

SUNSET ADVISORY COMMISSION

FINAL REPORT

Texas Military Preparedness Commission

July 2009



Sunset Advisory Commission



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* Senator Kim Brimer served on the Commission from December 2005 through December 2008.

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Joey Longley

Director

In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 12-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them.

TEXAS MILITARY PREPAREDNESS COMMISSION



SUNSET FINAL REPORT
JULY 2009



This document is intended to compile all recommendations and action taken by the Sunset Advisory Commission and the Legislature for an agency under Sunset review. The following explains how the document is expanded and reissued to include responses from agency staff and members of the public, as well as action taken by the Sunset Commission and the Legislature in each step of the Sunset process.

- ◆ *Sunset Staff Report* – Contains all Sunset staff recommendations on an agency, including both statutory and management changes, developed after extensive evaluation of the agency.
- ◆ *Hearing Material* – Summarizes all responses from agency staff and members of the public to Sunset staff recommendations, as well as new policy issues raised for consideration by the Sunset Commission.
- ◆ *Decision Material* – Includes additional responses, testimony, or new policy issues raised during the public hearing for consideration by the Sunset Commission in its decision meeting on an agency.
- ◆ *Commission Decisions* – Contains the decisions of the Sunset Commission on staff recommendations and new policy issues. Statutory changes adopted by the Commission are presented to the Legislature in the agency’s Sunset bill.
- ◆ *Final Report* – Summarizes action taken by the Legislature on Sunset Commission recommendations and new provisions added by the Legislature to the agency’s Sunset bill.



Staff Report – November 2008
Commission Decisions – January 2009
Final Report – July 2009

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SUMMARY




Summary

Texas military communities face ongoing challenges from prospective base closures, transfer of missions, and reductions of personnel. These challenges impact communities' and Texas' economic vitality. The Legislature created the Texas Military Preparedness Commission in 2003 to assist communities in meeting these economic challenges. As such, the Commission provides financial assistance to defense communities impacted by U. S. Department of Defense Base Realignment and Closure (BRAC), primarily through two programs, the Defense Economic Adjustment Assistance Grant (DEAAG) and the Texas Military Value Revolving Loan Fund.

To preserve and expand Texas' 18 major military installations and their missions, the Commission also advises the Governor and Legislature on defense-related issues affecting Texas military installations; functions as an information clearinghouse, providing military installation information and recommendations to enhance the military value of Texas defense installations; and works with the Governor, Legislature, Congressional Delegation, and senior military community leaders to seek additional defense missions for Texas.

In conducting this review, Sunset staff found that the State benefits from having such a Commission to perform the military-related functions discussed above. However, the Commission's administrative structure needs improvement to effectively manage its financial programs. As such, the Sunset review evaluated organizational alternatives to maintaining a separate agency for improving program administration. Sunset staff's evaluation of the Commission's functions and structure found that the agency should access the existing resources, experience, and expertise of the Governor's Texas Economic Development and Tourism Office. Merging the Commission's financial and administrative functions with the Governor's Economic Development and Tourism Office would address the Commission's program administration challenges and allow the Commission to continue to assist in the economic development, preservation, and growth of Texas military installations and defense communities.

Sunset staff also recommended changes to the DEAAG program because defense communities affected by BRAC struggle to meet the job creation requirement of the grant program. However, staff found that in some cases, existing grantees used grant funds in a way that helped those communities retain existing jobs. Since creating new jobs only alleviates part of the economic impact of BRAC, Sunset staff recommends expanding DEAAG funding to projects that retain or create jobs within defense communities affected by BRAC. Staff's management recommendation that the Commission develop contract performance measures for the job retention grants would assist with program compliance.



The Commission's administrative structure needs improvement to effectively manage its financial programs.

Finally, Sunset staff found that the Commission allowed communities that were not recommended for grant funding to add to and amend their proposals after the advisory panel had evaluated and ranked the proposals. To ensure a fair and consistent grant decision-making process, Sunset staff recommends that the Commission adopt rules to govern the process.

A summary follows of the Sunset staff recommendations on the Texas Military Preparedness Commission.

Issues and Recommendations

Issue 1

Texas Has a Continuing Need for the Texas Military Preparedness Commission, Although Administrative Improvements are Necessary.

Key Recommendations

- ◆ Continue the Texas Military Preparedness Commission as an independent board administratively tied to the Governor's Texas Economic Development and Tourism Office.
- ◆ Clarify the Commission's role in the Texas Military Value Revolving Loan Fund Program.

Issue 2

The Defense Economic Adjustment Assistance Grant Program Needs Redirection and Better Administration.

Key Recommendations

- ◆ Expand the DEAAG program beyond job creation to allow the Commission to consider grants for job retention.
- ◆ The Commission should develop contract performance measures for job retention grants.
- ◆ The Commission should adopt rules governing the Commission's role in the grant award decision-making process.

Fiscal Implication Summary

Issue 1 in this report could create some savings in operational costs, but the Governor's Office would need to reassess its resource needs, given the new administrative arrangement.

Summary of Legislative Action

H.B. 2546 Isett (Hinojosa)

The Legislature adopted all of the Sunset Commission's recommendations and added one statutory modification to House Bill 2546. The bill continues the Commission as an independent board administratively tied to the Governor's Texas Economic Development and Tourism Office and clarifies the Commission's role in the administration of the Texas Military Revolving Loan Fund Program. The list below summarizes the major provisions of H.B. 2546, and more detailed discussion is located in each issue.

Sunset Provisions

1. Continue the Texas Military Preparedness Commission as an independent board administratively tied to the Governor's Texas Economic Development and Tourism Office, and clarify its role in the Texas Military Value Revolving Loan Fund Program.
2. Expand the DEAAG program beyond job creation to include job retention.
3. Require the Commission to advocate for the preservation and expansion of missions and capabilities of military reserve bases.

Provision Added by the Legislature

1. Expand DEAAG program eligibility to include a political subdivision having powers similar to defense base development authorities.

Fiscal Implication Summary

House Bill 2546 provisions will not have a fiscal impact to the state.

ISSUES



Issue 1

Texas Has a Continuing Need for the Texas Military Preparedness Commission, Although Administrative Improvements are Necessary.

Summary

Key Recommendations

- ◆ Continue the Texas Military Preparedness Commission as an independent board administratively tied to the Governor's Texas Economic Development and Tourism Office.
- ◆ Clarify the Commission's role in the Texas Military Value Revolving Loan Fund Program.

Key Findings

- ◆ Texas has a clear and continuing interest in providing economic assistance to its military communities, and in keeping decision makers informed of the existing capabilities of its military installations.
- ◆ Although communities benefit from the Texas Military Value Revolving Loan Fund Program, the Commission cannot effectively administer the program.
- ◆ The Commission's administrative separation from similar functions of the Governor's Office impairs program effectiveness.
- ◆ While many other states formed agencies to assist their defense communities affected by BRAC, the Commission is one of few agencies also tasked with administering financial assistance programs.

Conclusion

Texas military communities face ongoing challenges from prospective base closures, transfer of missions, and reductions in personnel. These challenges impact communities' and Texas' economic vitality. The State created the Texas Military Preparedness Commission (Commission) to assist communities in meeting these economic challenges, primarily through two programs, the Defense Economic Adjustment Assistance Grant and the Texas Military Value Revolving Loan Fund. Texas has a continuing need for the Commission and its efforts to assist military communities. However, the Commission's administrative structure needs improvement to effectively manage its financial programs. Sunset staff's evaluation of the Commission's functions and structure found that the agency should access the existing resources, experience, and expertise of the Governor's Texas Economic Development and Tourism Office to overcome these challenges while continuing to assist in the economic development, preservation, and growth of Texas military installations and defense communities.

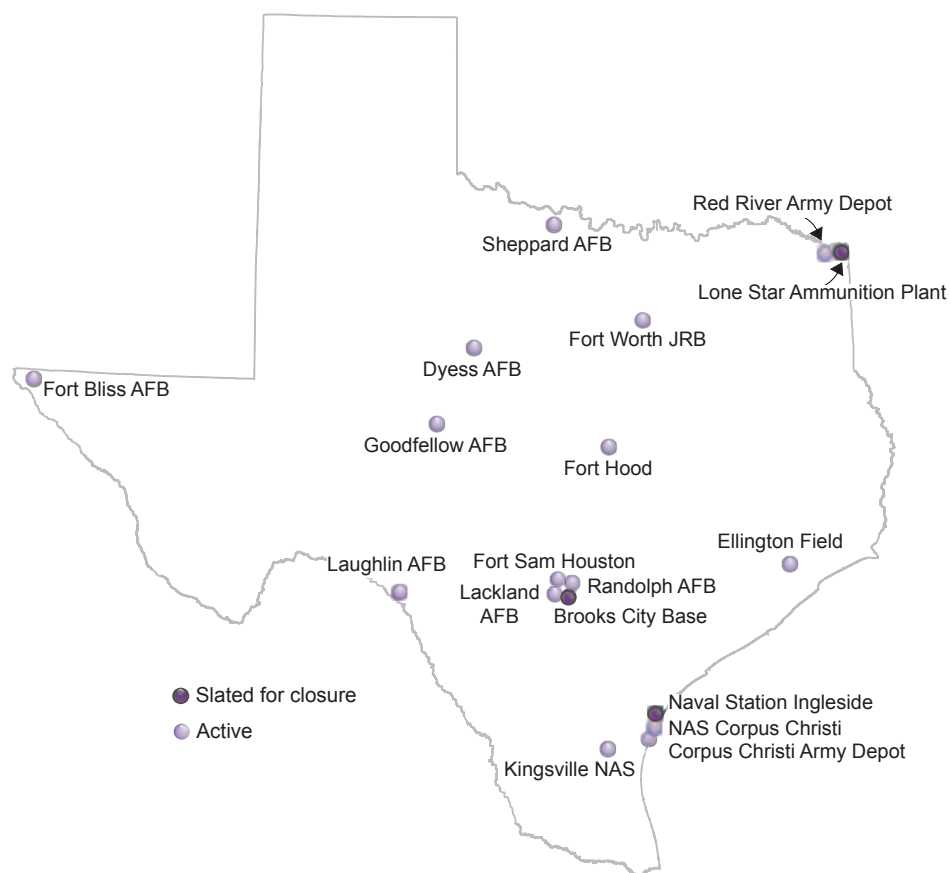
Support

The Texas Military Preparedness Commission assists defense communities affected by Base Realignment and Closure by awarding economic development grants, offering low-interest loans, and facilitating the flow of defense-related information.

- ◆ In 2003, the Legislature established the Texas Military Preparedness Commission (Commission) within the Office of the Governor. The Commission provides financial and informational assistance to local defense communities impacted or potentially impacted by Base Realignment and Closure (BRAC) to preserve and grow Texas' major military installations. The map, *Military Installations in Texas*, shows the locations of major military installations in the State, including those slated for closure.

The Commission provides financial and informational assistance to local defense communities impacted by BRAC.

Military Installations in Texas




In addition to the federal installations, Texas has the Texas Military Forces, a joint military force with a significant presence in the State. These forces include the Texas Army National Guard, the Texas Air National Guard, and the Texas State Guard, all supported by the Adjutant General's Office. In fiscal year 2008, the economic impact to Texas of the Adjutant

General's Department and its Texas Military Forces was more than \$1.8 billion. Facilities include 86 armories, nine Air Guard facilities, four Army Aviation installations, and 35 maintenance and training facilities throughout the state.¹ Because these facilities can be subject to BRAC, their surrounding communities are eligible for Commission financial assistance.

- ◆ The Commission's main functions include:
 - advising the Governor and the Legislature on defense-related issues affecting Texas military installations to support the long-term viability of the military in the State;
 - providing financial assistance to defense communities impacted by BRAC through the Texas Military Value Revolving Loan Fund program and the Defense Economic Adjustment Assistance Grant (DEAAG) program;
 - functioning as an information clearinghouse by providing military base information and recommendations to enhance the military value of Texas defense installations to the Governor, Legislature, Congressional Delegation, and state and federal government officials, primarily through its *Annual Report: Master Plan for the Future*; and
 - working with the Governor, Legislature, Congressional Delegation, and senior military and community leaders to seek additional defense missions for Texas.
- ◆ The Commission consists of 13 public members, appointed by the Governor, and two ex officio members including the Chair of the House Defense Affairs and State-Federal Relations Committee, and the Chair of the Senate Veterans Affairs and Military Installations Committee. The public members each serve staggered terms of six years and must have demonstrated experience in economic development, the defense industry, military installation operation, environmental issues, finance, local government, or the use of airspace or outer space for future military missions. The Commission had authority to employ up to 2.4 staff in fiscal year 2008.
- ◆ The Commission operated on a budget of about \$250,000, composed entirely of General Revenue funds in fiscal year 2008. More than 85 percent of the budget went toward salaries and travel expenses.

Texas has a clear and continuing interest in providing economic assistance to its military communities, and in keeping decision makers informed of the existing capabilities of its military installations.

- ◆ Military defense is one of Texas' most vast and lucrative industries. Texas has 18 major military installations with more than 225,000 active



The impact to Texas of the Adjutant General's Department and its Texas Military Forces was more than \$1.8 billion in fiscal year 2008.



The Commission operated on a General Revenue funded budget of about \$250,000 in fiscal year 2008.

Defense Spending in Texas

According to the website Government Contracts Won, which collates public records concerning defense spending, 11,658 Texas companies contracted with the Department of Defense, earning approximately \$197.1 billion from 2000 to 2007. In 2007 alone, those companies earned \$39.5 billion of that amount, ranking second among states for total defense contract value, behind Virginia's \$40.9 billion.

duty personnel, reservists, National Guardsmen, and civilians working at the state's active duty installations, and strategic ports.² In fact, defense spending in Texas rose dramatically in recent years, as shown in the textbox, *Defense Spending in Texas*. Since the military is such an important part of the economy, the State has a significant interest in supporting it. The Commission does this by providing economic assistance to military communities through grant and loan programs, particularly important during times of Base Realignment and Closure. Since 2003, the Commission awarded 12 grants totaling about \$5.6 million and two loans totaling about \$49 million.

- ◆ The Commission administers the Defense Economic Adjustment Assistance Grant program, a job creation program that assists defense communities that are positively or negatively impacted by BRAC. Such communities received either new or expanded defense missions, or they experienced a reduction or termination of defense contracts, federal defense spending, or defense worker jobs. The Legislature appropriated \$5 million to the DEAAG program for the 2008-2009 biennium.

Although the agency faces challenges in administering the DEAAG program, as discussed in Issue 2 of this report, many defense communities benefit from the grant funds. In fiscal year 2007, the Commission awarded grants to partially fund eight job creation projects. The grant recipients are using the money to complete infrastructure and economic redevelopment projects that retain or attract new defense contracts, in efforts to meet job creation goals. See Issue 2 for a detailed analysis of the challenges the Commission faces in administering the grant program.

In 2003, the Legislature created and charged the Commission with administration of the Texas Military Value Revolving Loan Fund program, a \$250 million bond program, prompted by the need to assist defense communities in preparation for BRAC 2005. The Commission markets the loan program to defense communities for projects that add to the military value of nearby military installations. Since the program's inception, the Commission approved two of the four loan applications it received. The other two applicants withdrew their loan applications. In fiscal year 2007, the Commission provided \$49 million in low cost loans to the City of Corpus Christi and Port San Antonio.

- ◆ The State benefits from having a mechanism in place that keeps its decision makers informed of the existing capabilities of its military installations, including growth potential, constraints, and needs, particularly during times of BRAC. During BRAC, some defense communities experience significant mission and force structure losses and need economic redevelopment assistance to replace jobs lost from realignment or closure. Other communities experience an increase in troop strength that stresses

Only two defense communities, San Antonio and Corpus Christi, have received loans from the Texas Military Value Revolving Loan Fund.

available housing, utilities, schools, social services, and facilities. The textbox, *BRAC 2005 Impact on Texas*, details key impacts on Texas from the last BRAC round. The Commission works closely with the State and defense communities affected by BRAC to ensure the communities receive necessary resources and support.

- ◆ As the implementation of BRAC 2005 recommendations continues and the military becomes more involved with force restructuring and recapitalization of combat systems, the importance of the Commission's work also continues. This work includes collaborating with defense communities, as well as state and federal leaders, to preserve Texas' military installations. As a result of the efforts expended by leaders across the state during BRAC 2005, Texas gained more than 13,000 direct and indirect jobs within its local communities and an increase in military missions to some of its installations.

BRAC 2005 Impact on Texas

- ◆ Closure of four installations/functions, including Brooks, Ingleside, Lone Star, and Defense Finance Accounting Service;
- ◆ Realignment of 11 bases;
- ◆ Closure and consolidation of multiple U.S. Army Reserve and National Guard Centers; and
- ◆ A total increase of 13,848 direct and indirect jobs, of which 9,718 were military jobs.

Although communities benefit from the Texas Military Value Revolving Loan Fund Program, the Commission cannot effectively administer the program.

- ◆ The loan program has granted two loans since its inception. The two loan recipients used the loan funds for infrastructure and economic redevelopment projects, allowing their communities to retain existing jobs and defense contracts, as well as to create new jobs and attract new defense contracts. For instance, Port San Antonio used part of its loan money to construct an 89,000-square-foot cargo terminal that helped to attract a major Mexican cargo company, strengthening the Port's foothold in global shipping.
- ◆ Although communities benefit from the Revolving Loan Fund program, the Commission does not have the necessary financial expertise to administer the program. Statute authorizes the Commission to evaluate applicant creditworthiness and approve loan applications for processing, but the Commission and its two-person staff lack financial expertise in determining applicants' creditworthiness for loans.³ Instead, the Commission had to rely on staff of the Texas Public Finance Authority (TPFA) to fully assess applicant creditworthiness. After the Commission reviews and approves loan applications for processing, it requests authority to issue general obligation bonds through TPFA. See page 31 of the Agency Information for a detailed flowchart of the loan approval process.

Statute requires the Commission to consult TPFA on developing rules that contain criteria for evaluating the credit of a loan applicant and financial feasibility of the project. However, TPFA inevitably has become more heavily involved in providing advice and judging applicant

The Commission does not have the necessary financial expertise to administer the Texas Military Value Revolving Loan Fund.

creditworthiness, including attending and actively participating in the Commission’s quarterly and Loan Review Panel meetings. The Commission has also sought assistance from the Governor’s Economic Development staff for help with the credit analysis.

TPFA currently plays a significant role in servicing and monitoring the two active loans.

- ◆ The Commission and its staff also rely heavily on TPFA for loan servicing and monitoring even though these are not usual TPFA functions. Because TPFA does not usually service and monitor loans, it stretches existing resources to ensure the loans are properly administered. TPFA works on occasion with Commission staff and, at times, directly with the borrowing communities, to obtain quarterly financial reports for loan monitoring purposes and then works separately with the Governor’s Financial Service staff on the receipt and accounting of loan payments for loan servicing purposes. A shared account allows the Governor’s Financial Services Office to collect the loan payments and TPFA to use the funds in that account to pay the debt service on the bonds. The Commission and its staff do not have the expertise to fill these roles.

The Commission’s administrative separation from similar functions of the Governor’s Office impairs program effectiveness.

- ◆ The Commission does not fully make use of expertise that exists within the Governor’s Office to assist with the administration of its grant and loan programs. The Governor’s Office of Economic Development and Tourism has expertise in administering financial programs that assist local communities in accessing capital for job creation and investment. The table, *Public Finance Programs Administered by the Texas Economic Development and Tourism Office*, briefly explains some public finance

Public Finance Programs Administered by the Texas Economic Development and Tourism Office

Industrial Revenue Bond Program	Provides tax-exempt or taxable long-term financing for qualifying community projects, allowing cities, counties, and conservation and reclamation districts to form non-profit Industrial Development Corporations or authorities on their behalf.
Texas Industry Development	Provides capital to Texas communities and eligible non-profit corporations at favorable market rates.
Texas Leverage Fund	Allows for communities to leverage their future sales tax revenues to expand economic development through business expansions, recruitment, and exporting.
Capital Access Program	Designed to increase the availability of financial loans for businesses and nonprofit organizations that face barriers in accessing capital through conventional financing.
Texas Enterprise Fund	Provides business incentive funds for projects that attract new businesses or expand existing businesses, based on job creation and wages, capital investment, business history, and public and private sector financial support.

programs the Economic Development Office offers. Employees within the Texas Economic Development Office have the expertise to assess loan applications, conduct creditworthiness evaluations, manage projects, and service and monitor loans. They also have experience working with city councils, administrative staff, county commissioners, judges, and school boards to manage loans. The Texas Economic Development Office also accesses expertise from private resources to assist with the administration of its loans, as needed. Like the Texas Military Value Revolving Loan Fund Program, the Texas Economic Development Office has bond-issuing authority and uses TPFA for the bond issuance.

- ◆ The Commission's separate operating structure does not take advantage of resources within the Governor's Economic Development and Tourism Office to more efficiently administer the DEAAG program. DEAAG is a job creation grant program, a common feature of economic development programs. Many programs within the Texas Economic Development Office, such as the Leverage Fund and the Texas Enterprise Fund, feature job creation requirements. As such, Economic Development Office employees have the expertise in evaluating grant applications for job creation criteria, monitoring funded projects for the appropriate use of funds, and verifying job creation commitments according to grant contracts.

While many other states formed agencies to assist their defense communities affected by BRAC, the Commission is one of few agencies also tasked with administering financial assistance programs.

- ◆ The 10 states with the largest number of active duty personnel, comprising 70 percent of all active duty personnel, each formed agencies to respond to BRAC.⁴ While these and many other states have agencies that aggressively pursue defense-related economic opportunities and seek ways to make their defense communities more attractive to the Department of Defense, only four of these states have the authority to offer financial programs, including Florida, Washington, Hawaii, and Texas. Of these states, Texas is the only state not directly tied to an economic development office for the purpose of administering financial assistance.

*The Commission
does not fully
make use of
expertise within
the Governor's
Office.*

*Texas is one of
few states not
directly tied to
an economic
development office
for administering
financial
assistance.*

Recommendations

Change in Statute

1.1 Continue the Texas Military Preparedness Commission as an independent board administratively tied to the Governor's Texas Economic Development and Tourism Office.

This recommendation would continue the Commission as an independent board, administratively tied to the Texas Economic Development and Tourism Office, and would remove the Commission's Sunset date. Any Sunset reviews of the Texas Economic Development and Tourism Office would include the Commission as a part of its overall operations. The Commission would retain its current membership structure, decision authority for DEAAG grants, and continue to perform the following functions.

- ◆ Advise the Governor and Legislature on defense-related issues affecting Texas military installations to support the long-term viability of the military in the state, particularly as it relates to BRAC.
- ◆ Function as an information clearinghouse by providing military installation information and recommendations to enhance the military value of Texas defense installations to the Governor, Legislature, Congressional Delegation, and state and federal government officials, primarily through its *Annual Report: Master Plan for the Future*.
- ◆ Work with the Governor, Legislature, Congressional Delegation, and senior military and community leaders to seek additional defense missions for Texas.

Under this recommendation, the Executive Director of the Texas Economic Development and Tourism Office would oversee the administration of the Texas Military Value Revolving Loan Fund and the Defense Economic Adjustment Assistance Grant programs. For example, the Office would monitor DEAAG grants and assist communities in applying for future DEAAG grants. As with all Governor's Office programs, the Governor's Chief of Staff would ultimately make all staffing decisions.

1.2 Clarify the Commission's role in the Texas Military Value Revolving Loan Fund Program.

The Commission's structure is not focused on financial decision making, such as evaluating loan applications. As a result, the Commission's role with the Revolving Loan Fund should be advisory and focused on evaluating the military value and community redevelopment value of proposed projects of defense communities that apply for loans. The Commission would recommend eligible projects to the Executive Director of Economic Development and Tourism for financial assessment and final decision.

The Texas Economic Development and Tourism Office would administer the financial aspects of the Texas Military Value Revolving Loan Fund, previously given to the Commission, including:

- ◆ evaluating creditworthiness;
- ◆ working with TPFA for bond issuance; and
- ◆ servicing and monitoring the loans.

Fiscal Implication

This recommendation would create administrative efficiency by tapping into the existing financial expertise within the Governor's Office of Economic Development and Tourism for the administration of the loan and grant programs. Some savings in operational costs, such as salaries could occur, although the Texas Economic Development and Tourism Office would still need to dedicate administrative support to the Commission. The Governor's Office would need to reassess its resource needs, given the new administrative arrangement.

The one-tenth of one percent administration fee that the Commission collects on each loan could be used to offset costs of administration of the loan. Since the inception of the Commission's Revolving Loan Fund Program, the Commission has collected and still retains \$49,000 from the fee for loans processed in 2007.

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¹ The Adjutant General's Department, *Strategic Plan for Fiscal Years 2009-2013*, (Austin, Texas, 2008).

² Texas Military Preparedness Commission, Office of the Governor, 2007-2008 Annual Report: "A Master Plan for the Future", (Austin, Texas, 2008).

³ Texas Government Code, sec. 436.153 (c)(1), sec. 436.1531 (c)(1), and sec. 436.1532 (c)(1).

⁴ The 10 states with the largest number of active duty personnel include California, Virginia, Texas, North Carolina, Georgia, Florida, Washington, Hawaii, Kentucky, and South Carolina.

Responses to Issue 1

Overall Agency Response to 1.1 and 1.2

The TMPC/Office of the Governor staff understand fully the recommendations that the Sunset staff have proposed. Our intention is to continue our work serving the defense communities of the State of Texas. We will make every effort to work diligently with the executive staff of the Office of the Governor and make necessary internal adjustments to implement the relevant recommendations. (Al Casals, Executive Director – Texas Military Preparedness Commission)

Recommendation 1.1

Continue the Texas Military Preparedness Commission as an independent board administratively tied to the Governor’s Texas Economic Development and Tourism Office.

Agency Response to 1.1

We will work with the executive staff of the Office of the Governor to implement the recommendation. (Al Casals, Executive Director – Texas Military Preparedness Commission)

For 1.1

Wayne Alexander, Chairman of the Board – Port San Antonio

Tristan “Tris” Castaneda, Jr. – Baker Botts, LLP

Judge Pete DelaGarza, Kingsville

Mayor Sam R. Fugate, Kingsville

Dick Messbarger, Texas Defense Aviation Aerospace Alliance and Greater Kingsville Economic Development Council, Kingsville

Bruce E. Miller, President and CEO – Port San Antonio

Robert M. Murdock, Brigadier General, USAF (Retired), Director – Office of Military Affairs, San Antonio

Against 1.1

None received.

Recommendation 1.2

Clarify the Commission's role in the Texas Military Value Revolving Loan Fund Program.

Agency Response to 1.2

We will work with the executive staff of the Office of the Governor to implement the recommendation.
(Al Casals, Executive Director – Texas Military Preparedness Commission)

For 1.2

Judge Pete DelaGarza, Kingsville

Mayor Sam R. Fugate, Kingsville

Dick Messbarger, Texas Defense Aviation Aerospace Alliance and Greater Kingsville Economic Development Council, Kingsville

Against 1.2

None received.

Commission Decision

Adopted Recommendations 1.1 and 1.2.

Legislative Action

House Bill 2546 continues the Commission as an independent board, administratively tied to the Texas Economic Development and Tourism Office (TEDT), and removes the Commission's Sunset date. Future Sunset reviews of the TEDT will include the Commission as a part of its overall operations. The Commission retains its current membership structure, decision authority for DEAAG grants, and will continue to advise the Governor and Legislature on defense-related issues affecting Texas military installations to support the long-term viability of the military in the state. (Recommendation 1.1)

The Executive Director of TEDT will oversee the administration of the Texas Military Value Revolving Loan Fund and the DEAAG program. The Commission's role with the Revolving Loan Fund will be advisory and focused on evaluating the military value and community redevelopment value of proposed projects of defense communities that apply for loans. The Commission will recommend eligible projects to the Executive Director of TEDT for financial assessment and final decision. The Texas Economic Development and Tourism Office will administer the financial aspects of the Texas Military Value Revolving Loan Fund, previously given to the Commission, including: evaluating creditworthiness; working with the Texas Public Finance Authority for bond issuance; and servicing and monitoring the loans. (Recommendation 1.2)

Issue 2

The Defense Economic Adjustment Assistance Grant Program Needs Redirection and Better Administration.

Summary

Key Recommendations

- ◆ Expand the DEAAG program beyond job creation to allow the Commission to consider grants for job retention.
- ◆ The Commission should develop contract performance measures for job retention grants.
- ◆ The Commission should adopt rules governing the Commission's role in the grant award decision-making process.

Key Findings

- ◆ Having job creation as the primary focus of the DEAAG program impairs the Commission's ability to assist military communities.
- ◆ The DEAAG program selection process does not ensure fair and consistent treatment of grant applicants.


Conclusion

Defense communities affected by federal government decisions, such as the Base Realignment and Closure (BRAC) process, struggle to create new jobs for citizens and to retain existing jobs potentially affected by BRAC. Texas has developed a grant program to assist these communities to create jobs. However, Sunset staff found that creating these jobs only gets communities part of the way to their goal of moderating the economic impact of a base closure or realignment of base personnel. Several of the existing grantees have not met their job creation goals as set out in their contract for the grant award. However, in some cases, communities used grant funds in a way that helped those communities retain existing jobs. While not unreasonable, this approach did not meet the terms of the grant.

Sunset staff also found that the panel established to advise the Texas Military Preparedness Commission (Commission) on the award of grants has not recommended many projects due to speculative job creation figures in the proposals. However, the Commission allowed communities that were not recommended for funding to add to and amend their proposals after the advisory panel had evaluated and ranked the proposals. As a result, most of the projects received funding. This approach does not ensure fairness and consistency.

Support

The Commission administers financial assistance programs to communities affected by a U.S. Department of Defense Base Realignment and Closure.



Job creation is a key requirement of the DEAAG program.

- ◆ The Legislature established the Defense Economic Adjustment Assistance Grant (DEAAG) program in 1997. The DEAAG program was transferred to the newly formed Texas Military Preparedness Commission (Commission) in 2003, tasking the new Commission with aiding communities affected by a U.S. Department of Defense Base Realignment and Closure (BRAC). The U.S. Department of Defense (DOD) periodically evaluates military installations through its BRAC process, closing excess military installations and realigning military installation missions. The DEAAG program focuses primarily on job creation, assisting defense communities that have been positively or negatively affected by BRAC. The DEAAG program provides financial assistance to communities to purchase property from DOD; for new construction, rehabilitation, or renovation of facilities or infrastructure; or to purchase capital equipment or facilities insurance.
- ◆ DEAAG grants range from \$50,000 to \$2 million, but grants cannot be used to completely fund any one project. The Legislature funds the

program with General Revenue, although funding levels for the program vary each biennium. See the table, *DEAAG Funding Per Biennium*, on page 27 in the Agency Information section of this report for more detail on funding levels. The Legislature provided \$20 million in funding at the inception of the program and, in subsequent biennia, provided between \$1 million and \$5 million. The amount for the current biennium is \$5 million. The table, *Past Defense Economic Adjustment Assistance Grant Recipients*, shows grant awards since the program's inception. To date, DEAAG awards total more than \$26.6 million, reportedly creating more than 12,000 new jobs.¹

Past Defense Economic Adjustment Assistance Grants Recipients

Community	Number of Awards	Total Amount of Awards
Beeville	2	\$1,650,000
Bowie County	4	\$2,164,900
Brooks Development Authority/ Brooks	4	\$1,884,889
Dallas	2	\$1,332,222
Fort Worth	1	\$575,000
Gatesville	1	\$630,000
Ingleside	1	\$386,000
Lubbock	4	\$6,075,000
Marshall	2	\$980,000
Port of San Antonio/ Kelly	7	\$9,641,389
Robstown	1	\$64,800
South Plains COG	1	\$83,500
Westworth Village	1	\$1,200,000
Total	31	\$26,667,700

- ◆ Statute requires the Commission to establish a Defense Economic Adjustment Assistance Panel to review and evaluate grant applications.² The Commission's Executive Director forms the Panel once the application period closes. The Panel consists of three to five members who are employees within the Office of the Governor, which usually includes the Executive Director and the agency's program coordinator. The most recent Panel included one staff member each from the Governor's Offices of Aerospace, Aviation and Defense; Financial Services; and Budget, Planning, and Policy. Panel members evaluate each application according to a scoring matrix. The accompanying textbox, *DEAAG Approval Process*, details the Panel's scoring process and the Commission's approval process.
- ◆ The Commission attempts to monitor all projects throughout the completion of the project and follows up with the communities after the project is complete. For four years following the completion of a project, communities must provide quarterly status reports and semi-annual job creation reports to the Commission. The Commission also performs monitoring visits during the development of a project and shortly after a project is complete to review personnel and project records.

DEAAG Approval Process

- ◆ The Panel scores each application on the following requirements:
 - the number of jobs created;
 - the impact of new jobs on the overall employment rate;
 - the amount of previous DEAAG funding;
 - the amount of overall funding available for the project;
 - project viability; and
 - the extent of community involvement in economic development.
- ◆ The Panel makes recommendations on which projects to fund based on the project's final score.
- ◆ The Panel provides the Commission with its funding recommendations.
- ◆ The Commission makes final grant award decisions and enters into contracts with grant recipients.
- ◆ Grant recipients must complete their projects within two years of entering into the contract.
- ◆ Grant contracts require communities to meet job creation commitments within two years of completing projects.

Having job creation as the primary focus of the DEAAG program impairs the Commission's ability to assist military communities.

- ◆ Although communities affected by BRAC benefit from DEAAG funding, several have failed to meet the program's job creation requirement. Sunset staff reviewed available Commission compliance files, including the 2002 and 2004 DEAAG grant cycles. The Commission made four grant awards during the 2002 DEAAG program cycle and four awards during the 2004 cycle. The table on the following page, *DEAAG Projects That Failed to Meet Job Creation Requirements*, shows that two of the eight projects the Commission funded during this time failed to meet their job creation commitments, a performance requirement of their contracts. A third grant recipient indicates that although the community has more time to create jobs, the recipient does not believe it will meet the job creation commitment as stated in the contract.


Several communities have failed to meet the DEAAG program's job creation requirement.

**DEAAG Projects That Failed to Meet Job Creation Requirements
FYs 2002 – 2004**

Community	Year of Award	Jobs Committed	Jobs Created	Grant Award
Lubbock	2002	350	227	\$75,000
San Antonio Brooks	2002	200	11	\$250,000
San Antonio Kelly	2004	80	0*	\$184,889

* The community has until 2009 to meet their job creation commitment, but the community indicates they are unlikely to create any new jobs.


*The Commission
has never
penalized a
grant recipient
for failure to
meet job creation
commitments.*

However, Commission files indicate that all projects did help the communities retain their existing employment levels. Many communities affected by BRAC express difficulty with meeting their job creation commitments, while emphasizing that the retention of existing jobs is just as, if not more, important for their communities. Communities that have been affected by BRAC may not have the resources to attract new employers and must focus on retaining defense-related jobs that are already within the community. To date, the Commission has taken no enforcement action regarding these grant recipients.

- ◆ The DEAAG program’s job creation requirement limits the Commission’s ability to aid communities affected by BRAC. Some communities need economic assistance to keep jobs from leaving the community after BRAC. However, state law requires the Panel to consider the number of jobs that a potential project will create when scoring each application.³ During the 2007 DEAAG grant cycle, the Commission chose to fund a project for the repair and replacement of an air conditioning system to keep an employer from moving its facilities to a different city, thus retaining six existing jobs. The project received the second lowest score of the nine applicants during the cycle because the project would have created no new jobs, even though the loss of this employer would have negatively impacted the community. The Commission chose to provide funding despite the low score of the project. However, some communities may have followed the rules and chosen not to apply to the program because of the job creation requirement.


*The job creation
requirement limits
the Commission’s
ability to aid
communities
affected by BRAC.*

Other communities need economic assistance for projects that help retain defense-related jobs and that make communities more attractive to current employers, but that may not lead to the immediate creation of new jobs. For example, during the 2004 DEAAG grant cycle, the Commission funded a project to modernize existing aircraft engine test cells and to relocate an outdoor engine test cell to an indoor testing facility at Port San Antonio. A neighboring land owner had complained about the noise from the engine test cell, and the Port felt that by moving the test cell inside and modernizing the other cells the testing company would stay at the Port, which in turn could attract future business from

other tenants. The project has yet to produce any new jobs and the Port does not believe any new jobs will be created in the foreseeable future. However, the project did help retain jobs and improve the value of the facility as a potential site of increased engine testing.

The DEAAG program selection process does not ensure fair and consistent treatment of grant applicants.

- ◆ The DEAAG program lacks rules governing the Commission’s role in the grant award decision-making process. As a result, the Commission made awards to communities even after the Defense Economic Adjustment Assistance Panel recommended denying funding. While no decision-making body should be required to follow an advisory panel’s recommendations, Commission decisions have varied significantly from its Panel’s recommendations, as shown in the table, *DEAAG Review Panel Recommendations and Commission Decisions*. In fiscal year 2007, the Commission provided nearly \$3 million in funding to six projects that the Panel deemed unlikely to produce jobs.

During the 2007 DEAAG grant cycle, the Commission considered new information and allowed resubmitted applications during its decision-making process, even after the Panel already scored the applications. Grant programs such as the Texas Parks and Wildlife Department’s Land

In fiscal year 2007, the Commission provided nearly \$3 million to six projects recommended for denial.

DEAAG Review Panel Recommendations and Commission Decisions – FY 2007

Community	Review Panel Recommendation	Commission Decision
City of Beeville	Award the full amount requested – \$400,000.	Awarded grant of \$400,000.
Port San Antonio	Award the full amount requested – \$1,299,500.	Awarded grant of \$1,299,500.
Bowie County	Deny requested amount – \$428,000. Job creation is speculative.	Awarded grant of \$348,000.
Brooks Development Authority (1)	Deny requested amount – \$125,000. No new jobs would be created.	Awarded grant of \$125,000.
Brooks Development Authority (2)	Deny requested amount – \$1,375,000. Job creation is speculative.	Awarded grant of \$1,375,000.
City of Gatesville	Deny requested amount – \$2,000,000. Job creation is speculative.	Awarded grant of \$630,000.
City of Ingleside	Deny requested amount – \$1,073,600. Job creation is speculative.	Awarded grant of \$386,000.
City of Robstown	Deny requested amount – \$794,439. Job creation is speculative.	Awarded grant of \$64,800.
City of McGregor	Deny requested amount – \$500,000. Job creation is speculative.	Denied grant.
Total of Awards	\$1,699,500	\$4,628,300

Acquisition and Park Development Grants, the Texas Forest Service's Rural Volunteer Fire Department Assistance Program, and the Texas Commission on the Art's Texas Endowment Fund do not allow their respective commissions to reopen the application process or to consider new information provided by applicants after the application period ends. These commissions have policies against singling out applications for additional consideration, in the interest of fairness and consistency.

In addition, these programs rarely, if ever, make a grant award contrary to a scoring panel's recommendation. However, if applicants feel that their applications were improperly scored, the Texas Endowment Fund, allows denied applicants to appeal funding decisions to the Texas Commission on the Arts. The Commission on the Arts can then give the applicant preference during the next award cycle if the scoring panel made a mistake, but it will not rescore the application for the current grant cycle.

Recommendations

Change in Statute

2.1 Expand the DEAAG program beyond job creation to allow the Commission to consider grants for job retention.

Under this recommendation, the Commission could provide DEAAG funding to projects that retained or created jobs within defense communities affected by BRAC. The Commission would develop criteria that gives consideration to projects that retain or create jobs. By opening the program to projects that help retain jobs, more communities affected by BRAC would be eligible for DEAAG grants. If the grant applications exceed available funding the Commission would award grants to the highest scoring applicants, or the Commission could reduce the amount of the grants awarded.

Management Action

2.2 The Commission should develop contract performance measures for job retention grants.

This recommendation would direct the Commission to determine whether communities completing DEAAG-funded projects that result in job retention fulfill their contractual requirements. In developing these performance measures, the Commission could consider several factors, including the level of job retention expected from communities, the period of time the communities must retain the jobs, and the types of jobs communities must retain. This recommendation would also help the Commission measure the impact of the grant program.

2.3 The Commission should adopt rules governing the Commission's role in the grant award decision-making process.

This recommendation would ensure that the Commission's decision-making process is fair and consistent. In addition to creating rules that establish Commission procedures for making decisions on grant applications, Commission rules should also prohibit the Commission from allowing applicants

to supplement or resubmit their applications once the application period is closed. Allowing some communities to alter their applications after the application period is closed is not fair to other communities in a competitive grant program.

While the Commission would continue to use its advisory Panel, the Panel's recommendations would continue to not be binding. However, the Commission should establish rules that provide for the Commission to explain any deviations from Panel recommendations and rules that allow communities that did not receive funding to appeal to the Commission.

Fiscal Implication

These recommendations would not result in a fiscal impact to the State.

.....
¹ Texas Military Preparedness Commission, *The Defense Economic Adjustment Assistance Grant Program July 2008 Program Status* (Austin, Texas, July 2008), p. 3.

² Texas Government Code, sec. 486.006.

³ Texas Government Code, sec. 486.008(4).

Responses to Issue 2

Overall Agency Response to 2.1 through 2.3

The TMPC/Office of the Governor staff understand fully the recommendations that the Sunset staff have proposed. Our intention is to continue our work serving the defense communities of the State of Texas. We will make every effort to work diligently with the executive staff of the Office of the Governor and make necessary internal adjustments to implement the relevant recommendations. (Al Casals, Executive Director – Texas Military Preparedness Commission)

Recommendation 2.1

Expand the DEAAG program beyond job creation to allow the Commission to consider grants for job retention.

Agency Response to 2.1

We will work with the executive staff of the Office of the Governor to implement the recommendation. (Al Casals, Executive Director – Texas Military Preparedness Commission)

For 2.1

Tristan “Tris” Castaneda, Jr. – Baker Botts, LLP

Judge Pete DelaGarza, Kingsville

Mayor Sam R. Fugate, Kingsville

Robert M. Murdock, Brigadier General, USAF (Retired), Director – Office of Military Affairs, San Antonio

Against 2.1

None received.

Recommendation 2.2

The Commission should develop contract performance measures for job retention grants.

Agency Response to 2.2

We will work with the executive staff of the Office of the Governor to implement the recommendation. (Al Casals, Executive Director – Texas Military Preparedness Commission)

For 2.2

None received.

Against 2.2

None received.

Recommendation 2.3

The Commission should adopt rules governing the Commission's role in the grant award decision-making process.

Agency Response to 2.3

We will work with the executive staff of the Office of the Governor to implement the recommendation.
(Al Casals, Executive Director – Texas Military Preparedness Commission)

For 2.3

None received.

Against 2.3

None received.

Commission Decision



Adopted Recommendations 2.1, 2.2, and 2.3.

Legislative Action



House Bill 2546 expands the DEAAG program beyond job creation to allow the Commission to consider grants for projects that feature job retention. (Recommendation 2.1)

ACROSS-THE-BOARD RECOMMENDATIONS



Texas Military Preparedness Commission

Recommendations	Across-the-Board Provisions
Modify	1. Require public membership on the agency's policymaking body.
Already in Statute	2. Require provisions relating to conflicts of interest.
Already in Statute	3. Require unbiased appointments to the agency's policymaking body.
Already in Statute	4. Provide that the Governor designate the presiding officer of the policymaking body.
Modify	5. Specify grounds for removal of a member of the policymaking body.
Apply	6. Require training for members of the policymaking body.
Not Applicable	7. Require separation of policymaking and agency staff functions.
Already in Statute	8. Provide for public testimony at meetings of the policymaking body.
Already in Statute	9. Require information to be maintained on complaints.
Already in Statute	10. Require the agency to use technology to increase public access.
Already in Statute	11. Develop and use appropriate alternative rulemaking and dispute resolution procedures.

Commission Decision

Adopted staff recommendations.

Legislative Action

Adopted Commission decision.

AGENCY INFORMATION

(NOVEMBER 2008)




Agency Information

Agency at a Glance

In 2003, the 78th Legislature created the Texas Military Preparedness Commission (Commission) as a Trusteed Program within the Office of the Governor to assist local defense communities in identifying and using economic development resources that enhance the military value of their installations. The Commission's mission is to preserve and expand Texas' 18 major military installations and their missions, and assist communities that have been impacted by a U.S. Department of Defense Base Realignment and Closure (BRAC) action. The Commission accomplishes its mission by performing the following duties:

- ◆ advising the Governor and Legislature on defense-related issues affecting Texas military installations to support the long-term viability of the military in the State;
- ◆ providing financial assistance to defense communities impacted by BRAC through the Texas Military Value Revolving Loan Fund program and the Defense Economic Adjustment Assistance Grant program;
- ◆ functioning as an information clearinghouse by providing military installation information and recommendations to enhance the military value of Texas defense installations to the Governor, Legislature, Congressional Delegation, and state and federal government officials, primarily through its *Annual Report: Master Plan for the Future*; and
- ◆ working with the Governor, Legislature, Congressional Delegation, and senior military and community leaders to seek additional defense missions for Texas.



The Commission seeks to preserve and expand Texas' 18 major military installations and their missions.

Key Facts

- ◆ **Funding.** The agency operates with an annual appropriation of about \$250,000, composed entirely of General Revenue funds.
- ◆ **Staff.** The agency has two full-time equivalent positions, an Executive Director and one program coordinator, that are responsible for planning and agency operations.
- ◆ **Defense Grants.** The Commission received \$5 million in General Revenue for the 2008-2009 biennium to award grants to defense communities affected by BRAC for projects that protect or expand military installations or missions in Texas.
- ◆ **Military Value Loans.** A constitutional amendment authorized up to \$250 million in bonds for loans to defense communities affected

by BRAC. In 2007, the Commission authorized loans to two defense communities, the city of Corpus Christi and Port San Antonio, totaling approximately \$49 million.

Major Events in Agency History

- 1997 The Legislature created the Defense Economic Adjustment Assistance Grant program and appropriated \$20 million to the program.
- 2003 The Legislature created the Texas Military Preparedness Commission. The Legislature also created the Texas Military Value Revolving Loan Fund, and voters passed a constitutional amendment authorizing the sale of up to \$250 million in bonds for the Fund.
- 2005 The Legislature increased the number of Commission members from nine to thirteen and expanded eligibility for loans and grants to defense communities that were positively impacted by BRAC.
- 2007 The Commission awarded the first loans of the Revolving Loan Fund to the city of Corpus Christi and Port San Antonio. The Legislature appropriated \$5 million to the Commission for Defense Economic Adjustment Assistance Grant awards.

Texas voters authorized the sale of up to \$250 million in bonds for the Texas Military Vaule Revolving Loan Fund.

Organization

Policy Body

The Texas Military Preparedness Commission comprises 13 public members, appointed by the Governor, and two ex officio members including the Chair of the House Defense Affairs and State-Federal Relations Committee, and the Chair of the Senate Veterans Affairs and Military Installations Committee. See the table on the following page, *Commission Membership*, for membership details. The 13 public members each serve staggered six-year terms. Each member must have demonstrated experience in economic development, the defense industry, military installation operation, environmental issues, finance, local government, or the use of airspace or outer space for future military missions. The Governor designates the Chair, who serves at the pleasure of the Governor.

The Commission appoints an Executive Director and meets quarterly to hear invited testimony related to federal, state, and local actions affecting Texas' military installations, missions, and communities. The Commission also uses its quarterly meetings to discuss the activities of current grant and loan recipients, as well as to make new grant awards and loan decisions. The Commission travels to the defense communities gathering information to help prepare its *Annual Report: Master Plan for the Future*, a report to the Governor and Legislature, which offers legislative recommendations to enhance the value of the Texas military. The Commission has one subcommittee, the

The Commission has 13 public members appointed by the Governor.

Texas Military Value Revolving Loan Fund Review Panel, comprising seven of its members who meet as necessary to approve loan applications and bond issuance to fund the loans. The Review Panel has met twice since the agency's inception.

The Commission advises the Governor and the Legislature on defense-related issues, including federal actions affecting Texas military installations, and makes recommendations regarding the development of policies and plans to support the long-term viability and military prosperity of Texas. In fiscal year 2008, the Commission held four public meetings.

Commission Membership

Name	Qualification	City	Term Expiration
William J. Ehrie, Chair	Retired Air Force Colonel	Abilene	2013
Ralph C. Gauer, Vice Chair	Retired Army Colonel	Harker Heights	2009
Dora C. Alcalá	Retired Senior Executive Service	Del Rio	2009
Howard C. Ham	Retired Air Force Colonel	San Antonio	2011
Ronald D. Henson	Certified Public Accountant	Texarkana	2013
Alvin W. Jones	Retired Army Reserves Major General	College Station	2009
James P. Maloney	Retired Army Major General	El Paso	2011
The Honorable Loyd Neal	Retired Army Reserve Colonel / Nueces County Judge	Corpus Christi	2011
Paul F. Paine	Retired Navy Captain	Fort Worth	2009
Charles E. Powell	Retired Air Force Colonel	San Angelo	2013
Josue (Joe) Robles	Retired Army Major General	San Antonio	2011
Eugene N. Tulich	Retired Coast Guard Commander	Spring	2011
Tom A. Whaylen	Retired Air Force	Wichita Falls	2013
Senator Leticia Van de Putte	Ex Officio – Senate	San Antonio	N/A
Representative Frank J. Corte, Jr.	Ex Officio – House	San Antonio	N/A

Staff


The Commission employs two full-time staff, an Executive Director and a program coordinator. Agency staff administratively supports Commissioners with travel, information, policy development, and quarterly meetings. The Executive Director administers programs, and the program coordinator provides daily implementation of programs and supports the Commissioners administratively. The Governor's Legal staff drafts and reviews contracts for the Commission. The Governor's Financial Services staff issues the grant

awards as outlined in the contracts, collects and transmits loan repayments, and handles travel reimbursements for the Commission. Because of the small staff size, Sunset staff did not prepare an analysis comparing the agency's workforce composition to the overall civilian labor force.

Funding

Revenues

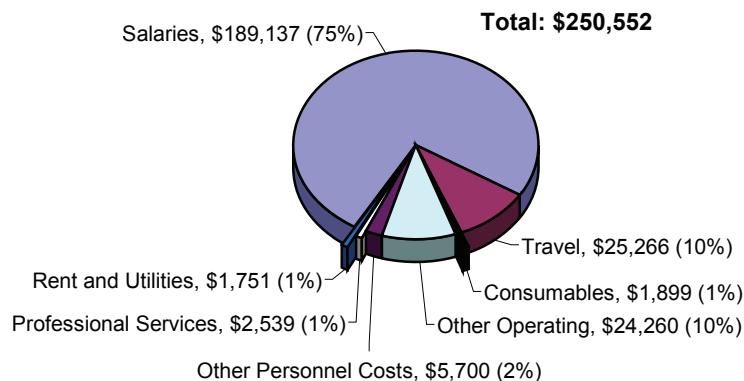
In fiscal year 2008, the Commission received an appropriation of \$250,552, consisting entirely of General Revenue funds. For the 2008-2009 biennium, the Legislature appropriated an additional \$5 million of General Revenue funds to the Commission for the Defense Economic Adjustment Assistance Grant program to award grants to defense communities positively or negatively affected by BRAC. The Commission also collected administrative fees equal to one-tenth of one percent of the total loan amounts approved through the Texas Military Value Revolving Loan program. Because the Commission approved two loans for the 2008-2009 biennium totaling approximately \$49 million, it collected approximately \$49,000 in administrative fees. Approximately \$200 million in bond capacity remains.


Seventy-five percent of the Commission's budget funds salaries.

Expenditures

The Commission spent their entire budget of \$250,552 in fiscal year 2008. The pie chart, *Expenditures by Object of Expense*, shows the agency's expenditures, divided by expenditure category. Seventy-five percent of the agency's budget funded salaries. The Commission spent the remaining budget on operating expenses, such as travel and printing. Grant and loan awards are discussed in the Agency Operations section of the report. Also, the Commission is tied to the Office of the Governor for the purposes of purchasing and contracting, and do not have their own separate HUB reporting requirements.

**Expenditures by Object of Expense
FY 2008**



Agency Operations

Defense Community Development

The Commission provides economic assistance to communities that have been either positively or negatively impacted by a Base Realignment and Closure (BRAC). The Commission offers assistance to communities through the Defense Economic Adjustment Assistance Grant program (DEAAG), a job creation program, and the Military Value Revolving Loan Fund, a program that helps defense communities increase the military value of their installations.

DEAAG

The Legislature created the DEAAG program in 1997, and transferred the program to the newly created Texas Military Preparedness Commission in 2003. DEAAG is a job creation program designed to assist communities positively or negatively impacted by a BRAC. BRAC can modify a military installation's mission, remove or add troops to a military installation, or close down a military installation. The program is open to defense-related projects that help create local jobs.

The Legislature initially appropriated \$20 million for the program, with \$5 million appropriated for the 2008-2009 biennium. As of August 2008, the agency awarded \$4,630,000 of grant funds for the current biennium. The table, *DEAAG Funding Per Biennium*, shows the amount of funding appropriated to the grant program each biennium since its inception.

The Commission can make awards ranging from \$50,000 to \$2 million, but the award recipient must also have local or federal funding to contribute to the project. The average award to a community is \$860,000. The Commission returns any unused grant funds to General Revenue. The Commission returned funds to General Revenue twice, when the communities were unable to start their projects due to a lack of local funding.

The Commission solicits grant applications by sending marketing letters to eligible communities, such as cities, counties, and development authorities. The Commission gives communities 45 to 60 days to respond to the marketing letters. Although the Commission has statutory authority to assess an administrative fee for the program, it does not.

Once the agency receives grant applications, the Executive Director convenes a Defense Economic Adjustment Assistance Panel to apply a scoring matrix to each application. The scoring matrix evaluates the impact of any proposed jobs on a community and the likelihood of a project's success. The Executive Director chooses three to five members from the Office of the Governor to serve on the Panel, which usually includes the Executive Director and the

*Thus far, the
agency has
awarded
\$4,630,000 in
grant funds for the
current biennium.*

DEAAG Funding Per Biennium

FY 1998 – 1999	\$20 million
FY 2000 – 2001	\$1 million
FY 2002 – 2003	\$1 million
FY 2004 – 2005	\$ 1 million*
FY 2006 – 2007	\$0**
FY 2008 – 2009	\$ 5 million

* The Office of the Governor provided funding from Economic Development funds.

** No funds were appropriated due to the late release of BRAC decisions.

agency's program coordinator. During the last DEAAG grant cycle, the Panel included one staff member each from the Offices of Aerospace, Aviation, and Defense; Financial Services; and Budget, Planning, and Policy.

DEAAG Scoring Matrix Rating Factors

Objective Factors

1. Return on Investment: **20 Points**
 - ◆ Cost per job.
 - ◆ Percentage of Commission contribution.
2. Area Impact: **20 Points**
 - ◆ Percentage of new jobs to the area.
 - ◆ Percentage of jobs lost to the area.
 - ◆ Current unemployment rate.
3. Project Funding: **20 Points**
 - ◆ Ratio of local contribution to Commission contribution.
 - ◆ Ratio of Federal contribution to Commission contribution.
4. Previous DEAAG Assistance: **15 Points**
 - ◆ Points are awarded to communities that have not received assistance.

Subjective Factors

5. Project Viability: **10 Points**
 - ◆ Commitment of potential applicant.
6. Community Redevelopment: **15 Points**
 - ◆ Local incentives available and community cooperation.

Total Points Available: 100

The textbox, *DEAAG Scoring Matrix Rating Factors*, details the six factors that the Panel examines and the criteria the Panel uses to score each application. The Panel's main function is to evaluate the two subjective factors: project viability and the community's involvement in redevelopment. The Panel members average their scores to produce a final score for the subjective criteria. The Panel scores objective factors by ranking applicants in order for each objective criteria, then awarding points based on a quartile system. See the textbox, *Matrix Scoring*, for an example of how the Panel scores one objective factor. The Panel adds the objective and subjective scores to form a final score out of 100 points. The Panel then recommends to the Commission whether to award a grant based on this score.

The Commission invites applicants to one of its quarterly meetings to explain why they should receive grant funding, and considers but does not have to follow Panel recommendations in approving grant awards. The most recent review Panel recommended funding only two of nine projects in 2007. However, the Commission approved grant awards for eight of the applicants.

Once a project has its plans, specifications, and any necessary service contracts in place; meets necessary Texas Department of Licensing and Regulation and Texas Commission on Environmental Quality requirements; and provides an updated timeline and budget reflecting current expenditures, the community can draw up to 50 percent of the grant amount. When a project is 50 percent complete, the community can draw up to an additional 40 percent of the original grant amount and the final 10 percent once a project is complete. A community has two years from the completion of a project to meet their job creation goal. To date, two communities have failed to meet their job creation commitment. Grant recipients must provide quarterly status reports and semiannual job creation reports to the agency for four years following the completion of a project.

Matrix Scoring

To score an applicant's Return on Investment factor the Panel might rank an applicant in the second quartile for the cost per job and in the third quartile for the percentage of Commission contribution. That would mean 15 points for job creation and 10 for Commission contribution. The Panel would then average these scores, assigning a final score of 12.5 for the Return on Investment factor.

The Commission has denied grants to two communities since the program's inception. The Commission deemed one project too speculative, and the other project requested funds for a project that was not eligible for program funds. The table, *DEAAG Grants Awarded*, gives more details about past grant recipients.

**DEAAG Grants Awarded
FY 2000 – FY 2007**

Fiscal Year	Applicant	Amount Requested	Number of Jobs Created	Project Description	Amount Awarded
2000	Bowie	\$1,000,000	60	Demolition and renovation of buildings for industrial manufacturing	\$1,000,000
2002	Bowie	\$168,000	25	Purchase insurance for Red River Army Depot Buildings	\$168,000
2002	Jefferson	\$300,000	0*	Construction of rail car facility	\$300,000
2002	Lubbock	\$75,000	227	Build an access road and 8" waterline to industrial park	\$75,000
2002	Marshall	\$100,000	0*	Retooling defense manufacturer	\$100,000
2002	San Antonio – Brooks	\$250,000	11	Replace undersized and substandard water lines	\$200,000
2002	San Antonio – Kelly	\$500,000	95	Replace rail and rail bed	\$157,000
2004	Bowie	\$168,000	25	Repair and rehabilitation of three buildings	\$168,000
2004	Dallas	\$500,000	400	Repair and rehabilitation of aircraft operating area	\$462,222
2004	San Antonio – Brooks	\$200,000	50	Replace water pipeline to provide water flow for fire protection	\$184,889
2004	San Antonio – Kelly	\$200,000	80**	Upgrade building to provide indoor engine testing capabilities	\$184,889
2007	Bowie County	\$428,800	55***	Street repairs and upgrades	\$348,000
2007	Brooks City Base 1	\$1,375,000	150***	Extension of New Braunfels Avenue to City Base	\$1,375,000
2007	Brooks City Base 2	\$125,000	6***	Building HVAC installation	\$125,000
2007	City of Beeville	\$400,000	60***	Hangar construction	\$400,000
2007	City of Gatesville	\$200,000	200***	Lab building construction and beam repair	\$630,000
2007	City of Ingleside	\$1,073,600	285***	Waste water plant repair	\$386,000
2007	City of Robstown	\$794,439	50***	Sewer line installation	\$64,800
2007	Port of San Antonio	\$1,299,500	850***	Infrastructure improvements and construction	\$1,299,500

Total \$7,628,300

* Both Jefferson and Marshall returned their awards. Neither city was able to secure local funding.

** Jobs committed, but the community indicates that it is unlikely that any new jobs will be created.

*** Jobs committed, projects not yet completed.

*The Texas
Military Value
Revolving Loan
Fund program is
a low cost source
of revenue for
eligible defense
communities.*

The Texas Military Value Revolving Loan Fund

The Legislature created the Texas Military Value Revolving Loan Fund in 2003 to assist defense communities in accomplishing economic development projects that enhance the military value of their installations. A constitutional amendment authorized the sale of up to \$250 million in general obligation bonds to fund the loan program. In 2005, the Legislature expanded the Fund to include communities positively and negatively impacted by BRAC 2005 or later. The loan program provides a low cost source of revenue to eligible defense communities. A defense community is defined as a political subdivision, including a municipality, county, or special district, that is adjacent to, near, or encompasses any part of a defense base. Eligible defense communities must meet the application criteria as the accompanying textbox describes.

Texas Military Value Revolving Loan Fund Project Analysis Criteria

1. Did the community complete a Military Value Enhancement Statement or a Community Redevelopment Value Statement?
2. Will the project enhance the *military value* of the installation or the economic value of the community?
3. What is the anticipated value (in terms of use) of the project if the installation is closed or realigned?
4. For economic development projects, what is the value of the project to the community? Is this a joint use (community and military installation) project?
5. What is the overall benefit of the project to:
 - a. State
 - b. Community
 - c. Military installation
6. What percentage of the total project cost is the community requesting in funding from the Revolving Loan Fund? Are there federal funds involved? Other state funds? Other funds?
7. What is the timeline or schedule for completion of this project?
8. Are there any environmental concerns? Any negative factors that will affect the community or military installation?
9. Identify all parties involved in the project.
10. Did the Military Value Enhancement Statement or the Community Redevelopment Value Statement provide sufficient information to evaluate this project?

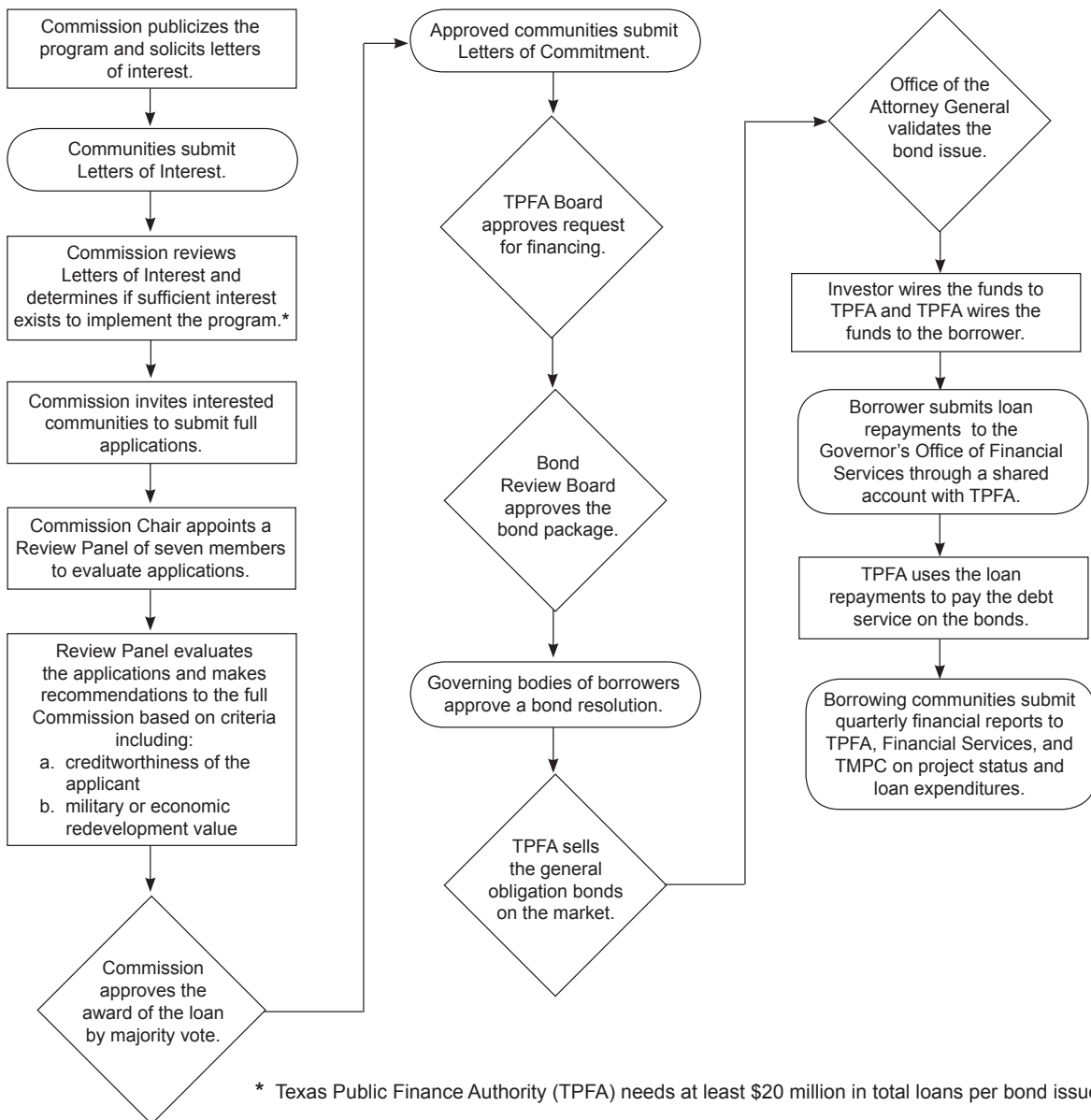
The Commission established rules to govern the administration of the Revolving Loan Fund program, including the processing of applications, criteria for and review of creditworthiness, contract requirements, and borrower compliance and reporting responsibilities. Commission rules also consider other key loan criteria, as listed in the textbox on the following page, *Project Criteria*.

A subcommittee of the Commission, the Revolving Loan Fund Review Panel, meets to evaluate borrower creditworthiness, and to approve loan applications and bond issuance to fund the loans. Statute requires the Commission to

adopt rules, in consultation with the Texas Public Finance Authority (TPFA), that contain the criteria for evaluating the credit of a loan applicant and the financial feasibility of the project. Also, on a limited basis, TPFA and the Governor's Economic Development and Tourism staffs provided assistance with credit analysis. The flowchart below details the loan process from the solicitation of interest by the Commission to the repayment of the loans by the borrowing communities.

- Project Criteria**
- ◆ Projects should be related to facilities or infrastructure.
 - ◆ The minimum amount of a loan is \$1,000,000.
 - ◆ The availability of funds and the creditworthiness of the applicant determine the maximum amount of a loan.
 - ◆ The state may provide up to 100% of the cost of the project, dependent upon the creditworthiness of the applicant.
 - ◆ Communities must completely expend their funds within five years from when the loan was awarded.

Texas Military Value Revolving Loan Fund Application Process Flowchart



*Two communities
have received
loans so far: San
Antonio and
Corpus Christi.*

TPFA typically incurs a cost of \$150,000 to \$200,000 for bond issuance, which TPFA passes on to the loan recipient. Cost of issuance includes hiring bond counsel, a financial advisor, and an underwriter, and paying a credit rating agency if the borrower does not have an existing rating. In addition, the Commission charges loan applicants a one-tenth of one percent administrative fee on the total amount of the loan to cover the cost of loan administration. Although the Commission collected \$49,000 in administrative fees in 2007, it did not use these funds.

In 2007, the Commission authorized loans to two defense communities, the city of Corpus Christi and Port San Antonio, totaling approximately \$49 million. The loans cover a portion of larger projects for both defense communities. Port San Antonio projects include refinancing from construction loans to permanent loans, improving current facilities and funding a new air cargo terminal. City of Corpus Christi projects include the reconstruction of the roadway and main entrance of the Port of Corpus Christi for vehicles; water, sewer, and street light installation; and expansion of an airfield at Corpus Christi Naval Air Station.

Information Clearinghouse

The Commission serves as an information clearinghouse for issues affecting military installations and defense communities in Texas. The Commission meets quarterly to allow Texas defense communities, military installations, defense community associations, national defense-related interest groups, and federal and state agencies to present information on trends and key occurrences within the defense community. The Commission also solicits reports annually from military base commanding officers and public affairs officers to include in a report detailing changes in mission or the number of active duty personnel, and information on the installation's overall status. Commission staff compiles the information it gathers in its *Annual Report: Master Plan for the Future*, provided to the Legislature, Governor, military installations and communities, Congressional Delegation, and federal and state government officials. The agency also provides reports and updates to both the Legislature and Governor as needed.

APPENDIX



Appendix A

Staff Review Activities

During the review of the Texas Military Preparedness Commission, Sunset staff engaged in the following activities that are standard to all Sunset reviews. Sunset staff worked extensively with agency personnel; attended Commission meetings; talked with staff from legislative agencies; conducted interviews and solicited written comments from interest groups and the public; reviewed agency documents and reports, state statutes, legislative reports, previous legislation, and literature; researched the organization and functions of similar state agencies and functions in other states; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this review.

- ◆ Interviewed Texas Military Preparedness Commission members.
- ◆ Interviewed various staff within other divisions of the Office of the Governor, including Economic Development and Tourism; Budget, Planning and Policy; Financial Services; General Counsel; and the Governor's Chief of Staff.
- ◆ Observed a Defense Economic Adjustment Assistance Grant (DEAAG) recipient monitoring visit conducted by Commission staff.
- ◆ Toured projects funded by DEAAG and the Texas Military Value Revolving Loan Fund program.
- ◆ Interviewed loan and grant recipients from the communities of San Antonio, Lubbock, and Beeville.
- ◆ Interviewed staff from the Texas Public Finance Authority.
- ◆ Interviewed staff from the Office of State Federal Relations.
- ◆ Interviewed staff from the Adjutant General's Department.
- ◆ Interviewed staff from the Texas Forest Service, Texas Commission on the Arts, and Texas Parks and Wildlife Department.
- ◆ Reviewed grant and loan recipient case files.

NEW ISSUES



New Issues

The following issues were raised in addition to the issues in the staff report. These issues are numbered sequentially to follow the staff's recommendations.

3. Reauthorize the Texas Military Value Revolving Loan Fund program. (Tristan "Tris" Castaneda, Jr. – Baker Botts, LLP; Robert M. Murdock, Brigadier General, USAF Retired, Director – Office of Military Affairs, San Antonio)

Staff Comment: The program does not have an expiration date and does not require legislative reauthorization.

4. The Sunset Commission could assist the TMPC and TPFA in their administration of the Texas Military Value Revolving Loan Fund (TMVRLF) by reviewing and proposing methodologies for applying general program requirements to help make the TMVRLF available for additional worthy projects. The TMVRLF could have a significantly greater impact across the State of Texas if the evaluation of projects were not as rigorous. Port San Antonio was fortunate to have the financial strength necessary to meet the tests applied; however, in this turbulent economy, significant, important projects may be deferred or abandoned if similar hurdles are applied. (Wayne Alexander, Chairman of the Board – Port San Antonio; Bruce E. Miller, President and CEO – Port San Antonio)

Staff Comment: Stringent financial evaluation of a borrower's ability to repay the loan is necessary to ensure that debt from the bond that funds the loan will be repaid by the borrower.

5. The Commission should consider communities with reserve bases when evaluating defense community applications for DEAAG grants, and should actively market the DEAAG program to local defense communities with reserve bases. (Sunset staff at request of Chairman Isett)

Commission Decision

- ◆ Adopted New Issue 5.
- ◆ Adopted New Issue 6 by Representative Isett that requires the Commission, in advocating to retain or expand military bases and missions, to advocate for the missions and capabilities of reserve bases, to ensure the preservation and expansion of reserve activities in Texas.

Legislative Action

House Bill 2546 requires the Commission to advocate for the preservation and expansion of the missions and capabilities of reserve bases in Texas during, but not limited to, times of BRAC action. (New Issue 5)

PROVISIONS ADDED BY LEGISLATURE



Provisions Added by Legislature

- 1. Expand DEAAG program eligibility to include a political subdivision having powers similar to defense base development authorities.**

The Legislature added a provision to expand DEAAG eligibility to a political subdivision with powers similar to defense base development authorities created under Chapter 379B of the Local Government Code.

SUNSET STAFF REVIEW OF THE TEXAS MILITARY PREPAREDNESS COMMISSION



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