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## Economics at Work

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### Economics at Work in an Economic Development Organization

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*This article describes the role of economics at the Greater Houston Partnership, a member-funded development organization serving the 9-county Houston Metropolitan Statistical Area. The partnership's history, the organization's mission, the role that research economic data plays in the relocation process, and reasons why corporations relocate are discussed in the article.*

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As Vice President of Research at the Greater Houston Partnership (GHP), I wear many hats—economist, statistician, demographer, fact-checker, and blogger—and I change those hats throughout the day. A typical morning begins with a tweet about the morning's economic data release, then a meeting with GHP's speech writer to explain what trends our CEO should highlight in an upcoming keynote, followed by a discussion with the Research Department's team about how to handle a sticky request from a relocation prospect. Lunch finds me speaking about Houston's economy at the Rotary Club or listening to another economist's talk and quietly taking notes. Waiting back at the office is a voicemail from a reporter wanting additional insight on the data that I tweeted earlier. In my chair lies an economic impact statement prepared by a colleague who wants the benefit of a second pair of eyes. My review is interrupted by a policy analyst seeking data to

substantiate a point in his letter to our Congressional delegation. As evening approaches, a board member calls, asking for a few slides he can use in a presentation he is scheduled to make in the morning. Before I log off for the day, I send an email to a colleague asking if she will speak at the next meeting of The Houston Economics Club, NABE's local chapter.

#### 1. Our Mission

Every task mentioned—big or small, mundane or substantive—supports the mission of the organization. In chamber of commerce parlance, that mission is “to make Houston a better place to live, work and build a business.” In less prosaic terms, we recruit corporations, facilitate foreign trade, advocate for legislation that enhances the region's business climate or quality of life, and engage our members in task forces and committees. In another city, the Partnership would be considered a mega-chamber of commerce. In the past, I often referred to the Partnership as a chamber of commerce on steroids, but that was before steroids had a bad name.

GHP's strength derives from our 120-member board of directors. That is not a typo. Our board is larger than many small towns in Texas. The board truly represents the leadership of Houston's business community. To serve on our board, an individual must hold the most senior position in Houston in his or her organization. Consequently, our board includes Fortune 500 CEOs, international division presidents, managing partners of professional service firms, owners of private business concerns, university presidents, and executive directors of large nonprofits.

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## 2. In the Beginning

The Partnership began with the 1989 merger of three organizations: the Houston Chamber of Commerce, the Houston Economic Development Council, and the Houston World Trade Association. The leadership of each (which somewhat overlapped) recognized they shared a common mission—growing the economy and improving Houston’s quality of life. They also recognized that it is easier to fundraise for a single, large organization than for three separate, smaller ones; that working together they would be more effective; and that there would be economies of scale—one communications team, one human resources function, one research department, one board, and one fundraising campaign. The functions of the three are now bundled into GHP divisions—Public Policy (the legislative advocacy role), Economic Development (business recruitment and Legislative promotion), and Member Engagement (fundraising and volunteer coordination).

## 3. The Role of Research

The Research Department, which I manage, provides the economic, demographic, and information analysis each division needs to pursue its part of the mission. We handle more than 1,200 requests each year. The seven of us on the research team sometimes refer to ourselves as “the department of loaves and fishes.” The requests vary from the mundane (fact-checking a press release) to the challenging (calculating the economic benefit of a new botanical garden) to the absurd (estimating the number of trees in Houston). Some, like updating a spreadsheet, can be handled in a few minutes. Others, like preparing an employment forecast, can take several weeks.

We devote substantial resources to tracking and reporting on the local economy. The Partnership publishes a monthly economic newsletter (*Houston: The Economy at A Glance*); distributes local data as they are released (*Key Economic Indicators*); posts a frequent blog (*The Glass Half Full*); and maintains a variety of reports posted at our website (*Talking Points, Houston Facts*). *Talking Points* is a two-page synopsis of Houston’s economic and demographic highlights. *Houston Facts* is an annual volume covering a wide range of topics—from population and employment to parks and schools—in nearly 70 pages. The Partnership also releases an annual detailed forecast of employment by industry for the region.

Each month GHP convenes a meeting of the Houston Economic Analysis Panel, a group of researchers and economists who produce and analyze

local data. These experts include representatives from commercial real estate, housing, construction, oil and gas, utilities, manufacturing, retail, workforce development, and the local branch of the Federal Reserve Bank. No one joins the group for free: the ticket to admission is data. For two hours, we sit around a table, sharing our data and what they tell us about Houston’s economy. Afterwards, everyone leaves with better insight into local trends. As a byproduct of these meetings, a relocation or expansion prospect is likely to get basically the same picture of Houston’s economy from just about anyone consulted.

## 4. Serving Our Divisions

The meat and potatoes of our work, however, is supporting the Economic Development team as it attracts foreign investment and recruits corporations to Houston. Corporations decide to relocate for a variety of reasons:

- **Modernization:** It may be less expensive to build a facility and install new machinery than to refurbish and retrofit an existing facility.
- **Talent:** If the local market cannot supply a steady flow of skilled workers, the firm will locate to a market that can.
- **Customer Service:** As distances shorten, so do delivery times.
- **Cost Reduction:** A new address can translate into savings on real estate, taxes, transportation, and wages.
- **Corporate Vision:** A shift in focus may require a shift in location to underscore the new direction.
- **Cluster Benefits:** Corporations thrive in an area dense with similar companies. Think of defense contracting in Fort Worth, technology in Austin, tourism in San Antonio, and energy in Houston.
- **Growth:** A new plant, office, or distribution facility may be needed to keep pace with demand.
- **Mergers:** When two companies merge, the management team must decide which city will host the new headquarters operations.
- **Turmoil:** If a firm is contracting, it may pull outlying operations into a central location to reduce costs and better manage operations.
- **Restructuring:** By consolidating into fewer locations, a company may find it has better control of costs.
- **Quality of Life:** A company may have better luck attracting certain types of talent if it moves to a location that offers more cultural and recreational opportunities.

All relocation decisions are data driven. A corporation typically begins the decision process with a request for information (RFI). The early-stage RFIs tend to be simple requests that are easily handled—such as wage rates, labor availability, population growth, local economic trends, distance to the nearest airport, and so on. The Research Department gathers the data from recognized sources such as the U.S. Bureau of Labor Statistics, the U.S. Bureau of the Census, the Texas Employment Commission, and the Houston Airport System. We package the data, turn the information over to the Economic Development team, and they forward the Partnership's response to the corporation.

Initially, corporations cast a wide net and request the same information from a dozen or more metropolitan areas. Once the data have been delivered, the corporation examines each response, looking for reasons to eliminate a metro area from further consideration. Deal killers may include inadequate labor supply, uncompetitive wage rates, a moribund local economy, high office rents, or weak transportation infrastructure. After the first cut, only half the companies on the original list remain.

At the next stage, more detailed information is requested. This may include the number of degrees awarded annually at local universities; number of students enrolled in specific curricula at local community colleges; demographic profiles within five-mile radii at various locations under consideration; lists of vendors in the region; proximity to pipelines, property tax rates, and so on. Responding adequately to such requests requires detailed knowledge of local data sources. Everyone in the department is an expert on local information sources and has developed an extensive network of contacts in the community.

In the final stage, only two or three metropolitan areas are under consideration. The corporation begins negotiating with landlords and inquiring about relocation incentives. Incentives may take the form of tax abatements, appraisal valuation caps, training funds, or infrastructure grants. If two metro areas are rated equal by the corporation, the better incentives package will tip the scale in one metro's favor.

## 5. Impact Analysis

Incentives are not offered without understanding the project's value to the community. The Research Department runs two impact models. One uses BEA's Regional Input-Output Modeling System (RIMS-II),

which estimates the potential impact on employment, income, and GDP. The other is a financial model, purchased from a vendor and tweaked by GHP, that estimates the impact on housing, retail sales, employment, personal income, and sales and property tax revenues. The reports these models generate are shared with the city, county, and state and inform the incentives negotiations.

Research also works closely with the Partnership's Public Policy division. Simple requests might involve using CPI data to calculate what the state motor fuels tax would be today if the tax had been indexed to inflation, estimating benefits to the typical homeowner if property tax rates are capped at lower rates than at present, or detailed economic and demographic profiles of elected officials' districts. A more complex request might involve reviewing and summarizing various reports on public pension reform or preparing documents explaining the need for economic development incentives.

Our support of Member Engagement is less complex. We identify prospective members, develop corporate profiles whenever the team is ready to make a sales call, and enter and maintain company records in our membership database.

## 6. Conclusion

I have worked at the Partnership and its predecessor, the Houston Chamber of Commerce, for more than 30 years. That experience provides me a unique perspective on the organization and the region. I have witnessed three booms and three busts since the early 1980s. In good times, the metropolitan area gained more than 120,000 jobs in a year. In lean times, it has lost as many. During my tenure, I have also had the privilege of reporting to seven GHP CEOs, each with a different set of priorities and a different management style. And I have learned something from each one.

Newbies (those with fewer than 10 years tenure) often tap my institutional knowledge. I well remember the position the Partnership took on issues long after the supporting documents have been thrown in the shredder. And in my career as an economist, I have come to realize that it is not enough to provide data. True value comes in putting the data in context and explaining what they say about the health of Houston's economy. And as of this writing, that health is robust.

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