51) prohibits such a grant, however, the Commission probably will have to spend the funds directly if it is to carry out the project. The Commission has not yet adopted a budget indicating how the funds committed to the "Four Winds" project will be allocated.

Conclusions and Recommendations. The Texas Industrial Commission has been granted an appropriation for the 1972 fiscal year from which the Commission tentatively has decided to spend \$100,000 to begin a planning project, the ultimate cost of which has not been determined. The basic purposes of this planning project need to be more clearly defined.

1. If the purpose of the plan is to provide additional assistance to private and local developers, the Commission should request the Texas Industrial Development Council to appoint a small group of its representatives to act in an advisory capacity. Their counsel should be useful, both at the design stage and throughout the planning operation, if they are to be the primary users of its product.
2. If the purpose of the plan is to develop policies and procedures by which the State would seek to influence the course of economic development and channel that development in specific patterns, the Commission should request the Governor to appoint a committee representing a cross section of the State's interests and leadership to prepare a set of policy proposals for consideration by the Legislature. Such a committee should have the benefit of technical information and advice from the many state agencies concerned (particularly the development and

regulatory departments). Some very extensive studies of existing conditions and projections of probable trends should precede the final policy choices.

} including
Federal
Legislation

3. No major expenditures should be made on the planning project until the basic issues have been resolved. The decision as to what purpose the planning effort should serve will have a significant, long-term impact on the State's economy and the lives of its citizens - if the effort is effective. The cost of the planning project - to the State and to local governments and private industry - could represent a very substantial expenditure.

EVALUATION OF PROPOSED NEW PROGRAMS

The Commission's study request to the League asked specifically for an evaluation of two proposed new programs which the TIC would administer if adopted by the Legislature. Neither program was enacted in 1971, but both are apt to be proposed again.

MANAGEMENT ASSISTANCE TO
SMALL MANUFACTURERS OF TEXAS

A Proposal: Direct Management Assistance for the Small Manufacturer of Texas¹ was prepared for a special three-member committee of Representatives authorized by the 60th Legislature, First Called Session, in July 1968. It was completed and published in January 1970.

The Proposed Program. The program proposed envisions the creation of a "Management and Technical Assistance Division" within the Commission "to coordinate and support efforts on the local or trade-association level to make management and technical assistance available to the small business community of the state." The two primary functions of the division would be: (1) "to make information of a technical and scientific nature available to all sizes and types of business and industry throughout the state," and (2) "to offer supporting services to the field representatives employed at the chamber of commerce or trade-association level" who would organize conferences and seminars and conduct actual on-site assistance for small manufacturers. The proposal recommends transferring administration of the State Technical Services program, a technology information service located at selected universities, from the Coordinating Board, Texas College and University System, to the Commission in order to implement the division's function of information dissemination. To implement direct services, the proposal recommends a cooperative effort between the Commission and participating chambers of commerce and trade associations.

Organization of an advisory council to develop policy guidelines for the program is also recommended. Two important guidelines are suggested by the proposal authors:

- (1) *Individual management assistance would be limited to five man-days of effort. This self-imposed limitation serves to restrict individual counseling to those*

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A Proposal: Direct Management Assistance for the Small Manufacturer of Texas. Ernest W. Walker, professor of finance, and Charles L. Kight, Research Assistant, The University of Texas at Austin, January 1970.

problems which ordinarily would not demand the extended services of private consultants.

- (2) Group counseling at the local level should be made available to the small businessman at a very nominal charge. . . . For example, they could be calculated from a sliding-scale corresponding to the firm's profitability.

If a small manufacturer's problems could not be solved within the five-man-day limit or if the individual management counselor were not qualified to render advice on a particular problem, the businessman would be "advised to seek private consulting services from within the local area or state or to draw upon the 'pool' of consulting talent developed by the field representative. To simplify the task of locating private consultants, a catalogue of qualified individuals and firms would be maintained at the state level. From this catalogue, the small businessman would be informed of those private consultants with expertise in his particular problem area." The consulting talent "pool" would be composed of "business faculty members of public and private colleges or universities, business students within these institutions, and practicing managers . . . concerned with the development of small firms in their local economy or industry group."

Small Texas Manufacturers. Small manufacturers are defined in the proposal as companies with no more than 250 employees. The actual number of such companies in Texas is not available, but as a substitute the number of individual manufacturing establishments (plant locations) annually tabulated by the Bureau of the Census may be used.

Table 3

TEXAS MANUFACTURERS IN 1970

	Size of Establishment by Number of Employees						State
	1-7	8-19	20-49	50-99	100-249	250+	
No. of Mfgs.	5,359	2,642	2,101	1,054	914	531	12,601
Cumulative No. of Mfgs.		8,001	10,102	11,156	12,070	12,601	
Number of Employees	16,996	32,883	65,560	74,177	141,127	433,791	764,534
Cumulative Percentage of Employment		6.5%	15.1%	24.8%	43.3%	100.0%	
			<u>6.5</u> <u>8.6</u>	<u>15.1</u> <u>9.7</u>	<u>34.8</u> <u>18.5</u>	<u>58.7</u>	

SOURCE: County Business Patterns 1970, Texas, U. S. Department of Commerce, Bureau of the Census.

In 1970, there were 12,070 small manufacturing establishments in Texas, comprising almost 96 percent of the 12,601 total manufacturing units. Undoubtedly, some of the larger establishments are branch plants of major companies and do not qualify as small manufacturers. As Table 3 shows, however, even if all establishments with 100 or more employees are excluded, Texas has more than 11,000 small manufacturers.

Approximately 43 percent of manufacturing employment in Texas was attributable to the 330,743 jobs held by employees of small manufacturers in 1970. Establishments with less than 100 employees, however, accounted for not quite 25 percent of total manufacturing employment.

Cost Estimate for Proposed Assistance. Implementation of the proposal would require the active cooperation of chambers of commerce and trade associations in Texas. Yet, the proposal's senior author told the TRL staff that participation was discussed with neither group. The authors realized, though, that participation might be limited and "the small business community . . . denied a comprehensive program of assistance. It must be recognized, however, that due to the geographical expanse of Texas and the number of firms in possible need of assistance, state government cannot independently undertake a full-scale program of individual consulting. State-wide coverage . . . can be achieved only through private organizations" An illustration of the financial requirements of the proposed program demonstrates the reason. *Only too high*

No reliable estimate of the market for the proposed program is available. A reasonable assumption might be that only 50 percent of small manufacturers would ever use the assistance offered - a total of approximately 6,000 businesses. Assuming, further, that it would be necessary to provide on-site assistance for these manufacturers only once every three years, and that assistance would require three man-days on the average, a staff of at least 25 consultants would be needed. At an average total expenditure of \$20,000 per consultant, program costs would be \$500,000 per year. Viewed another way, total yearly program expenditures would average about \$250 for each of the 2,000 manufacturers served annually.

State Technical Services. The proposal recommends that the State Technical Services program be transferred to the Commission because it would "directly complement the management services proposed" A federal program authorized by the Higher Education Act of 1965, State Technical Services was discontinued when Congress terminated funding at the end of June 1970. The program previously consisted primarily of technology libraries located at various public and private universities in Texas and providing document search and distribution services.

The purpose of State Technical Services was to make technological information within higher educational institutions more readily available to business users. Federal funds available through the program could be expended only through these institutions on a matching basis. The Coordinating Board, Texas College and University System, was named administrator of the program by the Governor in order to facilitate identification of available technological resources within Texas higher education institutions and to avoid duplication of services offered through State Technical Services with other college and university programs.

Conclusions and Recommendations. A Proposal: Direct Management Assistance for the Small Manufacturer of Texas as presented leaves unanswered a number of significant questions. There has been no objective analysis of the benefits which could be expected. Its prospective local sponsors have not been consulted, yet the program could not be undertaken without the active cooperation and financial support of the larger chambers of commerce and trade associations in the State. Even with their participation, the program might provide very limited services to individual manufacturers at a cost per company which most of them could easily afford, but which in the aggregate would be quite expensive if funded by cooperating chambers and trade associations. If any chamber or trade association desired to undertake such a program, furthermore, direct support from the Commission would not seem to be required. Because of its relationship to institutions of higher education, the State Technical Services program probably should remain a function of the Coordinating Board if reactivated by Congress.

The Commission should not attempt to implement the proposed program of management assistance to small Texas manufacturers.

MANPOWER TRAINING

The training proposal which the Commission asked the League to evaluate was prepared by the Manpower Planning Staff of the Executive Department and published in 1970 under the title of Industrial Expansion Training.

The Proposed Program. This proposal recommends creation of a "Special Training Staff" within TIC composed of 15 personnel, including 11 professionals, four of whom would be Training Specialists to "perform instructional-related duties."

Figure D

PROPOSED SPECIAL TRAINING STAFF

<u>Positions</u>	<u>Number of Personnel</u>
Director	1
Industrial Manpower Training Consultants	4
Training Specialists	4
Educational Services Coordinator	1
Manpower Resources Coordinator	1
Secretaries	4
	<u>15</u>

The special training staff would administer a program of short-term, entry-level training for new employees of new or expanding manufacturing plants in Texas - referred to in the proposal as "Start-Up Training." In addition to expenditures for salaries, travel and other staff expenses, the proposed program would require new funding for:

- * "facilities, including utilities and renovation."
- * "equipment for training," which might be rented from educational institutions when available.
- * "instructors . . . at a rate of \$6.00 per hour (up to a maximum of \$8,500 per year for company instructors)."
- * "expense of materials . . . up to 50 percent less salvage value."
- * assistance in recruitment "including payment of advertising if necessary."
- * provision and installation of "standard equipment needed in the training process, including visual aids such as closed-circuit television"

Recommendations of the Vocational Advisory Council. The report of the Texas Advisory Committee on Vocational Education in 1968, "Guidelines for the Development of Vocational Education in Texas Through 1975-76," recommended: "That provision be made for a State-owned reservoir of industrial and instructional equipment so that short intensive instructional programs may be implemented whenever and wherever necessary." In 1970, the successor to the Committee, The Advisory Council for Technical-Vocational Education in Texas, repeated this recommendation in its "First Annual Report," and further recommended:

That the State Board [of Vocational Education] encourage the establishment of a joint task force of appropriate staff members of the Texas Education Agency, Texas Employment Commission, Texas Industrial Commission, the Office of the Governor, and other state agencies and groups, and that it meet at least quarterly to review requirements for new and developing occupations and skills. Recommendations for the appropriate state agency to meet these needs should be made by this joint task force.

The Advisory Council supports the establishment within the Texas Industrial Commission of the Office of Director of Industrial Training. The Director would serve as a member of a coordinating committee to be composed of appropriate staff members of the Texas Education Agency, Texas Employment Commission, Texas Industrial Commission, Office of the Governor, and such other state agencies and organizations as would be involved in order to establish relationships with new and expanding industry to meet the special needs of such economic development. The coordinating committee would identify the resources to meet such

needs. The Council would further support appropriation of discretionary funds to provide training, equipment, supplies, instructional facilities and instructional personnel, when not otherwise available.

Confusing Budget Requests. In response to the Council's recommendations, the Texas Education Agency budget submission for the 1972-1973 biennium requested \$2,900,000 for an "Industrial Equipment Reservoir Fund" and \$1,950,000 for "'Start-Up' Industrial Manpower Training." The submission stated that the requested \$1,950,000 would be used for "instructional costs, including instruction, supervision, travel, and teacher training, as well as instructional supplies for use in establishing industrial training programs in areas of the State having critical need for competent manpower in certain new or emerging industries locating or relocating in the State."

In November 1970, the Texas Industrial Commission submitted a request supplementing its regular budget submission "to cover the administrative portion of a new program making pre-employment industrial startup training available to industries considering location and/or expansion in Texas." The Commission asked for a total biennial appropriation for 1972-1973 of \$511,460 for salaries and other expenses for 15 personnel. The supplemental request included a copy of the Manpower Planning Staff's proposal as justification and stated: "The balance of the appropriation request, \$1,800,000 in 1972 and \$3,050,000 in 1973, has been submitted by the Texas Education Agency."

Figure E

COMPARISON OF BUDGET REQUESTS

	1972	1973	Biennium Total
<u>Texas Education Agency</u>			
Equipment Reservoir	\$ 900,000	\$2,000,000	\$2,900,000
Instructional Costs	900,000	1,050,000	1,950,00
Total, TEA	<u>\$1,800,000</u>	<u>\$3,050,000</u>	<u>\$4,850,000</u>
<u>Texas Industrial Commission</u>	\$ 234,798	\$ 276,662	\$ 511,460

The TIC appears to have no statutory authority which would allow the agency to administer the funds requested by the Texas Education Agency. While TEA did not specifically request additional administrative funds to carry out the program, the Agency necessarily would have had to undertake this responsibility if any appropriation had been made by the Legislature. With program responsibility and funding placed with the Education Agency, the Commission's 15-man staff would have had virtually no function to perform. Thus, the requests appear not to be complementary but confusing. Neither request was granted by the 62nd Legislature.

Comparing the Proposals. Both the Manpower Planning Staff and the Advisory Council proposed additional state support for manpower training. It is difficult to determine, however, whether they have recommended the same program. The relationship between the proposed efforts and current training programs also is subject to various interpretations.

An attempt to compare the proposals may be made in terms of three essential policy elements. One element is the administrative mechanism for implementing the program. The Advisory Council recommends a consultative function for the Commission with the Texas Education Agency to be given administrative responsibility. It appears that the recommended additional funding would be used by TEA to bolster present training programs conducted by local school districts, community colleges, area vocational schools and state institutions such as TSTI. The Manpower Planning Staff proposes that administrative responsibility for a new program be placed in TIC. The Special Training Staff apparently would purchase whatever instructional services, equipment and facilities were found to be required from any competent source.

The second element concerns the selection of trainees. Federal manpower programs, primarily administered through the Texas Employment Commission, the Texas Rehabilitation Agency and economic opportunity organizations, are targeted by law on specific segments of the labor supply characterized by (1) low family income, (2) racial minority membership, (3) physical or other handicap, or (4) current employment in very low-skill jobs or no employment at all. For example, the Manpower Development and Training Act (MDTA) program administered under a joint agreement between the Texas Employment Commission and the Texas Education Agency is restricted to persons unemployed or underemployed.

Vocational-technical education and training programs administered by the Education Agency also are aimed largely at predetermined segments of the labor supply: (1) school students - either secondary or post-secondary, (2) handicapped persons, and (3) disadvantaged persons. Adult vocational training administered by TEA and funded at over \$2.5 million for 1972, however, can be distinguished from pretargeted programs because it potentially may be used to train any segment of the labor supply not in a restricted category.

The Advisory Council's recommendations do not discuss trainee selection. The Manpower Planning Staff's proposal clearly implies that trainee selection would be made by employers. The training suggested would differ from all pretargeted programs in this manner. Its similarity to the adult training program and the proposal of the Advisory Council, however, is not apparent. It also seems possible, depending on employers' choices, that the MDTA program, among others, could be closely related.

The third essential element of training program policy is related to the labor market. Both the condition of the market and the occupational demands of the market are factors in this policy element. The Advisory Council made the following statement preceding its recommendations:

Job training and preparation programs are meaningless without jobs waiting for the trainee. Economic development and jobs seek trained manpower.

The State of Texas has many communities in desperate need of new jobs. In order to encourage economic development and full employment of our citizens, the Council has the following recommendations

This statement may mean either: (1) that the training recommended should be channeled primarily to labor surplus areas; or (2) that it should be used in areas with a stagnant or declining labor supply in order to help these areas grow. The Manpower Planning Staff is quite explicit on this point.

A program such as Industrial Expansion Training has the potential of re-directing the trends experienced by non-metropolitan areas over the past decade. By providing training on or near the plant site while the plant is being constructed, the incoming firm is provided with an adequate supply of job-ready labor, and ex-farm workers are given non-agricultural employment opportunities within their own non-metropolitan areas. Industrial Expansion Training, by providing for the labor requirement of industry, can help attract industry to non-metropolitan areas, and help eliminate the necessity of ex-farm workers migrating into metropolitan areas for non-agricultural employment.

The Advisory Council makes no reference to the source or characteristics of occupational demands to be considered in implementing its recommendations. The Manpower Planning Staff's proposal is clear in its implication that the new employer would determine the specific requirements of the occupations for which training would be provided. The curriculums used in this program, in other words, would be developed around the precise requirements of an individual manufacturer's jobs.

The following figure attempts to summarize the comparison between the proposals of the Manpower Planning Staff and the Advisory Council.

Figure F

COMPARISON OF PROPOSALS

<u>Policy Element</u>	<u>Manpower Planning Staff</u>	<u>Advisory Council</u>
Administration	Texas Industrial Commission	TEA/Educational Institutions with TIC Consultation
Labor Supply	Manufacturer's Choice Implied	Not Apparent
Labor Market Condition	Stagnant/Declining	Surplus or Stagnant/ Declining
Occupations	Manufacturer's Choice Implied	Not Apparent

TIC-TEA Interagency Agreement. While this report was being written, the Commission and the Education Agency prepared an agreement under which the two agencies will cooperate to make new-employee training more readily available to new and expanding manufacturers throughout the State. This training apparently will be provided from existing programs by means of an improved method for identifying manufacturers' needs and for establishing curriculums at sponsoring educational institutions to meet these needs in a timely fashion.

Conclusions and Recommendations. Comparing the proposal of the Manpower Planning Staff and the recommendations of the Advisory Council does not permit clear-cut conclusions as to any intended differences in trainee selection or labor market policies. The extent to which a "start-up training" program might duplicate some current programs - primarily supervised by TEA - would seem to depend on the choices made by individual employers in the selection of trainees and on the ability of the administrative organization to utilize the "best fitting" program source in meeting employers' demands. The Advisory Council's apparent reason for leaving administration with the Texas Education Agency was to facilitate coordination of the additional training recommended with existing programs which are related. The Manpower Planning Staff's proposal obviously varies from the recommendations of the Advisory Council in this regard. The new interagency agreement between the Commission and the Education Agency may alter the circumstances which gave rise to both sets of recommendations.

The stated intent of the "start-up training" program proposed by the Manpower Planning Staff is to increase industrial development in nonmetropolitan areas of the State. As a policy issue, consequently, it properly would be considered as a part of the incentive tools which a state economic development plan, discussed earlier in this report, might include. Before the State launches such a program, basic political decisions must be carefully studied and enacted by the Legislature. If undertaken for some other purpose, sufficient attention should be given to the relationship between the new program and existing training prior to implementation to provide close administrative coordination and avoidance of duplication in personnel, facilities or funding. Operating experience under the TIC-TEA agreement should provide a sounder basis for identifying additional improvements which might be required to make current programs more productive.

APPENDIX A

LETTER TO TOP TEN EXPORTING STATES

The Texas Research League, a private, nonprofit research organization, is currently conducting a study of industrial development in Texas. The study is aimed in part at determining the most effective programs a state can adopt to promote international trade.

We are writing you and each of the other top ten exporting states to inquire about your experience with foreign trade offices. While we understand the spirit of interstate competition which prevails among industrial developers, we are hopeful you will answer our inquiry. We shall be pleased, also, to share our findings with you if you desire and if responses to this letter are sufficient.

Our query is, with respect to your state:

1. Have you established offices in any foreign country(ies)?
 - 1.1 If so, what countries and when?
 - 1.2 What is (are) the function(s) of this (these) office(s)?
 - 1.3 What personnel positions compose a typical foreign office staff?
 - 1.4 What are the general qualifications for these positions (education, experience, language, nationality)?
2. What is the current annual cost for operation of a foreign office?
 - 2.1 Is this expenditure fully financed by state funds?
 - 2.2 If not, how is it financed?
 - 2.3 What is the current total annual cost of operation for all your foreign offices?
3. Please describe briefly the principal operations of a foreign office. (Do they use, in effect, traveling state "manufacturers' representatives"? Do they maintain product catalogues of your state's manufacturers? Do they conduct market research on a request and/or continuing basis? Do they advertise in regional media? Do they handle arrangements for individual businessmen and/or trade missions from your state? Et cetera.)
4. Please describe the state headquarters organization you have established specifically to support your foreign offices (personnel positions, annual budget, principal functions, extent of travel to foreign offices).

5. Please advise us of the major reasons you have found to support the operation of foreign offices by your state, presenting documented evidence of state economic benefits wherever possible.

We are most grateful for your prompt attention to this request and for your cooperation in our study.

APPENDIX B

Texas Research League

Texas Industrial Commission Study

INTERNATIONAL TRADE QUESTIONNAIRE

SECTION I - TO BE ANSWERED BY MANUFACTURERS, WHOLESALERS AND RETAILERS

1. Were you exporting or otherwise engaged in international trade prior to the Mexico mission of the Texas Industrial Commission? _____.
 - 1.1 If so, in what countries? _____
_____.
 - 1.2 What was your annual export dollar volume? \$ _____.
_____.
 - 1.3 Other foreign business arrangements (licensed manufacture, joint venture, investment, other)? _____.
2. Have you exported to Mexico as a result of the mission? _____.
 - 2.1 If so, what is your anticipated dollar sales volume for the first twelve months of exporting? \$ _____.
_____.
 - 2.2 If you are not exporting to Mexico, why? _____
_____.
 - 2.3 If you expect to export soon, what would you estimate as your dollar sales volume in the first twelve months? \$ _____.
_____.
3. How many total personnel (full-time equivalents) do you employ? _____.
4. How many total personnel (full-time equivalents) have you added as a result of your export business arising from the Mexico mission? _____.
5. Have you initiated exports to other countries since the Mexico mission? _____.
 - 5.1 If you needed assistance in undertaking this additional export business, to whom did you go:
U. S. Department of Commerce? _____.
Chamber of Commerce? _____.
Texas Industrial Commission? _____.
Trade Association? _____.
Other (identify)? _____.

5.2 For what specific assistance:

Market information? _____.
Financing sources? _____.
Transportation? _____.
Other (identify)? _____.

5.3 What is the anticipated annual dollar volume of these additional exports? \$ _____.

6. Are you considering expansion of your export business? _____.

6.1 If so, do you require assistance? _____.

6.2 What specific assistance:

Market information? _____.
Financing sources? _____.
Transportation? _____.
Other (identify)? _____.

6.3 From whom do you expect to receive this assistance?
_____.

7. Do you think you would participate in a future trade mission conducted by the Texas Industrial Commission to another country or countries?
_____.

7.1 If conducted by your regional or local chamber of commerce?
_____.

7.2 If conducted by a trade association of which you are a member?
_____.

7.3 If your answer to one or more parts of this question is "no" or "don't know," please explain.

_____.

8. Do you consider a trade mission more profitable for your business than a personal trip? _____. Why? _____

_____.

9. Are you familiar with the following items useful to exporters:

Trade Lists (U.S. Department of Commerce)? _____.
Trade Contact Surveys? _____.
Agency Index Surveys? _____.
World Trade Directory Reports? _____.

10. How many invitations have you received within the past twelve months to participate in an export seminar or other export training session (not in conjunction with a trade mission) held by the U. S. Department of Commerce, a chamber of commerce or other organization?
_____.

10.1 How many man-days have your personnel spent at such meetings during this time? _____.

10.2 Will your personnel attend similar meetings in the future? _____.

SECTION II - TO BE ANSWERED BY ALL RESPONDENTS

1. In what type of business are you engaged:

Manufacturing?	_____.	Finance?	_____.
Wholesaling?	_____.	Professional Services?	_____.
Retailing?	_____.	Other (identify)?	_____.

2. What is (are) your principal product(s) or service(s)? _____
_____.

3. Had you participated in any foreign trade mission(s) in the past five years prior to the Mexico mission of the Texas Industrial Commission? _____.

If so, when and by whom was (were) the mission(s) organized and where did the mission(s) go? _____

_____.

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*These are Life Members of the Board, having served as League Chairmen. As such, they are ex officio members of the Executive Committee.

**Mr. Burger was elected a Life Member of the Board upon his retirement December 31, 1969, following 17 years as Executive Director of the Texas Research League.