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16. Abstract The research project examines the role of TxDOT projects in promoting economic diversification in Texas. The authors conclude that while good access is a necessary condition for diversification, it is not sufficient to assure diversification. The role of the transportation network is not dominant in the decision process for industrial site location, and thus a model describing how transportation investment causes economic diversification is not feasible. Therefore, it would be unwise to build highways or make major improvements for the sole purpose of promoting economic diversification. Since good access is essential for economic diversification, the authors examined how well TxDOT's current and planned networks provide access conducive to diversification, and concluded that Texas' network is highly conducive and has very few shortcomings. For future programming of Texas Trunk System roads, it is recommended that TxDOT give high priority to those segments that will connect economic development centers to major markets. The authors also recommend that TxDOT give further consideration to creating an "opportunity fund" to allow for spot improvements in communities recruiting specific industries. Such a fund would facilitate local entities overcoming access obstacles that could hinder a successful recruitment. Although it was concluded that development of a computer model to describe the relationship between transportation investment and economic diversification is not feasible, this report calls attention to the existing TxDOT opportunities to promote economic development and diversification. Existing programs include TxDOT District Discretionary Funds, TxDOT Strategic Priority Funds, and the State Infrastructure Bank Program.					
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SUGGESTIONS FOR INCORPORATING ECONOMIC DEVELOPMENT CONSIDERATIONS

INTRODUCTION

In the report, "Assessment of the Role of TxDOT Projects in Promoting Economic Diversification" (Report No. 1718-S), it was concluded that the development of a computer model to evaluate the causal relationship between transportation improvements and economic diversification is not feasible. There are; however, activities that can be undertaken by the Texas Department of Transportation to promote economic diversification in the state.

Transportation systems are necessary for economic development but by themselves cannot determine a firm's location decision. As detailed in the report cited above, a recent study of non-interstate highway development on economic development concludes that major highway investments should not be made in areas that lack the necessary infrastructure, raw materials, strategic planning and other resources required to support manufacturing, wholesale, or distribution facilities. In short, without other necessary conditions for locating an economic enterprise, enhancing the transportation system of an area will not be sufficient to sway a location decision. In fact, recent industrial location surveys conclude that education, unionization, physical amenities, business climate, energy rates and tax rates define a region's developmental prospects to a much greater extent than do highways.

However, good access is an essential ingredient for economic diversification. Texas is fortunate to have a highway network that provides the necessary basic infrastructure for access to support growth in most of the state's economic development centers, and already has planned improvements as part of the Texas Trunk System Plan that will provide that access to all but one of these centers in the state. A priority should be placed on the implementation of these planned improvements to continue to encourage economic diversity in those areas.

There are also opportunities, as outlined in Report 1718-S, where highway improvements on a case-by-case basis can be a major contributing factor to retaining or attracting jobs in a specific community. Examples of state transportation department programs in other states are also described in the report and additional details provided in Appendix A.

While the consideration of establishing additional funds, or a special program for dealing with these "spot" opportunities is recommended, there are three methods already available to TxDOT at this time. One method is available at the discretion of the TxDOT District, and the other two at the discretion of the Commission.

DISTRICT DISCRETIONARY FUND

Each TxDOT District receives a minimum allocation of \$2 million as required by Rider 41 to the TxDOT apportionments, Article 7 of House Bill 1, passed by the 75th Texas Legislature. Additional allocations for districts are based on a formula that includes the vehicle miles traveled both on and off the State highway system in the district and the number of registered vehicles in the district.

This category of funds (Category 11) is available to address miscellaneous projects selected at the district's discretion.

To be eligible for District Discretionary funds, a project must be on the state highway system. Funds from the program should not be used for right-of-way acquisition. Projects in areas located within air quality non-attainment areas should be included in the area's Transportation Improvement Program.

Each district makes project selections based on that district's agreed upon criteria. It is possible that the subject of economic diversification could be added to the criteria used by districts to select Category 11 projects.

Using the existing state programs described in this report as a guide, TxDOT districts may wish to specifically consider projects deemed by local governmental entities and other groups to enhance economic diversification. Specific criteria may also be established following the example of the programs in the other states.

Criteria for evaluating projects that are judged to have major economic development impact can be developed by each district to best suit its special needs and situation. The menu of items below could be considered by TxDOT districts when developing evaluation criteria with which to select projects deemed to promote economic diversification.

- An established local match of funds and/or services (by governmental entity or private concern);
- Local commitment and initiative (possibly requiring the local governmental entity to officially make all requests for assistance);
- Estimated number of jobs to be retained;
- Estimated number of jobs to be attracted;
- Projected increase in property taxes to be realized by the development;
- The county's unemployment rate (with preference given to projects in counties with proportionately higher rates);

- Benefits to the regional transportation system (judging the merits of the projects as it fits into the region's long range transportation plan);
- Viability of related development (through provision of the description, schedule, funding, status of permitting for the development project); and
- Location of the project (with possibly a higher preference given to projects that retain or attract employees in an enterprise zone or in a disadvantaged county).

Once a TxDOT district establishes a system for evaluating projects deemed to promote economic diversification, it should communicate that program to local elected leaders, governmental staff leaders, and the local organizations promoting economic development. Local processes aimed at retaining or attracting businesses to the area generally include leadership of the municipalities, counties, chambers of commerce, and other regional or area organizations developed by one or more of these local governmental entities and non-profit organizations. Most TxDOT districts already work in unison with these organizations and the metropolitan planning organizations for the area and have well-established communications links. Formalizing an evaluation criteria for economic development related projects may assist the districts in dealing with existing requests and focus future requests.

In contacting other states about similar programs, one lesson learned is that the process should be quick in its response to requests. Many projects involve situations where a community has negotiated a plant relocation or expansion, and "closing the deal" appears to be subject to a specific transportation project. Thus, there is a need for the process adopted to respond quickly to a city's or county's request. The simplest process, with the quickest evaluation time, should be pursued.

Two other avenues available to districts to promote projects that support economic development are the state's Strategic Priority Funds (Category 12) and the State Infrastructure Bank. Thus, as requests are made to the district for projects, careful review can be executed by the district for the most appropriate possible funding source.

OPPORTUNITIES AT THE DISCRETION OF THE COMMISSION

Strategic Priority Program

TxDOT's "Category 12 - Strategic Priority Funds" are intended to give the Commission some flexibility in selecting projects for construction throughout the state which may not meet other program criteria, but promote economic development, provide system continuity with adjoining states and Mexico or address other strategic needs of the state as determined by the Commission.

Each year the Commission selects and approves projects for this category. Projects must be in the State Transportation Improvement Program (STIP) and TIP if federal-aid funds are used.

State Infrastructure Bank Program

Much like a private bank, the Texas State Infrastructure Bank (SIB) offers eligible customers a range of loans and credit enhancement services. The SIB will offer its financial services to finance or financially enhance transportation projects that meet its selection criteria. As loans are repaid to the SIB, additional assistance is granted for more transportation projects. The SIB, in effect, is a revolving loan fund.

Many economic development-related projects are ideal candidates for an SIB loan, as future taxes from the development to be realized in the coming years could be used by a local entity to repay the loan. Private contributions toward the transportation investment are also possible.

Any public or private entity authorized by law to construct, maintain or finance an eligible transportation project is eligible to apply for financial assistance from the SIB. For a project to be eligible for financial assistance from the SIB, it must qualify for federal aid under existing federal rules. This generally means that it must be on the state highway system and be included in the STIP. In most cases, residential city streets and county maintained rural roads will not be eligible; however, there are exceptions to this requirement, such as off-system bridges.

Most all phases of a project are eligible for SIB funding, including the following:

- Planning and preliminary studies;
- Feasibility, economic impact, and environmental studies;
- Right-of-way acquisition;
- Survey, appraisal and testing;
- Utility relocation;
- Engineering and design;
- Construction; and
- Inspection and construction engineering.

While the final decision on all SIB loans is made by the Commission, the TxDOT districts are considered the first step in the evaluation of an SIB loan request.

SUMMARY

In summary, TxDOT has historically played a major role in making Texas an attractive place for businesses to locate and grow by providing an exemplary roadway system. The department has also provided, and will continue to provide, transportation facilities that contribute to the overall well being of the state's economy.

While it may not be possible to develop a quantitative methodology to evaluate and rank all possible projects for relative merit in diversifying local economies, TxDOT districts and the Commission may establish priorities for the timely implementation of the Texas Trunk System and specific project-by-project improvements that contribute towards localized retention and attraction of jobs.