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# QUARTERLY MEETING FEBRUARY 2013

## POLITICS AND THE PRESS: MEDIA IN THE 21ST CENTURY



On the heels of the most media saturated election cycle in history, the Texas Lyceum's first quarterly conference of 2013 took on the topic of politics, the press and the changing landscape of 21<sup>st</sup> century media.

It's a new day in media when there's a president with an Instagram account, a press corps where we take bloggers for granted, and a segment of the electorate that uses the term "mainstream media" as a critique not a compliment. In relative terms, we've gotten to this point rather quickly. When the Texas Lyceum was founded in 1980, Americans tuned in nightly to hear from Walter Cronkite, the "Old Gray Lady" was the gold standard, and most major cities had two print dailies. Since then, we have seen newspaper newsrooms shrink, partisan media exert its influence on cable and online, and major stories break via Twitter.



Media has changed. But have the rules of reporting and the role of journalism changed? We have easier access to more information than ever before. But how well is that information serving the electorate? Freedom of the press is important enough to be protected by the First Amendment. But how well is today's news media doing its job as the Fourth Estate?

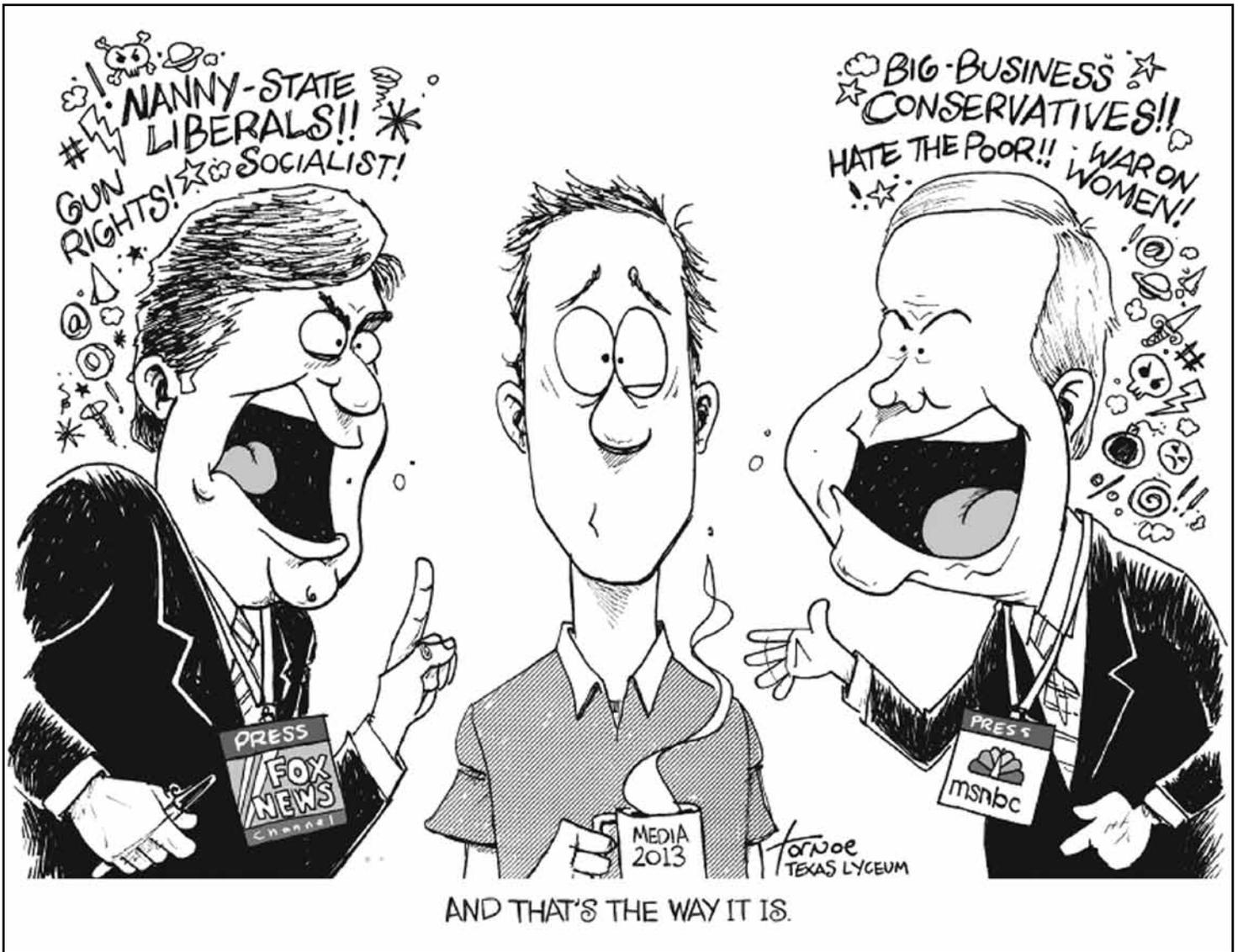
At this conference we convened top reporters and commentators, groundbreaking news bloggers, a Pulitzer Prize winning editor, and social media-savvy elected officials to discuss trends in news coverage of politics and policy. We explored the ways media has changed from the days of Watergate to the pages of WordPress. And we put it all in the context of how that serves the best interest of democracy in our state and nation. The debate was sometimes pointed, always lively, and definitely thought-provoking.

A handwritten signature in black ink, appearing to read "Dave Shaw".

Dave Shaw  
Lyceum Class of 2009

A handwritten signature in black ink, appearing to read "Craig Cherry".

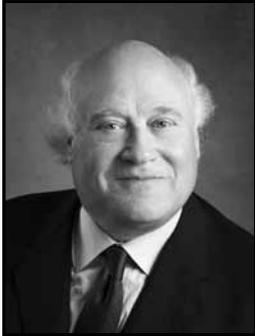
Craig Cherry  
Lyceum Class of 2012



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# THE CASE FOR CIVILITY

by Ambassador Lyndon L. Olson Jr.



**The Honorable Lyndon L. Olson, Jr.**, former United States Ambassador to the Kingdom of Sweden, today serves as Chairman of Hill+Knowlton Strategies for Europe and the USA in New York City.

Appointed by President Clinton, Ambassador Olson served in Sweden from 1997 to 2001 and is a recipient of an honorary doctorate from Sweden's Umea University. Mr. Olson served as a Commissioner and Vice Chairman of the United States Advisory Commission on Public Diplomacy having been appointed by President George W. Bush until 2011.

From 2002 to 2008, Mr. Olson rejoined Citigroup Inc. as a Senior Advisor to the Chairman where he served as a consultant to the senior management.

Mr. Olson has enjoyed a long and distinguished career in the insurance industry. During his previous affiliation with Citigroup from 1990 to 1998, he was President and Chief Executive Officer of Travelers Insurance Holdings and the Associated Madison Companies, predecessor companies. Prior to joining Citigroup, he had been President of the National Group Corporation and Chief Executive Officer of its National Group Insurance Company as well as a Director and member of the Executive Committee at National Financial Life and American Income Life Insurance Companies.

From 1979 to 1987, Mr. Olson was Chairman and a Member of the Texas State Board of Insurance and in 1982 served as President of the National Association of Insurance Commissioners. During the decade of the 1980s, he participated in numerous industry-related conferences, including several United Nations conferences on Trade and Development.

A native of Waco, and former member of the Texas House of Representatives, Mr. Olson has demonstrated a long commitment to a host of civic, political, cultural and philanthropic organizations in the state. Mr. Olson is a member of the Philosophical Society of Texas, a Trustee of the Austin Presbyterian Theological Seminary in Austin, Vice Chairman of the Lyndon B. Johnson Foundation, a member of the Bernard and Audre Rapoport Foundation, Chairman and Trustee of the Texas Scottish Rite Hospital for Children in Dallas and serves in leadership capacities for numerous Waco area organizations.

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I want to talk with you about civility, both in society in general and in our politics in particular.

I encourage you to think back...for some of us way back... to those report cards we got in first grade. Most everyone had different type cards and categories, but they were pretty much variations on the same basic theme. I'm not talking about your arithmetic or reading or penmanship grades. I'm talking about the comportment column, with things such as exercises self-control... respects the rights of others... shows kindness and consideration for others... indicates willingness to cooperate... uses handkerchief (important even before the H1N1 virus)... and, my favorite was usually right up at the top of that 6-week report card and it's of particular significance to our discussion... "Plays well with others."

We were being taught about and graded on one of the most fundamental skills of our civilization: how to get along with others. There is a reason that "plays well with others" was one of the first things we were taught and evaluated on. And folks, I don't think we're getting a very good grade on "plays

well with others" these days. Many of us don't even want to play with someone we don't like or agree with.

Where did all of this come from? In the majority of my life this hasn't been the case. Those of us in this room over 40 or 50 didn't grow up in anything like this environment. We didn't live like this. Not in our communities... not in our politics. We lived in a political world with strong feelings and positions, yes. And we took swings at each other politically. But it didn't come down to the moral equivalent of street brawls and knife fights. Politics has always been a contact sport, but this conflict didn't permeate every aspect of our society and rise to today's level of social and verbal hostility. It is very unhealthy. And I'm not sure what to do about it. But I know it when I see it and hear it. And I know it is time we focus as much attention on our civil behavior as we do on achieving our personal and partisan agendas. How we do that, I don't know. But I want to raise the issue, ask the questions, and encourage you all to give it your consideration as well.

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We live in an era of rudeness, in society in general, in the popular culture, and in our political life. Our culture today, in fact, rewards incivility, crudeness, and cynicism. You can get on TV, get your own talk show or reality series if you out-shout and offend the other guy. Everyone screams, no one listens. We produce a lot of heat but little light. The proclivity is to demonize our opponent. People don't just disagree. . . the challenge to the other is a battle to the death. Character assassination, verbal abuse, obnoxious behavior, and an overbearing attention on scandal and titillation—all that isn't just reserved to day-time TV anymore—it's the currency of prime-time, of late night, of cable news, of the Internet, and of society in general.

What happened to us? Should this be a sign of alarm? Is the problem selfishness—we won't be denied, we must be immediately gratified? We want everything we've ever seen in the movies? How do we live and get along like our parents and their generation? They had to sacrifice. They didn't get what they wanted when they wanted it. Is today's need for instant gratification a problem? We are more inclusive today. . . and that is a good thing—but has that good made for increased tensions?

Is it the 24-hour news cycle? The 24-hour news cycle demands instantaneous news, which feeds off of controversy, scandal, and easy answers to difficult questions. There is scant time for reflection or reasoned analysis. Market forces demand instantaneous information and jarring entertainment values, not sober analysis or wisdom. The news media are more prone to focus on the loudest, the most outrageous, and the most partisan actors. And given the rise of the political consultant class, candidates and campaigns are louder, more outrageous, and meta-partisan. Political consultants have helped create a permanent campaign where politics takes precedence over governance. The political consultants egg on all of this for profit, creating controversy where little or none exists so the message, the theme of the day, is played out on TV and the media. They're paid handsomely to cause strife and create conflict in order to raise hackles, money, and attention. . . fomenting issues to suit their agenda. It's all about the message, not the solution, not the negotiation, the debate, the compromise to move forward. It's about who is controlling the message, who is defining the message, who is creating the message, who is keeping the conflict alive often where none existed before the consultant decided one was needed. Is this what keeps us at each other's throats?

Is it talk radio, attack TV? Is it the talk shows, the shout festivals where absolute hyperbole is the only currency? Mean-spirited hyperbole and hyper-partisanship breeds cynicism. Citizens are increasingly cynical about politics and about their government's ability to work. The damage to the ship of state, to the fabric of the nation begs repair. Whose job is it to change

course and effect the necessary repairs? I'm not sure I have the answer to that.

You know, I can say that there are some people in this room, people I consider dear friends, who understand the problem I am talking about and I believe share my concern. To those friends I say, you and I both know that we disagree fundamentally on some very big issues but the truth is that we could care less about our disagreements and are more concerned about where we can find consensus and reasons to work and live together to construct a better future. I consider this kind of commitment to trust and open dialogue crucial to maintaining a sustainable society.

The people I know in this room are builders. But we are confronting a world today where hate seems to be a predominant factor in the crisis of incivility confronting our politics. Where are the rules that govern conduct? What happens eventually after this continuous rancor tears the fabric of our society completely asunder? Can we survive with this tenor. . . taking no prisoners, giving no quarter?

I'm asking these questions because you folks here are blessed with skills, talent, experience and a commitment to a positive public policy. You understand the importance of maintaining and protecting our commonweal where we strive to serve our clients, our community, our country and our state. If civil discourse self-destructs, we cannot move on the issues that matter. Think of this as an environmental crisis. . . the environment being our civil society and our very ability to live and work and prosper together.

I don't want to sound pious or preachy here, but if we are to prevail as a free, self-governing people, we must work together. We shouldn't try to destroy our opponents just because we disagree. We have to govern our tongues. The Proverb tells us, chapter 18, verse 12, "Death and life are in the power of the tongue." How we choose to use words—for good or for wrong—it is clearly our choice. The health of our democracy depends upon a robust public discourse.

Recognize that I am not saying that conflict in our political life is to be avoided. Hardly so. It is not only proper but necessary for candidates to vigorously debate the issues of our day and examine their opponents' records. Don't let people confuse civility with goody two-shoes niceness and mere etiquette. Civility is a robust, tough, substantive civic virtue, critical to both civil society and the future of our republic. Civility entails speaking directly, passionately, and responsibly about who we are and what we believe. Divisions based on principles are healthy for the nation. Vigorous and passionate debate helps us to define issues and to sharpen positions.

Conflict cannot, should not be avoided in our public lives any more than we can avoid conflict with the people we

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love. But just as a member of a household, as a family learns ways of settling their differences without inflicting real damage on each other, so we, in our politics, must find constructive ways of resolving disputes and differences.

Our work is here. We build from the base. We will foster change first by our example. . .by working together, respecting one another, and negotiating our differences in good faith and with mutual respect. Civility is neither a small nor inconsequential issue. The word comes from the French *civilité* which is often translated as “politeness.” But it means much more. It suggests an approach to life. . . living in a way that is civilized. The words “civilized,” “*civilité*” and “city” share a common etymology with a word meaning “member of the household.” To be civilized is to understand that we live in a society as in a household. There are certain rules that allow family members to live peacefully within a household. So, too, there are rules of civility that allow us to live peacefully within a society. As we all learned in first grade a long time ago, we owe certain responsibilities to one another. Perhaps we spend a lifetime learning how to play well with others. So be it. It is a crucial goal for civil society. Thank you.

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*(Lyndon Olson, the former U.S. Ambassador to Sweden, gave this speech in Austin on Thursday, November 12, 2009 when he was honored by the Center for Public Policy Priorities.)*

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# QUARTERLY MEETING APRIL 2013

## TEXAS INFRASTRUCTURE: BUILDING THE FUTURE



Throughout the Lyceum's 34 year history, transportation has been at the front and center of our policy discussions. This is rightfully so, because the stakes for Texas are huge. More than 37 million people are projected to live in Texas by 2030. And, more than \$375 billion is needed to maintain the state's transportation infrastructure and prevent worsening traffic congestion.

But the issues radiate far from the inadequate roads and bridges to which every Texan can attest. They extend to the depths and infrastructure at our seaports, and their ability to be competitive handling cargo from supersized vessels coming through an expanded Panama Canal. They include improved terminals and expanded runways for greater capacity at our airports. It means increased rail capacity, alternative approaches to financing, public/private partnerships, a struggle over toll roads and free roads. Most importantly, transportation choices impact how Texas will maintain its uniquely competitive economic development edge.



The Texas Lyceum's 2013 Public Conference – "***Texas Infrastructure: Building the Future***" – could not have been more timely, as key leaders came together to discuss transportation policy and how Texas lawmakers will find the funding needed to address these issues. The day featured a major address by Governor Rick Perry, discussions with Texas Department of Transportation Executive Director Phil Wilson, Texas Transportation Commission Chairman Ted Houghton, State Senator Wendy Davis, State Representative Drew Darby, Harris County Judge Ed Emmett, Dallas County Judge Clay Jenkins, and knowledgeable and respected

leaders in industry, business and government from every corner of our great state.

This Texas Infrastructure Conference also featured a unique partnership between the Texas Lyceum and the Texas Transportation Institute at Texas A&M University. TTI is an internationally respected leader in transportation research and works to equip policymakers with the information needed to make informed choices. Their contributions to the conference were extraordinary, and the Lyceum is deeply grateful to TTI, and to their outstanding Executive Director, Dennis Christiansen, for their help in making the Conference a success.

Even before Davy Crockett remarked, "You can go to hell, I'm going to Texas," our state has been a land of opportunity where American dreams become reality. Ensuring that future generations see Texas as a land of opportunity depends on choices we make today, in transportation policy, in economic development, in health care, in education, and in so many other areas. Examining issues, anticipating challenges, and preparing future leaders to meet tomorrow's tough choices is what the Texas Lyceum is all about.

We hope the articles in this *Journal* will stimulate more discussion and help in the development of our state's transportation policy priorities.

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Michael G. Gerber  
Lyceum Class of 2010

A handwritten signature in cursive script, appearing to read "Dennis Speight".

Dennis Speight  
Lyceum Class of 2010

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# TRANSPORTATION INFRASTRUCTURE IN TEXAS: THE NEEDS AND THE NUMBERS

by Dennis L. Christiansen, P.E.



**Dennis L. Christiansen, P.E.** is the agency director of the Texas A&M Transportation Institute (TTI), a state agency and the largest higher education-affiliated transportation research center in the United States. TTI was formed by the Texas A&M University System Board of Regents in 1950 to conduct research for the Texas Highway Department—now the Texas Department of Transportation. Today, TTI research projects total about \$50 million annually for about 200 sponsors at all levels of government and the private sector.

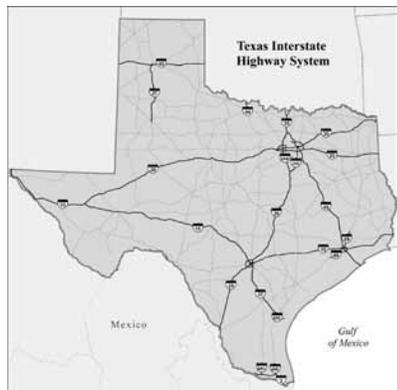
With extensive research experience in traffic operations, transportation planning, and transit planning, Dr. Christiansen is an international expert in high occupancy vehicle (HOV) lanes. His research in HOV lanes has been utilized throughout the country and has made a significant impact on the effectiveness of the transportation system in Texas and elsewhere.

A member of the TTI staff for 40 years, he has received numerous awards in the field of transportation, most recently honorary membership in the Institute of Transportation Engineers. He serves on the Board of Directors for the Intelligent Transportation Society of America. He was selected as a Regents Fellow by the A&M System Board of Regents in 2004. Dr. Christiansen received his bachelor's degree in civil engineering from Northwestern University, and master's and Ph.D. degrees, also in civil engineering, from Texas A&M University.

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Had the Texas Lyceum met at a conference to discuss Texas infrastructure a little over 100 years ago, say in 1911, the need for roads and “getting the farmer out of the mud” was a major agenda item. Had the conference met about 70 years ago, we would have discussed how to develop and rebuild a Texas infrastructure system that deteriorated during World War II. And had the group met about 55 years ago, we would have discussed the developing interstate highway system. But today our strong state economy and burgeoning population growth have made our transportation challenges perhaps more daunting than ever. How did our modern-day Texas transportation system develop, and where do we go from here?

## Exhibit I: Mid-20th Century Super Roads



*Texas Interstate Highway Map*

Texas began constructing freeways in the late 1940s, and those roads, along with the early Texas interstates, provided massive increases in roadway capacity. President Dwight Eisenhower signed the interstate highway bill in 1956, establishing not only a systems approach and a design concept, but also a financing mechanism. The country had an interstate highway program, a federal gas tax and a Highway Trust Fund, all of which truly changed Texas and the nation.

Indeed, it appeared the state was designing roads for lanes per vehicle instead of vehicles per lane. These super roads have served us well. With the migration to the Sunbelt, Texas attracted massive economic development and our population swelled. This new system of urban roadways accommodated a lifestyle desired by many Texans. Our citizens were able to live in houses on individual lots, drive on uncongested roadways, park right next to their destinations and buy inexpensive gasoline. For those who liked wide open spaces, Texas was the place to be.

The interstate highway system is a great example of the often cited relationship between transportation and the economy. Without the system, our state today would have 1.6 million fewer non-farm jobs, which would support a population of 4.2 million fewer people. If anything, these roads may have served us too well—our roadway system

and funding mechanisms have been so good they have allowed us to defer meaningful decisions on what comes next, and how we pay for it.

However, the days of the uncongested lifestyle have changed significantly. Today, actual volumes per lane on Texas freeways are more than twice what was originally planned. Typical volumes on Houston freeways are 70 times larger than they were in 1936, and 10 to 50 times greater than in 1960. We have lived for decades off of the transportation capacity we developed from about 1960 through 1980. But as the 20<sup>th</sup> century wound down, we began building less infrastructure, while the growth in population and travel continued.

### Exhibit II: 21<sup>st</sup> Century Congestion Challenges



*U.S. Highway 81 in Austin in 1957 and I-35 in Austin 2011*

Given existing congestion in Texas and the expectations we have for future growth, we obviously have very real transportation-related problems. We should not be surprised that once again, just like in 1911, transportation was a major topic in our legislature in 2013. Let me make just a few points to help define where we are today.

First, keep in mind that everything about congestion is not bad, as congestion is a byproduct of economic prosperity. Other cities have “solved” their congestion problem by tanking their economies, an approach we certainly don’t want to follow.

Second, the Texas population will continue to grow, and the characteristics of that population are changing—it is becoming more urbanized, older and more ethnically diverse. This topic could be an article all by itself, but suffice it to say that the growth and the changing characteristics of our population have profound impacts on the transportation system.

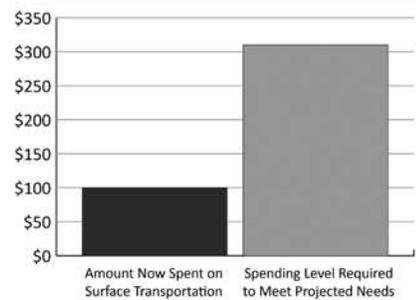
Third, and not surprisingly, congestion in Texas is bad, is growing rapidly and will continue to increase. In our largest cities the rate of growth in congestion is in excess of 8% per year. In 2012, the total cost of congestion—delay time and wasted fuel—exceeded \$10 billion in Texas. A typical auto commuter in Austin, Dallas-Fort Worth and Houston, wastes well over 40 hours per year stuck in traffic—time not spent with family and friends. The amazing amount of attention that TTI’s annual *Urban Mobility Report* receives reflects the national interest in mobility and congestion.

Over the past 40 years, our population has more than doubled – up by 125 percent. The number of cars and trucks on the road has almost tripled. And the number of miles those cars and trucks travel has more than tripled. Over the same time, our roadway capacity has grown only modestly—by 19 percent. We have too much demand for roadway space and not enough supply. It’s that simple.

So, with these challenges as background, where might we be headed?

### Exhibit III: What’s Next and How Do We Pay?

**Texas Transportation Funding Shortfall**



Source: 2030 Committee Texas Transportation Needs Report, 2009; Graph shown in 2008 dollars.

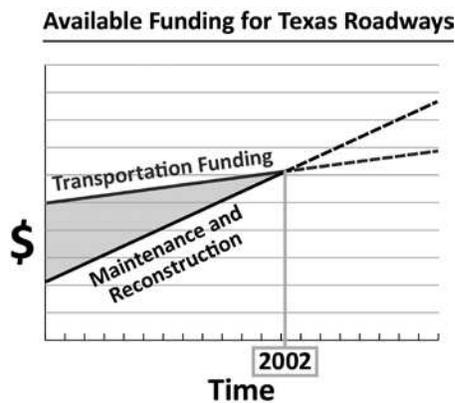
### *Transportation Funding Shortfall*

Much of the discussion in the 2013 session of the Texas Legislature focused on how to fund infrastructure through the Texas Department of Transportation. The state and federal gasoline tax, our primary revenue sources, have not been indexed to inflation and have not increased in 20+ years. The 20 cent state gas tax we had in 1991—the last time it was increased—now buys only 9.2 cents of road construction. Increasing fuel efficiencies and use of alternatively powered vehicles simply compound the problems associated with the gas tax. What does this mean to the average Texan’s pocketbook?

The average Texan pays about \$10 per month in state gasoline taxes for the roads we drive on every day. Compare that to the typical monthly cell phone bill today. Similarly, I pay more than four times as much to park my car on the Texas A&M University campus than I do to drive on the state’s roadway system, although most of my trip to this parking space is on state roadways.

In 2008, the chair of the Texas Transportation Commission appointed a blue ribbon committee, named the 2030 Committee, to look into transportation needs and funding in Texas. The committee made a number of key findings, one of the most significant of which is shown in Exhibit 3. Simplistically, if all we want to do is keep congestion at levels similar to what we are experiencing today and maintain our infrastructure in about the same condition as it is today, our current funding sources will provide only about one-third of the money the state needs.

**Exhibit IV:**



*Available Funding for Texas Roadways*

Exhibit 4 shows conceptually the funding required for maintenance and reconstruction of state roadways and available funding. Over time, as more miles of roadway come on line and those facilities age, the curve slopes up. As long as the revenue stays above this curve, there is money to build new capacity, so the question becomes when do the lines cross? The data indicate we actually ran out of money and the lines crossed in 2002—more than a decade ago. We have been able to keep building in part because Texas has moved to more aggressive toll road development.

But we have also poured a lot of one-time funding into the system, most of it associated with bonding. Between issuing bonds to pay for infrastructure and using federal stimulus money, over the past dozen or so years, we have added nearly \$25 billion in one-time cash infusions into the transportation system. As many members of the legislature will say, we have “maxed out” our credit card. We have debt to pay off, and the one-time funding that we received does not provide the funds needed to operate and maintain these facilities.

In addition, the infrastructure we are building is becoming increasingly expensive. Highway projects costing more than \$1 billion and expensive transit projects are part of the mix in today’s world. The price tag on the rebuild of North Central Expressway in Dallas was \$60 million per mile; the Katy Freeway in Houston cost \$100 million per mile. Light rail construction in Houston and Dallas cost about \$75 million per mile.

So it is appropriate that the Texas Legislature is devoting, and will continue to devote, considerable time trying to come up with an approach that can provide significant, predictable transportation infrastructure funding looking to the future.

**It’s Not Just About Infrastructure**

But while building more infrastructure has been extremely beneficial in making Texas attractive for economic growth, it alone is no longer the total answer in the 21<sup>st</sup> century. This approach is simply not scalable as Texas continues to grow.

Significant change must occur. We will never have all the funding required to build our way out of our current situation and even if we did, we do not have the space to build that capacity. And if we had the space, we could never obtain all of the required environmental clearances.

A successful 21<sup>st</sup> century transportation system will need to be different from what we have developed in the past. We will need to increasingly turn to other tools, and we began doing this over the last quarter of the 20<sup>th</sup> century through the use of developing technology and private sector entrepreneurship.

There is no silver bullet to solve all of our transportation problems. We must use our infrastructure funding to add capacity where we can get the most “bang for the buck” – in critical corridors and to enhance safety statewide.

We will need to leverage as much as possible from the present infrastructure. In effect, we need to operate the facilities we have in a more optimal manner. We must also manage demand by changing usage patterns and providing choices, such as telecommuting.

We have to do a better job of coordinating land use and transportation decisions, facilitating the use of modes other than highways—such as walking, transit and bicycling. Freight transportation and intermodal connections will be much higher priorities in the future. And we must coordinate our efforts as part of a comprehensive, systematic approach to providing scalable 21<sup>st</sup> century transportation for Texas citizens.

In the domain of transportation, as in all aspects of human endeavors, the only constant is change. It is natural to consider the system of any current activity in which you are functioning to be the pinnacle of technical or scientific development—if that system is working for you. Let me again step back in time to try to better illustrate this point.

**It’s About World-Changing Technologies**

Pretend you are walking along the coast of North Carolina on a cloudy, cold, windy day. It is December 17, 1903. As you walk over the dunes at Kill Devil Hills, just south of Kitty Hawk, you come upon this amazing contraption. It has two wings and an engine designed using bicycle technology. And you see someone laying on one of the wings and holding on. As you stand there, this heavier-than-air machine goes airborne for all of 12 seconds. It flies 120 feet—less than the wingspan of a Boeing 707—and crashes.

What is your reaction? Probably something along the lines of “that nut is going to kill himself.” But this clumsy 1903 flight literally changed the world. If you witnessed this flight in 1903, it would not begin to occur to you that 100 years later, airline passengers would be routinely flying from New York to Paris in six hours, or that an airline industry would be born and help create a global economy.

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I suggest that new transportation technologies—world-changing technologies—will dictate the future of transportation. A decade ago, those of us who had cell phones used them to make phone calls and not much more. But think how much cell phone technology has already changed how we travel in just the last decade. Like 500,000 Houstonians do, you might go online to get real-time travel information, or you might access the appropriate app. You might sign up to receive text messages when an incident occurs that could interfere with your commute. The trucking company bringing you your goods likely uses the real-time data to more efficiently route its vehicles.

Extensive deployment of technology allows motorists and truckers now traveling through the 96-mile-long I-35 construction zone in Central Texas to be fully aware of travel conditions. Your car may have adaptive cruise control or collision avoidance systems. Or, you may have OnStar® or a similar system that provides automatic crash response, stolen vehicle tracking, turn-by-turn navigation and roadside assistance. Or maybe you have seen the Google car—no driver required.

Large-scale tests are currently underway with vehicles talking to vehicles through the internet. Tests are being set up where these vehicles will also talk to the roadway infrastructure. The potential safety and capacity benefits associated with these technologies are unbelievably huge. The large automobile manufacturers are spending billions of dollars researching these areas. Companies are developing technologies that can result in more convenient and efficient travel, such as fully interoperable toll facilities; parking space locators; or solar energy collected from roadways to power electric vehicles.

### **The Future Requires Our Attention**

In 2013, our situation is similar to where the Wright Brothers were in 1903. Just think of where we will be when the Apple iPhone® “version 64” hits the market (although it will probably be a virtual phone). The futurists tell us we will travel when we need to get together, but not our for basic work day. We clearly won’t travel as much we do today, at least not in the same manner.

As we speculate about the future and what might change, let me again step back in time. In 1898, delegates from across the globe gathered in New York City for the world’s first international urban planning conference. Only one topic dominated the conversation. It was not housing, crime, technology, or even traveler-centric. The delegates were driven to desperation by horse manure.

By the late 1800s, the problem of horse pollution had reached unprecedented heights. In 1894, *The Times of London* estimated that by 1950, every street in the city would be buried nine feet deep in horse manure. One New York prognosticator of the 1890s concluded that by 1930, the horse droppings would

rise to Manhattan’s third story windows. A public health and sanitation crisis of almost unimaginable dimensions loomed. But horses were essential for the 19<sup>th</sup> century city—without them, the cities would quite literally starve. Stumped by this crisis, the urban planning conference declared its work fruitless and adjourned in three days instead of the scheduled 10 days. Thankfully, another world-changing technology—the internal combustion engine—solved that particular problem.

Automobiles, airplanes, iPhones, whatever—we have not been very good at thinking about what is next. We continue to plan for the future assuming it will be just like the past and it never is. We need to re-think the way we are doing things. The 21<sup>st</sup> century transportation system requires the effective use of all the available tools, including existing and emerging technologies and multiple transportation modes. No state, region or city has yet figured out exactly how to put all of the tools together successfully.

However, the first state that finds the solutions to our 21<sup>st</sup> century transportation system will have a tremendous economic advantage. And given the existing transportation problems in Texas and our anticipated population growth, we need to be one of the first to figure it out.

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# DRIVING PROGRESS

by Gerardo Castillo



**Gerardo Castillo** must have known that a career in transit was in his future, as he recalls riding his bike onto the Capital Metro lot when he was 12 years old and asking for a job as a bus detailer.

Since then, he's been a lifelong transit user, and this familiarity and commitment to the critical role transit plays in the community led to Gerardo's hiring as Capital Metro's Manager of Community Involvement. In that pivotal role, he led the massive community outreach needed prior to the launch of Austin's much-anticipated MetroRail commuter line, which opened in 2010. To date, MetroRail's ridership has quadrupled and the trains are at capacity during peak commuting hours.

That role led to his appointment as Chief of Staff in 2010. Gerardo soon turned his attention to improving the agency's financial position, and became the driving force behind Capital Metro's earning the Texas Comptroller of Public Accounts Gold Leadership Circle award for putting its financial records online.

In 2011, Gerardo was chosen by Capital Metro's President/CEO Linda Watson as a key member of the team charged with implementing the biggest organizational change in the agency's history: restructuring all bus and paratransit services. Capital Metro's success in this effort put the agency on a firm path to regaining the public's trust and helping it attain its current status as the region's transportation leader.

Gerardo was promoted to Senior Vice President & Chief of Staff, where he oversees the communications, marketing, community outreach, diversity, board relations, and government relations functions of Capital Metro.

Prior to working at Capital Metro, Gerardo worked on statewide political campaigns across the state and was the Chief of Staff for State Representative Eddie Rodriguez. In his spare time, Gerardo is an avid runner and cyclist having completed multiple marathons and Ironman triathlons.

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Capital Metro's service area covers 522 square miles in Central Texas, and we offer local and express bus service, door-to-door transit service for people with disabilities, carpools, and commuter and freight rail service. In 2012, we saw more than 34 million boardings, an increase of a million and a half more trips over 2011.

Capital Metro built the Central Texas region's first commuter rail line, MetroRail, which opened in 2010, and since that time, ridership has tripled. Trips during rush hours and special events are standing room only.

The 32-mile rail line was built for less than \$5 million per mile, which represents an incredible savings compared to "typical" costs to build rail systems because the system used existing freight rail tracks. Most of the line is single-tracked, and we rely on temporal separation: commuter trains operate by day, and freight rail operates at night/overnight.

As demand for MetroRail has increased, we've expanded hours and frequency, and at this time we've basically maxed out in terms of what we can provide. To offer 30 minute or better frequency will require additional

track and rail cars. Capital Metro is seeking grants and partnerships to further invest in MetroRail infrastructure.

## Growth will Continue

Nearly every week, I see a news article that adds to the community dialogue surrounding transportation and transportation infrastructure in our region. The most recent news is the picture of Central Texas' rapid growth and the ramifications for our mobility. Austin is now the 11th largest U.S. city, and we experienced the fourth largest jump in population from 2011 to 2012. On average, 150 people are moving to our region every single day and that is burdening our road infrastructure network and threatening our quality of life.

This issue is not only a problem in Austin, it is also affecting our mobility challenges outside Austin proper. San Marcos was the fastest growing city in the nation for its size. Cedar Park and Georgetown also made the top ten.

Those stats really underscore the fact that our traffic problems are regional in nature. Nearly 30 percent of all jobs in the region are located within four central Austin zip codes, so while many people are moving into the communities north, south and east of Austin, they still have

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to travel to Austin for work. You only need to drive on IH 35 during commute hours to see the scope of the transportation challenges we face.

Austin economist Angelos Angelou has predicted that we only have about five or six more years to do something about our traffic problems before companies start to pull out of our area and relocate elsewhere. In other words, if we don't address the mobility challenges, traffic woes could eventually derail our economic prosperity.

### **State and Regional Momentum for Solutions**

The good news is that now, more than ever before, transportation agencies are pulling together to develop regional mobility solutions. And, after nearly three years of hard work improving nearly every aspect of our business, Capital Metro has never been in a better position to lead the effort.

Increasingly, the public is ready to embrace transit, too. Ridership on Capital Metro outpaced the national trend in 2012, and we saw an additional one million boardings over 2011. MetroRail ridership has tripled since service began and is standing room only every day during rush hour.

Capital Metro, the City of Austin, CAMPO and Lone Star Rail, with guidance from Mayor Lee Leffingwell and members of the Transit Working Group, have collaborated to develop a transportation vision for the region. The collaboration, called Project Connect, focuses on high-capacity transit options for the region that will move more people for less cost and with less impact on the environment.

The vision includes Express lanes on Mopac (coming 2015), MetroRapid service (early 2014), expanded MetroRail service, Lone Star rail service from San Antonio to Georgetown, and urban rail within central Austin.

A separate Project Connect study is evaluating traffic solutions within the North Corridor, encompassing downtown Austin and the communities of Hutto, Pflugerville, Round Rock and Georgetown.

In addition, from a state perspective, I am a tremendous supporter of taking further steps to fund the Rail Relocation and Improvement Fund, created by the voters in 2005, but never funded until this session. There is a wealth of potential projects that will move rail outside busy cities and make it more efficient statewide. That would help local transportation congestion and make it easier to move freight by rail. As the state population and trade increases, all forms of transportation infrastructure are showing stress. Rail can and should play an important role in moving freight and people around and through Texas. However, rail is very expensive to build and Texas lacks a dedicated funding source for rail infrastructure. Through the Austin area, roadway growth is constrained, and our freight rail traffic has increased.

In 2012, nearly 51,000 rail cars were moved on our freight line, the equivalent of more than 200,000 semi-trucks. That was an increase of 12% over 2011, despite the fact that the freight rail operating window decreased.

We need to continue to have a collaborative regional and state dialogue about transportation solutions that includes stakeholders throughout the area. We are doing that with Project Connect and the Transit Working Group.

We also need to work towards more transit-supportive land use and work with private developers to encourage incorporating transit access into their plans. The component of how transportation interacts with land use cannot be ignored. We are seeing major changes in demographics and other factors that are fueling the demand for more walkable and transit-supportive communities, and we see linking a multimodal transportation system with smarter development as a critical action for our industry. Transit Oriented Development is desirable and profitable. More than \$95 million in TODs have been built around MetroRail stations, and another \$283 million of new development is in various stages of planning.

Capital Metro is looking for ways to partner with local governments and the private sector in the Austin Urbanized Area. Whether they are in our service area or not, they impact the Austin commuting patterns and traffic congestion. Capital Metro believes that a multimodal approach to congestion and mobility is the only way Austin will stop seeing "red" during peak hours. The establishment of Local Government Corporations may be one solution to partnering with entities outside of our service area, and public-private partnerships may also have a role to play.

From a state perspective, if we do not address transportation funding in the near future the consequences will harm growth in large parts of this state in the long-term. It would be helpful if the state would give local communities more options for investing in local transportation and transit issues, but local efforts to get additional revenue sources (sales tax, local option fuel tax) for local option have been unsuccessful. I particularly like what Georgia did last year—although it wasn't enormously successful. They carved the state up into 12 regions, came up with a locally derived list of projects to fund and gave local voters the option to adopt a sales tax that would have been good for 15-20 years to pay for the projects. It failed in Metro Atlanta but it was a novel way of approaching local transit and transportation issues - there were road and MARTA projects on the Atlanta list and it has a lot of potential, particularly if the state government lacks the will or financial capacity to meet the backlog of needs. My opinion is that they are scalable financially but maybe not politically. We have not increased the motor fuel tax since 1991. Instead, the state has borrowed itself into a hole. This has to end. We need to decide locally and at the state level that this serious problem

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should be addressed in something other than the current ad hoc manner. We also need to flip the traditional value proposition at least to some extent to promote transit as well as more roads.

transportation funding, and help shape the solutions that will keep our state livable, healthy and moving. You can help change the discussion from how we move cars to how we move more people.

### **How do we pay for all of this?**

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Bottom line, it is going to take more money. No one wants to hear that, but the truth is that mobility costs money, and the statewide system has been starved of money for 20 years. Local governments are actually leading the way in innovation, coming up with creative public-private partnerships, tax increment financing approaches and other innovations that will allow more transportation development. At the state level, there's a need to face the fact that the old model is unsustainable if the state keeps growing. At the local level, local officials need more funding options, as well as state assistance, to avoid becoming traffic nightmares—if they aren't already. A part of the problem is that many of these issues have been patched over so long that the cost of a real solution is enormously expensive and therefore difficult politically. Possible options include:

- Taxing motor fuel under the sales tax or at least boosting the motor fuel tax rate a dime a gallon
- A local option transportation tax, either sales or fuel
- Additional fees
- Bringing private money into the mix
- Congestion pricing

During the last legislative session, Senator Watson proposed legislation to allow comprehensive development agreements (public-private partnerships) for rail projects in Travis and Bastrop counties. That is a step in the right direction and one that should be explored by TxDOT.

Federal transportation funding is available but has become an increasingly competitive process. Again, regional collaboration is key, and we in the transportation industry need to show more leadership to shape discussion around the development of a true system. We won't get Texans out of their cars anytime soon, but we need to provide people with attractive, affordable options. We also need to change, as is being done in Austin, the focus of transportation planning from a single minded focus on roads to one that looks at transportation systems as multi-modal and interlinked. It is in our state's best economic development interest to begin long term financial planning and face the financial facts 10, 20 years down the road rather than existing from biennium to biennium. That's a hard political decision because at times the answers are unpalatable. But you can't deal with financial issues you don't know about.

Get involved by talking with your local elected officials and state legislators about the need for additional multi-modal

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# QUARTERLY MEETING JUNE 2013

## THE TEXAS-MEXICO ECONOMIC RELATIONSHIP



Mexico City is the Western Hemisphere's largest city and its financial capital. It is Mexico's government seat and entertainment center. Mexico City's 20 million people live in a metro area that is similar to New York, Washington D.C. and Los Angeles all wrapped up into one.

Despite living as close as a 90-minute flight away from Houston or Dallas, most Texans don't know much about Mexico City. Mexico is Texas' largest trading partner. More than a billion dollars in commerce is done every day across the U.S.-Mexico border. And one more thing, Mexico is still a very centralized country with the Distrito Federal (or D.F) as the epicenter. Given that versus the critical connection, the Texas Lyceum decided to hold a conference in Mexico City focused on business, trade and getting to know the capital city.

The three-day conference was not only an unqualified success; it was a huge learning experience for the nearly 60 Lyceum directors, alumni and guests that attended. We heard first-hand accounts from the U.S. Ambassador to Mexico, General Electric's Mexico CEO, a *New York Times* foreign correspondent and many other company executives and government officials.

With a continued focus on business, we visited a company associated with Lyceum Director Nic Phillips that produces coffee, wine and wind turbines. We were also given an inside look at how one of Mexico's largest and most important newspapers operates, from its newsroom to its presses.

But it wasn't all business. We took tours of Mexico City's Zócalo, one of the largest plazas in the world, the Diego Rivera/Frida Kahlo House, a local arts market and Mexico's renowned Museum of Anthropology. We also spent lots of time exploring the gorgeous Polanco neighborhood. And thanks to Roy Nieto's great transportation connections, we were transported around the city in luxury.

For many, it was their first time to the Mexican capital. Many others had never really examined Texas and Mexico's business relationship. For all us, it was a great experience, and we came back to Texas better for it. And for me personally, I learned how valuable it was to have a truly great team to make the meeting an unqualified success.

Un abrazo fuerte para el equipo: Roy Nieto, Renard Johnson, Brad Knippa, Jade Chang, Nic Phillips, Randall Kempner, Ana Cecilia, Merrill Davis and the great Johnny Sutton, and to Collin Cox for his unwavering support and leadership.

A handwritten signature in cursive script that reads "Tecló J. García".

Tecló J. García  
Lyceum Class of 2009

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# THE IMPORTANCE OF TEXAS-MEXICO RELATIONS

by Roberto A. Coronado and Avilia Bueno



**Roberto Coronado** is assistant vice president in charge and senior economist at the El Paso Branch of the Federal Reserve Bank of Dallas. In this capacity, Coronado serves as the Dallas Fed lead officer and regional economist for West Texas and Southern New Mexico.

Coronado works closely with the branch's board of directors and provides leadership and oversight for the operating and administrative functions of the El Paso office. He oversees the branch's outreach activities through publications, presentations and speeches, public conferences and economic education. His research focuses on issues pertaining to the Mexican economy, the U.S.-Mexico border economy, and the maquiladora industry. Coronado has written articles for various Federal Reserve publications and academic journals in both the United States and Mexico. Coronado currently serves as the president of the Rio Grande Economics Association, and the El Paso chapter of the National Association for Business Economics. He is also a clinical assistant professor at the University of Texas at El Paso, where he teaches the Master of Science in economics program. He obtained his Ph.D. in economics from the University of Houston and holds a BBA in accounting and economics and an MS in economics from the University of Texas at El Paso.



**Avilia Bueno** is the Senior Research Analyst for the Federal Reserve Bank of Dallas - El Paso Branch. She is a native of the border region. She was awarded a BBA in Economics and Marketing and a Master of Science in Economics from The University of Texas at El Paso. She has published research papers in professional academic journals and presented her research at conferences in the U.S. and Mexico.

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## How important is Mexico to the U.S. and Texas economies?

Globalization and geography make the integration of the U.S. and Mexican economies almost inevitable. A primary link between the two economies is trade. Over recent decades, trade between the U.S. and Mexico has boomed. For example, from 1974 to 2013, total trade between the U.S. and Mexico increased more than 13 fold. Since the enactment of the North America Free Trade Agreement (NAFTA), trade between both nations has grown from about \$100 billion in 1994 to \$507 billion today. In 2012, Texas alone exported over \$94 billion to Mexico, making our neighbor south of the Rio Grande our top trading partner.

This article explores Texas' role in the U.S.-Mexico economic integration. Furthermore, it discusses the critical role that the Texas-Mexico border region plays in facilitating and fostering such strong economic integration between both nations. In particular, we argue that two industries drive most of the economic activity along the Texas-Mexico

border region: the maquiladora industry and cross-border retail activity.

## Trade is the main catalyst for U.S.-Mexico economic integration

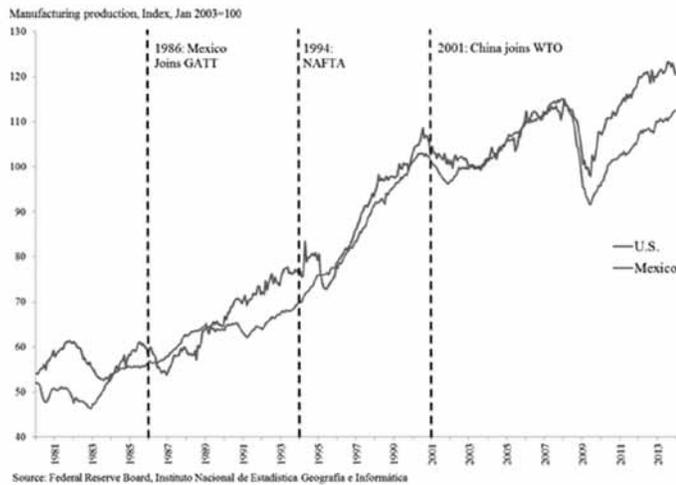
After Canada and China, Mexico is the third largest trading partner to the U.S. Total trade (exports plus imports) with Mexico totaled \$507 billion in 2013; 14 percent of U.S. exports go to Mexico and 12 percent of U.S. imports come from Mexico (Chart 1). The U.S. is Mexico's largest trading partner; almost 80 percent of Mexico's exports go to the U.S. and almost 50 percent of Mexico's imports come from the U.S. More interestingly, the bulk of U.S.-Mexico trade consists of manufacturing products within the same industries. This type of trade is known as intra-industry trade. Although increased trade flows imply new linkages between countries, there is no consensus about whether increased trade leads to more or less correlation of business cycles across trading partners. Recent empirical research suggests that if the integration of trading-partner economies is the result of

growing intra-industry trade, business cycles will become more positively correlated. Chart 2 shows a strong correlation between the industrial sectors in the U.S. and Mexico. Such correlation has increased over time.

**Chart 1. U.S.-Mexico trade on the rise**



**Chart 2. Ties that bind**



Manufacturing products make up the bulk of U.S.–Mexico trade flows. The automotive sector is the top sector, with trade in the road vehicles totaling \$80.6 billion in 2013, followed by electrical machinery (\$54.3 billion) and petroleum (\$54 billion) (Table 1). Together these three sectors account for 37 percent of total U.S.–Mexico trade.

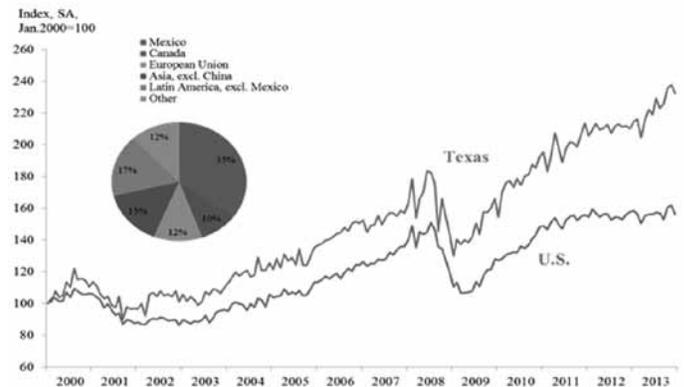
**Table 1. U.S. Mexico total trade by the top ten sectors**

Sector	2013 (Billions)
Road Vehicles	80.6
Electrical Machinery	54.3
Petroleum	54.0
Telecommunications	38.2
Office /Automatic Data Processing	29.7
General Industrial Machinery	26.3
Power-Generating Machinery	19.1
Professional, scientific and controlling instruments	14.4
Miscellaneous manufactured articles	12.8
Manufactures of metals	12.2
<b>Total Trade U.S.-Mexico</b>	<b>506.6</b>

Source: U.S. Census Bureau

As a border state, Texas plays a special role in the economic integration between the U.S. and Mexico. Texas surpasses the U.S. in export growth and generates the highest level of exports to Mexico (Chart 3). Mexico is Texas' top trading partner. In 2012, Texas exports to Mexico totaled \$94 billion, which represents around 44 percent of total U.S. exports to Mexico. Texas imports from Mexico totaled \$100 billion, which represents 36 percent of total U.S. imports from Mexico.

**Chart 3. Texas export growth**



Source: Bureau of Labor Statistics, U.S. Census Bureau

In 2013, trade through land ports along the U.S.–Mexico border represented about 81 percent of the trade between the countries. Together, the top 10 ports of entry accounted for about 98 percent of trade passing through the border (Table 2). Over 42 percent of trade with Mexico, or \$174.63 billion in cargo, went through Laredo. El Paso had about half the trade of Laredo, at \$66.60 billion, or 16 percent. With over \$310 billion in land trade with Mexico, Texas surpassed other states by far: California

(\$50 billion), Arizona (\$31 billion) and New Mexico (\$19 billion). Growth in U.S.–Mexico trade flows, as well as the increased economic interdependence along the border, is easily explained by the maquiladora industry activity.

**Table 2. U.S.–Mexico trade by top 10 land ports of entry in 2013**

Rank	City	Tot Land Trade (billions of U.S. \$)	Share of Tot (%)
1	Laredo, TX	174.63	42.42
2	El Paso, TX	66.60	16.18
3	Otay Mesa- San Ysidro, CA	36.05	8.76
4	Nogales, AZ	27.69	6.73
5	Hidalgo, TX	27.43	6.66
6	Eagle Pass, TX	21.43	5.21
7	Santa Teresa, NM	18.91	4.59
8	Brownsville– Cameron, TX	14.63	3.55
9	Calexico, CA	13.16	3.20
10	Del Rio, TX	4.45	1.08
11	Other	6.64	1.61
	<b>Total</b>	<b>411.62</b>	

Source: Texas Center for Border Economic and Enterprise Development, Texas A&M International University.

### Maquiladoras are important for Texas border cities

The impetus for the maquiladora program, initially called the Border Industrialization Program, came in 1965 after the U.S. terminated the Bracero program, which brought in Mexican workers to fulfill U.S. agricultural labor demand. The end of the Bracero program left thousands of unemployed farm workers in Mexican border cities.

The maquiladora program was designed to alleviate the resultant unemployment and growing poverty. Contrary to Mexico’s Import Substitution Industrialization regime at that time, the maquiladora program’s intent was to encourage foreign manufacturers to set up plants on the Mexican side of the border, creating jobs for Mexican workers. The maquiladora program allowed U.S. plants to temporarily import supplies, parts, machinery and equipment necessary to produce goods and services in Mexico duty-free as long as the output was exported back. The U.S., in turn, taxed only the value-added portion of the manufactured product.

Maquiladoras are in a sense an extension into Mexico of U.S. production of goods, such as automobiles, electronics and apparel. Maquiladora plants are for the most part concentrated along the U.S.–Mexico border. Over the years, the maquiladora

industry has become an integral part of the Mexican economy on many fronts: creating jobs, attracting significant foreign direct investment and generating foreign exchange.

Additionally, the maquiladora industry has become a major engine of growth for U.S. border cities. Economic benefits spill into neighboring U.S. cities, creating jobs. Research conducted at the Federal Reserve Bank of Dallas finds that a 10% increase in maquiladora production in the Mexican border city leads to a 0.5 to 0.9 percent increase in employment on the U.S. side. However, the results are not homogeneous along the U.S.–Mexico border. For instance, while employment growth in some U.S. border cities is marginally positive as a result of the nearby Mexican maquiladora activity, Texas border cities enjoy large benefits (Table 3). In particular, Texas border cities supply a wide array of goods and services to the maquiladora industry. In recent years, maquiladora-related services have come to dominate Texas cross-border activity. Among the most important sectors are accounting and legal services, transportation, logistics, warehousing services, finance and real estate.

To better understand the impact maquiladoras have on Texas border cities, we recently estimated some basic cross-border elasticities between output in Mexican border cities’ (i.e., Ciudad Juarez and Reynosa) maquiladoras and employment in Texas border cities (i.e., El Paso and McAllen). Table 3 summarizes our empirical results. For example, a 10 percent increase in maquiladora output in Ciudad Juarez leads to a 3 percent increase in nonfarm jobs in El Paso. Our research suggests that one-in-four jobs that have been created in El Paso over the last 20 years may be attributable to the maquiladora production across the Rio Grande. Most of these jobs are in service sectors, such as transportation, finance, real estate, warehousing, etc.

**Table 3: Maquiladoras’ impact on Texas border cities**

	Percent increase per every 10% increase in maquiladora output			
	El Paso	Laredo	McAllen	Brownsville
Total Employment	2.8	4.6	6.6	2.2
Transportation Employment	5.3	7.2	6.6	4.6
Retail Trade Employment	1.3	0.7	3.2	1.3
Finance, Insurance, Real Estate Employment	2.1	8.2	4.6	0.6
Services Employment	1.8	5.9	7.4	3.9
Manufacturing Employment	-1.3	1.0	1.6	0.7

Source: “The Impact of Maquiladoras on U.S. Border Cities,” by Jesus Cañas, Roberto Coronado, Robert W. Gilmer, and Eduardo Saucedo, *Growth and Change*, 44(3) 415-42.

## Cross-border retail activity

Cross-border retail activity is another main pillar supporting Texas border city economies. Mexican shoppers represent big business for U.S. cities on or near the border. Unlike retailers in most interior U.S. cities, stores in Laredo, El Paso, McAllen and other border towns are actually an export industry—in most years contributing to a U.S. trade surplus in cross-border shopping.

Mexican citizens logged 72 million border crossings into Texas in 2012. While some came for work, school or family reasons, many traveled to border cities to shop. Cross-border retail trade is crucial to border-city economies. Mexicans spend more than \$4.5 billion annually on food, clothing, auto parts and other retail items in these cities, primarily El Paso, McAllen, Brownsville and Laredo, Federal Reserve Bank of Dallas research shows. Geographic proximity, border-crossing cards that expedite movement, attractive prices and broad product selection are among the draws.

Mexican trade represents a significant share of Texas border-city retail activity, ranging from 40 to 45 percent in Laredo, 35 to 40 percent in McAllen, 30 to 35 percent in Brownsville and 10 to 15 percent in El Paso. While El Paso relies mostly on shoppers from its sister border city, Ciudad Juarez, Rio Grande Valley communities draw to a greater extent from interior cities such as Monterrey.

Peso–dollar exchange rate fluctuations significantly influence cross-border shopping activity. Exchange-rate fluctuations can quickly make goods and services across the border either cheaper or more expensive for international shoppers. As a result, retail sales to Mexican nationals are sensitive to swings in the peso's value.

## Texas border economy in transition: brighter future

Over the last two decades or so, Texas border cities have evolved into an economy based mostly on services (Table 4). For instance, in 1990, roughly 20 percent of the jobs in El Paso were in manufacturing, while 73 percent of the jobs were in service-providing sectors. Today, manufacturing jobs only represent 6 percent of the total jobs in El Paso, while services amass 85 percent. This transition has been both slow and painful as many manufacturing workers have been displaced and are not in a position to quickly enter employment in the service side of the economy. But in spite of the challenges, the conversion has brought a nice development: solid improvement in per capita income levels (Chart 4).

**Table 4. Employment migrating from manufacturing to services**

	1990 Mfg.	2011 Mfg.	1990 Services	2011 Services
El Paso	20%	6%	73%	85%
Laredo	4%	1%	86%	91%
McAllen	14%	3%	74%	87%
Brownsville	16%	4%	76%	88%
Eagle Pass	17%	4%	72%	81%

*Source: Bureau of Economic Analysis*

**Chart 4. Per capita income in El Paso and other Texas border cities, 1969-2012 (share of U.S. level)**



The common pattern of income growth in Texas border cities is dictated largely by geography and proximity to Mexico. These cities all have a large transportation and distribution sector to support cross-border trade, a retail sector inflated by serving large numbers of Mexican shoppers and a government sector swollen by border enforcement and public programs that address high poverty rates. In addition, the modern border city has been characterized as an emerging service center for cross-border trade. Mexican manufacturing has grown rapidly in northern Mexico since the 1960s, mainly driven by the maquiladora industry.

In the past decade, the maquiladora—and all Mexican manufacturing—has been transformed in the face of competition from China and other low-wage countries. Textiles, apparel, leather, toys and other low-skill industries have been replaced by modern factories producing autos, appliances, aircraft and medical instruments. The initial concept of the Mexican maquiladora as an employment program has evolved into advanced manufacturing, taking advantage of Mexico's now skilled and experienced workforce and delivering high levels of production to the large, neighboring U.S. market.

U.S. border cities initially manufactured many of the parts to be assembled by the maquiladora, as well as organizing

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cross-border customs, transportation, finance and warehousing. However, in recent years, the advent of modern supply chains and just-in-time inventory requirements has worked to push much of this border-city manufacturing into Mexico. Tighter border security following the 2001 terror attacks has accelerated the trend. As a result, border-city manufacturing has fallen, even as the production of goods has continued to grow strongly in Mexico, resulting in rising demand for cross-border services.

Despite the loss of manufacturing activity, Texas border cities continued to respond strongly to industrial growth in their neighboring Mexican cities. As the cross-border linkages have shifted away from manufacturing, Texas cities have been increasingly drawn to transportation, wholesale and retail trade, finance, real estate and personal and business services.

The growth of these service sectors has brought better paying jobs to the Texas border region. As is expected, this shift from the manufacturing to the service sector is making per capita income levels in the border converge to U.S. levels, and there is firm evidence that trade with Mexico is key to this economic progress. Thus, not only is the U.S. relevant for economic progress in Mexico, but, as is the case in Texas, Mexico has become an important source of progress for the U.S.

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# THE IMPORTANCE OF THE TEXAS MEXICO BILATERAL RELATIONSHIP

by Jennifer Apperti-Ochoa



Since May 2011, **Jennifer Apperti-Ochoa** has been Consul for Economic and Cultural Affairs at the Consulate of Mexico in Dallas. She is from Tampico, Mexico and holds a Bachelor's Degree in International Business with a specialization in Marketing from Tec de Monterrey University.

In the private sector, she has worked for a freight forwarding company in Laredo, Texas, specifically in the export area. She also worked in the export department of the largest PET producer and exporter in Mexico.

In 2006, she joined Mexico's Foreign Service, where she started her career at the Office for Latin America of the Ministry of Foreign Affairs. In that same year, she was posted to the Political Affairs Office in Mexico's Embassy in Uruguay until 2011.

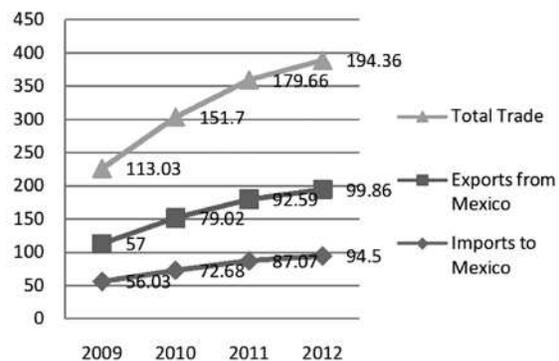
Ms. Apperti-Ochoa is also the Academic Liaison between the Consulate and higher education institutions in North Texas. In her current post, she is in charge of organizing for the Consulate and collaborating with other institutions organizing events to promote Mexican culture, tourism and products as well as orient businesses if they're interested in investing in Mexico.

In January 2014, Standard & Poor's published an analysis about NAFTA in which it considered that its two biggest winners were Mexico and Texas.<sup>1</sup> Aside from that, there is plenty of information to support such a positive outlook, which might be enough at a first glance. However, looking at the immediate economic panorama also helps unfold many other aspects to this relationship.

Many countries have the United States as their main trading partner and yet for the U.S., trade with that country does not even represent 1% of its total. Not so between the United States and Mexico since, according to the U.S. Department of Commerce, trade between the two countries surpassed \$500 billion in 2013. The Department of Commerce also reported that both countries' exports to each other grew, Mexico by 1% more than in 2012 and the US by 4.7% more in that same period. In this case, it's easy to see that, unlike the trade the U.S. has with other countries, this is a case of "mutual impact."

In this context, the relationship between Mexico and Texas gains even more importance because Texas is one of the key players generating a great part of this economic impact. In 2012, the U.S. Department of Commerce reported that Texas exported \$94.5 billion to Mexico, that is, 35.7% of its total exports. Table 1 also illustrates how trade has been growing continuously since 2009 on both sides of the border.

**Table 1**



Source: US Department of Commerce

Total trade between Texas and Mexico amounted to \$194 million in 2012. The information by itself might not tell us much, but when compared to the trade that the United States as a country had with other partners, the amount takes on another dimension, as seen in Table 2.

**Table 2: U.S. Bilateral Trade 2012 in billions of dollars**

Germany	\$157.3
UK	\$109.8
South Korea	\$101.2
Brazil	\$71.8
Saudi Arabia	\$73.8
France	\$72.4

Source: United States Census Bureau, Foreign Trade Information: US Top Trading partners in 2012

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With Texas being the first exporting U.S. state to Mexico, we can see that for this state, its neighbor matters.

On the southern side of the border Texas matters, too, in this story of mutual impact. Mexican exports to Texas reached \$94.6 billion in 2013 according to BANCOMEXT, 30% of Texas' total imports, which included not only oil and derivate products, but also products such as cellular phones, flat screen televisions and computer processors. Mexico also has most of its border crossings and international bridges on the Texas border, and 40% of Mexico's total trade goes through the city of Nuevo Laredo, according to Porfirio Benavides, Director for the Institute for Competitiveness and Foreign Trade of Nuevo Laredo (ICCE its acronym in Spanish).<sup>2</sup>

The winners of NAFTA are sure to continue on this shared path to prosperity, since this economic growth has quietly but steadily helped foster other types of growth. There are over 50 large Mexican companies in Texas and over 200 Texan companies in Mexico. These companies are crucial for investment. According to the *Financial Times*, Mexican companies generated \$735.30 million in Texas and 1,712 jobs from 2003 to 2013. Mexicans make up the largest share of foreign small business owners in the US (12%) according to a recent report from the Fiscal Policy Institute<sup>3</sup>. Reflecting that percentage, in Texas that percentage of Mexican immigrants is 16.4%, above the national percentage.

When there is such an amount of investment and trade, it's only natural that other sectors start benefitting from it, and one of these has been tourism. Not only are Mexicans the top nationals who visit the USA every year, Mexico is also the top visitor market for Texas and has the largest market penetration, according to the Texas Tourism Office. The same office estimated that in 2012, 407,000 people visited Texas via air and that they spent \$459,340,200 during their visit.

In Mexico's case, according to its Ministry of Tourism, travelers to the country grew by 3.3% in 2013, that is, 2.2 million visitors. Most of those visitors came from the U.S. and a large percentage is bound to do so through DFW and IAH airports, which combined have more than 50 direct flights into different cities south of the border. For Mexico, this accounts for 8.5% of its GDP and represents its third most important economic activity.

Higher education is another aspect of the bilateral relationship that is showing signs of growth. Recently, the Presidents of Mexico and the United States agreed to have 50,000 American students in Mexico and 100,000 Mexican students in the U.S. by 2018. In this bilateral project, Texas will surely continue to increase its intake on Mexican students and also researchers. Already Texas occupies the third position in the U.S. with most foreign students, of which 10.3% of them come from Mexico.

With all these different sectors, it's no wonder that S&P considers these two areas of North America as being successful

NAFTA stories. Twenty years on, Texas and Mexico have already integrated most of the different aspects in their economic relationship. This in turn, has been helping other crucial areas of the relationship to flourish, as are the cases with tourism and higher education. Of course, there are still many areas of cooperation that Texas and Mexico can address. The great advantage that Mexico and Texas share is that this economic relationship gives it a solid ground on which projects can flourish, for instance, a future integration of energy between the regions.

Most importantly, this relationship is so economically complete and complex that it goes beyond the immediate border concerns on difficult subjects like security and immigration. Looking at the economic relationship between Texas and Mexico shows the potential that the Mexico-U.S. relationship could achieve if it were to take a path like the one Texas and Mexico have developed.

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<sup>1</sup> "Twenty years into NAFTA, Mexico and Texas have been the two main beneficiaries of increased trade." January 14, 2014. <http://www.standardandpoors.com/ratings/articles/en/us/?articleType=HTML&assetID=1245363256676>

<sup>2</sup> "Nuevo Laredo la ciudad más competitiva para el comercio exterior," September 13, 2013: <http://elquiosco.mx/nuevo-laredo-la-ciudad-mas-competitiva-en-comercio-exterior/#.Uzppdv3Ocds>

<sup>3</sup> "Immigrant Small Business Owners," Fiscal Policy Institute.

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# QUARTERLY MEETING AUGUST 2013

## MARFA, HAPPENING!



A “happening” is a performance, event or situation meant to be considered art, usually as performance art. Happenings take place anywhere, and are often multi-disciplinary, with a nonlinear narrative and the active participation of the audience. Key elements of happenings are planned, but artists sometimes retain room for improvisation. This new media art aspect to happenings eliminates the boundary between the artwork and its viewer. Henceforth, the interactions between the audience and the artwork make the audience, in a sense, part of the art.

*Marfa, Happening!* Marfa is a series of arcs and intersections: from a barren high desert to refined aesthetic sensibility, and through constructing military ground works into minimalist art spaces. In the middle of nowhere, it radiates as somewhere.



The Marfa meeting that took place in August of 2013 was certainly one of the more unique settings and topics – a meeting about Marfa itself. Being the first time that the Lyceum had been to Marfa in 33 years, the weekend featured speakers and topics that touched upon every aspect of the city, unveiling not only its fascinating history but its relevance as a cultural vortex.

Participants gained a unique knowledge of Marfa, which was founded in the late 19<sup>th</sup> century as a railroad stop and derived its name from a character in *The Brothers Karamazov*. Situated between the Davis Mountains and Big Bend National Park, in the high desert of west Texas, Marfa was a hardscrabble ranching community throughout the first half of the 20<sup>th</sup> century. Perhaps most well-known for its military post Fort D.A. Russell, the city was a one-time home to the 1<sup>st</sup> U.S. Cavalry. At mid-century in west Texas, demography and modernity in Marfa were best reflected through the spectacular 1956 film *Giant*, starring Elizabeth Taylor, Rock

Hudson, James Dean, and Dennis Hopper.

In 1971, almost a century after Marfa’s founding, renowned minimalist artist Donald Judd moved from New York City to Marfa and began to permanently install his art. Judd acquired decommissioned Fort D.A. Russell and began transforming the barracks and buildings into art spaces in 1979. Today, Judd’s legacy lives on through the Chinati Foundation and the Judd Foundation, twin pillars on the modernist, minimalist art scene. More recently, the Lannan Foundation established a writers-in-residence program, Ballroom Marfa was formed as a mixed-media collaborative and exhibition space, and new waves of artists and artisans have made Marfa home.

The Texas Lyceum gathered to explore the history, and happening, that is Marfa, through collaborating with its people, architecture, and art. Through these elements, we were able to create our own artistic impressions of this amazing Texas aesthetic outpost.

Heather Wagner Reed  
Lyceum Class of 2010

Neal Carlson  
Lyceum Class of 2012

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# TEXAS STATE OF THE ARTS

by Katherine Wagner



**Katherine Wagner**, CEO of Business Council for the Arts, believes that the best places to live have a vibrant culture that contributes to economic vitality and a high quality of life for its citizens.

As CEO, her role is to provide leadership for the organization, and advocate for a strong bond between the for-profit business community and the nonprofit arts and cultural sector. Ms. Wagner began her career in arts administration at Indiana University-Bloomington, as Director of the community gallery on campus immediately after receiving her MFA in Printmaking and a Ford Foundation Grant-in-Aid of Research.

Previous to her current position, Ms. Wagner served for over 10 years as Executive Director of Dallas Visual Art Center (now “the Contemporary”), increasing membership by more than 300%, and working with the board of directors and staff on innovative programming to benefit artists, arts organizations and arts supporters. Ms. Wagner worked with The Meadows Foundation, Inc. on the design and building of a new state-of-the-art facility which was completed in 2000.

Ms. Wagner has experience in the business, cultural and academic sectors, working for Trammell Crow Company as it contributed greatly to the growth of the Dallas Arts District as well as at the Dallas Museum of Art and for the Dallas County Community College District.

Ms. Wagner has served on a number of panels recommending funding, including those of the General Services Administration, the Texas Commission on the Arts and the City of Dallas, Office of Cultural Affairs. She has served on the Public Art Committee for the City of Dallas, and currently serves on the advisory boards of the Creative Arts Center, ArtSpace Dallas, the North Texas Commission and the Private Sector Council of Americans for the Arts.

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Long before Texas business leader Jim Keyes was the CEO of 7-Eleven Companies and the Blockbuster Corporation, he was a visual artist and musician. Perhaps his commitment to arts practice has developed the “thinking tools” that are part of his success in life.

In *Sparks of Genius: The 13 Thinking Tools of the World’s Most Creative People*, authors Robert and Michele Root-Bernstein write:

Recent studies have found that the best predictor of career success in any field is...participation in one or more mentally intensive leisure time activities or hobbies – anything from painting, composing music, or writing poetry to programming computers, creating videos, or playing around with scientific ideas or mathematics.<sup>i</sup>

The connections between creative thinking and business success, both on the individual level and on the organizational plane, have been the subjects of numerous studies. These seem to have led to greater acceptance that arts and culture provide a broad spectrum of benefits to individuals and their societies.

In addition to investigations about the relationship between creativity and business productivity, the arts are

offering solutions in wide-ranging fields. For example, medical practitioners utilize the visual and performing arts in healing interventions; educators utilize arts-integrated curricula for improved grades and attendance; governments offer incentives to lure creative industries; visitors’ bureaus advertise cultural attractions to attract tourism; and policy makers promote economic development through arts districts.

The current emphasis on arts, culture and creativity as problem-solving tools may also be a result of the recession. Although there is not an extant statewide measurement of support for the arts in Texas (from either governments, foundations, business and/or individual donors), one regional example offers a look into the diminished state of the arts during the period 2006 – 2009, that was reflected nationally.

The Economic Impact of Nonprofit Arts and Cultural Organizations in North Texas<sup>ii</sup>, is a study that has been conducted approximately every three years since 1989. The most recent study, published in 2010 showed that the economic impact of nonprofit arts and cultural organizations in the region grew continuously, including the period from 2006 to 2009, when it exceeded \$1 billion dollars.

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A closer parsing of the study reveals that during the same period, audience spending lessened by approximately 10% and organizational spending lessened commensurately. The growth in regional economic impact was due to construction of major new arts facilities. The fact was that with construction aside, the cultural sector had measurably diminished from 2006 to 2009.

The Great Recession caused arts nonprofits to turn increasingly to businesses for support that governments and foundations had previously provided. It also changed the way that many businesses, themselves stressed, assessed their reasons and methods for giving. Cultural and business leaders alike agree that since that time, donations have become increasingly tied to strategic interests versus purely philanthropic reasons. For example, professional expertise, volunteer hours and materials or services sometimes replace cash gifts as businesses seek to save dollars, engage employees in community service, and circulate their brand.

With economic recovery now well underway, the recently released (June, 2013) Business Committee for the Arts National Survey of Business Support for the Arts<sup>iii</sup> provides timely information. It indicates that business support for the arts was up between 2009 and 2012, with cash plus non-cash giving increasing 18 percent, back to 2006 levels. Predictions for 2013 were more or less positive, with 17 percent of businesses reporting that they expected to increase their giving to the arts and 69 percent expected to remain at current levels. There was also a significant increase in the median gift size from large businesses from \$15,500 in 2009 to \$30,000 in 2012.

## Texas Overview

Compared to most of the United States, the Texas economy was relatively healthy during the recession years. Overall support for the arts fell from 2006 - 2009, as indicated by the North Texas Economic Impact study; however, the results were not irrevocable. While many arts organizations cut programs and staff, and plans for growth were delayed, all but a rare few were able to soldier on.

Perceptions and methodologies, though, have changed dramatically. No longer is there faith that “if you build it, they will come” and that philanthropic dollars (by businesses or individuals) are guaranteed by virtue of delivering a worthy product. Even though there is general agreement among Texas arts leaders that funding is returning to pre-recession levels, echoing the study by Americans for the Arts, there is a new emphasis on the arts as solvers of societal issues, and a greater acceptance that business support is more likely to be garnered through a win-win proposition. Further, it seems that the arts are being deployed far more intentionally than ever before by forward-thinking city and town governments. In cases where this is being

done most successfully, a combination of forces is at work. In common, there is a utilization of efforts being made by state art-supporting organizations as well as a Mayor who leads support of arts and cultural initiatives.

As the Lone Star State’s leading government arts agency, the mission of the Texas Commission on the Arts (TCA) is “to advance our state economically and culturally by investing in a creative Texas.”<sup>iv</sup> The TCA works with the Texas Cultural Trust to deploy the arts where they can make a positive difference in the lives of our citizens. Together with Texans for the Arts, a 501(c)4 organization, they also form a strategic network of support for the arts.

The TCA has had great impact on specific cities and towns in Texas by fostering and officially designating Cultural Districts. In the past, town centers with cultural amenities often grew organically.

The designation process provides a strategic roadmap for a many of the participating municipalities, and once completed, it allows them to apply for TCA program funds.

The TCA, Texas Cultural Trust and Texans for the Arts worked together to pass legislation approved this year that allows Cultural Districts to access existing state incentives programs. This opens the door to funding from a range of areas from the Texas Department of Transportation to the Department of Agriculture and more.

Gibbs points out that “Arts Districts provide a foundation whereby nonprofit and for profit entities can work in tandem to attract visitors, provide jobs and enrich a community in numerous ways.” They are relevant to both urban and rural areas. He cites Dennison as a rural Texas town that has excelled in redeveloping its downtown through artists live and work spaces. Dennison received its designation as a Cultural District in 2009, which acted as a catalyst for exposure and recognition. “Becoming an official Texas Cultural District gave Denison a credibility that it didn’t have before,” says Denison Arts Guild President Mary Karam. “The homework that we did to apply for designation made us look at ourselves differently – and since 2011, we’ve attracted 33 new businesses.”

As the new director of the Texas Cultural Trust, Jennifer Ransom Rice also sees a need to create stronger support for the arts in the traditionally underserved rural areas. “It’s not that our rural areas lack art,” she says, “often we see groups that are getting together to play exceptional music for the benefit of the community, but who are not formalized. We want to provide a means for those artists to be better known if they so choose. This can bring attention to the artists and economic development in the form of expanded artists for their community.” There’s still a misperception that art is entertainment for the elite. Here too, business support is important, with an emphasis on localized and small to midsize businesses. “Still,” says Ransom, “community development must precede economic development.”

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## Individual Cities and Towns

In interviews with civic leaders in four of Texas' key cities – Austin, Dallas, Houston and San Antonio - the Mayor's role was viewed as essential in promoting business support for the arts. Each city also emphasizes the positive economic impacts derived from support for cultural and creative interests – for example, each has received at least one Cultural District designation from the TCA (Houston alone has two). As expected, the infrastructures (for example, the relationship between cultural affairs and economic development offices) are varied.

### Austin

In Austin, the Economic Growth & Redevelopment Services Office<sup>v</sup> is the overarching department, encompassing economic development, urban regeneration, small business development, cultural arts, music, international and emerging technology programs. The Cultural Affairs Division addresses creative industries, the nonprofit cultural sector and cultural tourism among other areas. Austin is the only city of the four discussed here where the cultural affairs office is under the direct aegis of the city's economic development entity.

The City of Austin puts a high value on its creative industries – gaming, music and film among them, as essential to the city's alluring character and economic growth. A 2011 study estimated the total economic impact of gaming and digital media alone to be over \$990 million.

In January 2013, the Austin City Council approved funding for a new incubator intended to foster growth in Austin's creative sector. "The idea for the incubator grew out of a study the city did on the creative sector. It was an evaluation of all the creative industries and how they fared during the recession. [The report] showed that it grew 25 percent during the recession. It's the reason that Austin stayed at the top of the list in the economic recovery. The [industry] grew 5 percent each year when everything else was flattening out. It represents \$4.3 billion and created 49,000 jobs and \$71 million in new taxes. That was without a plan to grow the industry."<sup>vi</sup>

According to Kevin Johns, Director of the Economic Growth and Redevelopment Office, there is ample reason to believe that a creative industries incubator will be effective: "the best analogy is that the economic growth office funds the two incubators at the University of Texas to help grow technology. ... Those have grown over 200 companies in tech that have been an unbelievable benefit to the foundation of the economy in Austin. Those have been done in concert with the [Austin] Chamber of Commerce and Opportunity Austin. The whole creative industry creates an opportunity for Austin. The city is keen to help those industries because the return is so great. We'll have at least one major film made here each year; we'll have 130 jobs and a pipeline

for new works in the industry. It's a small investment and what we think will be a great return on the investment. It's a pilot project. We're going to do this for one year and measure the return."<sup>vii</sup>

### Dallas

Dallas Mayor Mike Rawlings is past CEO of Tracy-Locke, which was the largest advertising agency in the South during his tenure, as well as past CEO of the world's largest pizza company, Pizza Hut. He is also a long-time advocate of the arts. "People pay attention to a community issue when it is championed by the Mayor," says Maria Munoz-Blanco, manager of the Office of Cultural Affairs, "and in Dallas, Mayor Mike Rawlings' efforts to bring attention to the arts, particularly in the business community, are already yielding benefit to our cultural sector. It is especially exciting that Mayor Rawlings, in his support of the arts, is thinking not just of our established arts institutions, but also about the role of artists and how our community attracts and retains young creatives."

His hands-on approach has included the reinstatement of the Arts, Culture and Libraries committee on City Council and the appointment of John-Paul Batiste, former Director of the Texas Commission on the Arts, as the Chair of the Dallas Cultural Commission. The Mayor has also created several new culturally-related initiatives in partnership with businesses and nonprofits and placed the growth of arts and culture on his list of five top priorities for 2014. Conceived by him in 2012, the Mayor's Business/Arts Initiative assembled two dozen Dallas civic leaders to create partnerships between local companies and nonprofit arts and cultural institutions. Working with the nonprofit Business Council for the Arts, the emphasis is on bringing businesses who are mainly new arts supporters into win-win creative collaborations.

Earlier in 2013, Mayor Rawlings and Maxwell Anderson, Director of the Dallas Museum of Art announced that Dallas will be the site of the 2014 New Cities Summit. The New Cities Foundation, in partnership with the Dallas Arts District is launching the Global Cultural Districts Network (GCDN), the first international consortium of cultural districts in large cities. This latest initiative underscores the importance placed on planned Arts Districts not only in Texas, but as a world-wide phenomenon.

Further reinforcing the importance that Dallas places on its downtown Arts District, City Council recently approved \$2 million dollars in tax increment financing incentives for Flora Lofts, an affordable housing development for artists.

### Houston

The primary organizational catalyst for financial support of the arts in Houston is the Houston Arts Alliance (HAA). This 501(c)(3) nonprofit arts organization functions as the city's office

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of cultural affairs. HAA and its Director, Jonathon Glus, work closely with another nonprofit, Greater Houston Partnerships, on quality life matters to attract new businesses. For example, the two recently completed a joint study along with the University of Houston entitled *The Creative Economy of Houston*. Glus notes that “There is more corporate interest in community engagement, versus interest in recognition opportunities, in the post-recession era. This may be because the economic downturn provided a sort of “time-out” where businesses had to reassess their support of their communities.”

The Chairman of the Board of HAA, Marc Melcher, believes that overall, businesses in Houston recognize the value of arts and culture and that financial support for the arts in Houston is at, or close to, pre-recession levels. In particular, its oil and gas industry, which created the technology needed for fracking and shale oil extraction, has increased the bottom line for Harris County arts organizations. He cites Kinder Morgan, the largest midstream and the third largest energy company in North America, as one such entity. Last year, the Kinder Morgan Foundation, donated more than \$1 million annually to academic and arts programs that benefit youth in grades K-12. Other industries which are seeing increased revenue as a result of the boom in oil and gas revenues, such as transportation and housing, may become greater arts supporters. Meanwhile, Houston-region businesses and think tanks, such as the Kinder Institute at Rice University, are delving into the wide disparity that exists between their most affluent and those in need.

Not only is Houston one of the fastest growing cities in the nation, but it is also the most diverse.<sup>viii</sup> Both Glus and Melcher laud Mayor Annise D. Parker for her active role in arts utilization. Says Glus, “At the community-based level, she really understands that arts and culture organizations can be catalytic in transforming neighborhoods. She has done a tremendous amount of education with community leaders to introduce arts and culture into neighborhoods. In addition, she has a passion for strengthening preservation of Houston’s historic architecture and landmarks; the first preservation ordinance in the city was put into place only four years ago.”

### San Antonio

The San Antonio Department for Culture and Creative Development (DCCD), directed by Felix Padron, is the city’s art agency. It works internally with other city departments such as Center City Development, to enhance the inner core downtown experience and the city’s Convention and Visitors Bureau, and externally with organizations such as the nonprofit San Antonio Economic Development Foundation to influence community planning. Padron credits Mayor Julián Castro with “consistently supporting the arts as a critical asset for the development and

future of San Antonio.” The DCCD has worked closely with Mayor Castro in his creation of SA2020, a community-wide visioning effort to create/re-create San Antonio in 2020 as “a brainpower community that is the liveliest city in the nation.”<sup>ix</sup> A unique feature of this initiative is its website ([www.sa2020.org](http://www.sa2020.org)), a transparent tool tracking progress in eleven key areas including arts and culture. Key indicators within that area are: economic impact of the arts, level of attendance at arts programs, level of funding for the arts, number of national/international press mentions, and number of people employed.

### Conclusion

Throughout the Lone Star State, the movement to incorporate arts and culture is becoming institutionalized. There is greater recognition that arts and culture can lead to city center redevelopment, tourism, business development, employee engagement, advanced test scores and result in other desirable outcomes as well. Part of this movement is being generated by state legislation and local governments, which are creating structures for the arts to flourish within. Another factor is the favorable economy. All cities report that business support for the arts has increased since 2009, echoing the aforementioned BCA study. A comparison of the way each major Texas city, including its private sector, supports and promotes its artists, nonprofit cultural groups and creative sector might lead to insights on best practices.

Our goal is to develop more Texas citizens like Jim Keyes, who’s about to announce his newest entrepreneurial business, continues to write songs and paint, and is developing our next generations of creative minds through his founding of Young Strings and Education is Freedom.

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<sup>i</sup>Root-Bernstein, Robert and Michele. *Sparks of Genius: The 13 Thinking Tools of the World’s Most Creative People*. New York: Houghton Mifflin Company, 1999. Print.

<sup>ii</sup>The Economic Impact of Nonprofit Arts and Culture Organizations in North Texas, Deloitte and North Texas Business Council for the Arts, Dallas 2010, available as a free download at [www.ntbca.org/assets/BCA-2010-Economic-Impact-Study.pdf](http://www.ntbca.org/assets/BCA-2010-Economic-Impact-Study.pdf)

<sup>iii</sup>The BCA National Study of Business Support for the Arts, Business Committee for the Arts, a Division of Americans for the Arts, New York 2013, available as a free download at [www.partnershipmovement.org/research/](http://www.partnershipmovement.org/research/)

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<sup>iv</sup>Texas Commission on the Arts website at [www.arts.texas.gov](http://www.arts.texas.gov)

<sup>v</sup><http://austintexas.gov/department/economic-growth/programs>

<sup>vi</sup>Grattan, Robert. “ Creative Incubator Q&A: Kevin Johns on Austin’s newest opportunity” *Austin Business Journal* (Austin) 28 January 2013, web

<sup>vii</sup>ibid

<sup>viii</sup>Emerson, Michael O. , Bratter, Jenifer, Howell, Junia P., Wilner, Jeanty , and Cline, Mike.

Houston Region Grows More Racially/Ethnically Diverse,With Small Declines in Segregation.

A Joint Report Analyzing Census Data from 1990, 2000, and 2010.

Kinder Institute for Urban Research & the Hobby Center for the Study of Texas

<sup>ix</sup><http://www.sanantonio.gov/Mayor.aspx>

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# WHAT IS ART?

## CAN A BUNNY IN THE DESERT TELL US?

by Francesca Mari



**Francesca Mari** is an associate editor at *Texas Monthly*. Her work has also appeared in *The New York Times*, *The New Republic*, *The Paris Review*, *Dissent*, and elsewhere.

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It was mid-April when Judge Paul Hunt's office received the first call. The judge was at his desk inside the Presidio County courthouse, a pink stucco building with a mansard roof and cupola that sits at the end of Marfa's Highland Avenue. His assistant answered the phone. On the line was a young woman from New York, who inquired politely about West Texas's idiosyncratic building laws. What were the lighting regulations in the area? How might she get approval for new electrical service? Two days later, another New Yorker, just as polite, began ringing with similar questions. She and the first caller, she explained, were working on behalf of someone interested in installing something along U.S. 90. When she was reluctant to offer specifics over the phone, the assistant suggested she present the blueprints in person.

Three weeks later, the two women arrived in Marfa. Pretty and smartly dressed, "they had that eager intern vibe," the judge recalled later. "And they had done their homework." By now they had read up on the local Dark Skies Initiative limiting light pollution, and they had filled out the certificate of compliance required for new electrical service near the border. They'd also brought an artist's rendering of their project; one mile outside town, on 6,500 square feet of land leased from longtime kindergarten teacher Sheri Eppenauer and her husband, Bob, they planned to build an art installation.

The judge was hardly surprised. After sculptor Donald Judd startled the art world in the seventies by leaving Manhattan for this faraway corner of the Chihuahuan Desert, Marfa had become a kind of pilgrimage site. On a former Army base at the edge of town, Judd established the Chinati

Foundation, a museum dedicated to large-scale, permanent installations, such as his own concrete and aluminum boxes, which drew visitors from around the world. Over time, locals had grown used to German art critics descending on the Dairy Queen or black-clad L.A. architects raving about the light. In the past decade, more and more of the pilgrims had started moving to town for good. Wealthy Texans from the big cities now kept second (or third) homes there; Tim Crowley, a lawyer from Houston, and his wife, Lynn Goode, had bought and restored more than a dozen buildings in town, encouraging posh friends such as renowned defense attorney Dick DeGuerin to do the same. Walking up Highland Avenue these days, past the neon sign of one of the smallest NPR affiliates in America, past the plate-glass windows of the Marfa Book Company, past the vintage-television display at Future Shark Cafeteria, a Marfan might encounter any number of painters, sculptors, musicians, and poets. He might bump into writer Deborah Eisenberg, on a fellowship with the Lannan Foundation, at the Hotel Paisano, or Jake Gyllenhaal, in town for a Railroad Revival Tour concert, tossing a football on the street. Even Beyoncé had visited, staying in one of the restored trailers at the campground and hotel El Cosmico.

The location of the project that the women were proposing—west of town on U.S. 90—immediately reminded Hunt of Prada Marfa. Back in 2005, the Scandinavian art duo Michael Elmgreen and Ingar Dragset had caused a flap by displaying six Prada bags and twenty Prada shoes (rights only) in a glass-front adobe located about thirty miles farther down the highway, near Valentine. Though the artists intended their piece as a critique of

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consumer culture, many in Marfa decried it as plop art, arguing that it exploited the town's reputation and marred the landscape. The piece was supposed to naturally decay, but two days after it went up, someone sprayed "Dum Dum" across the front and stole all the purses and fourteen of the shoes. Others riddled the installation with bullets. While the merchandise was restocked and the windows replaced with Plexiglas, eight years later graffiti still covered the back and cigarette burns perforated the awnings.

So the judge was curious to see the women's plans. They showed him the rendering, which portrayed a 1972 Dodge Charger, painted matte black, on top of a concrete box—just like one of Judd's—that was tilted forward, as if the Southern Pacific train that runs through Marfa had snaked off its tracks and rammed into it. Just behind the concrete plinth and car, a twenty-foot rabbit head outlined in neon light stood atop a tall pole, like a novelty lollipop. Except it wasn't just any rabbit. It wore a bow tie and was distinctly recognizable. It was the Playboy bunny.

The work was by artist Richard Phillips, the women explained. He was a hot commodity: he had recently exhibited video portraits of Lindsay Lohan and adult film star Sasha Grey at the Gagosian Gallery, in New York. The judge studied the rendering. To his eye, there were at least three jokes in it. In addition to the play on the Judd box, the Charger seemed to be an allusion to John Chamberlain, an artist whose signature material was old cars; an entire building of the Chinati Foundation was dedicated to his crumpled forms. And the bunny's lighting evoked Dan Flavin, a close friend of Judd's who worked with fluorescent tubes and whose most ambitious effort with them was housed at the Chinati as well.

"So what do you think?" the women asked eagerly.

Hunt leaned back in his leather chair and took a long sigh. "This will be a target of vandalism," he said.

The next day, when the judge read the signatures on the certificate of compliance and realized who the owner of the piece was—Playboy Enterprises—he understood that the installation would be a target of much more than that.

If you know much about Marfa these days, chances are you read about it in the *Wall Street Journal* or *Vanity Fair*, or heard about it on NPR, or saw it featured on CNN. In the past decade, the town of two thousand has been showered with breathless press. *The New York Times* wrote about it at least half a dozen times in three years, the Smithsonian recently named it one of the top twenty small towns in America, and 60 Minutes ran a segment this year titled "Marfa, Texas: The Capital of Quirkiness." NPR, meanwhile, hailed it as "nothing less than an arts-world station of the cross."

The vast majority of those stories tend to ignore most of Marfa's residents. Despite all the hipsters, Marfa remains a working-class town, where unemployment hovers at around nine

percent and the median household income is \$33,000 per year. Three quarters of the population is Hispanic. To some extent, the prosperity of the arts community—which involves around 10 percent of the people who live there—masks the economic difficulties of the majority. Other than tourism and government, there's no principal industry in Marfa. The public schools, the state agencies, and the Border Patrol are the main employers. The town has no pharmacy, no locksmith, and no vet. For all the attention, it remains a fundamentally austere and remote place.

Which is what attracted Judd to begin with. Disenchanted with what he called the "glib situation within art" in New York, he decided in 1971 to go looking for the kind of space where he could exhibit art in a way that wasn't dictated by museums. To choose his new location, he drew circles on a map around the least populated swaths of land in the United States; at the center of one of the biggest circles was Marfa. Founded in 1883 as a water stop for the Southern Pacific Railroad, Marfa had enjoyed a brief heyday as a cattle baron town before serving as a military base during the Mexican Revolution and later as the site of Fort D.A. Russell. But the fort was shuttered in 1946, and a drought followed in the fifties, so that all that remained when Judd arrived was a tiny hamlet of ranchers, cowboys, and crumbling adobes.

That, and a gloriously empty landscape. Parched yellow grass stretched in every direction, bordered by mountains so distant they looked like purple paintings on silk. Clouds loomed large and still in the giant sky, as if they had so much space they needn't move. Captivated, Judd promptly began buying tracts of land, including the grounds of the old Army base; he would amass more than 100,000 acres over twenty years. He began his fifteen outdoor works in concrete in 1980, and in 1986 he opened the Chinati Foundation, using renovated artillery sheds as exhibition space for one hundred of his aluminum boxes.

Though he kept to himself, Judd was deeply committed to the local environment and became one of the town's biggest employers, hiring laborers to pour his concrete slabs and assemble them into geometrically sequenced boxes. For Judd, art that did not consider its surroundings was an imposition. He is often called a minimalist, a term he hated; contemporary art, he felt, should not be representative (as in a portrait or a scene) or serve as a metaphor for something else (like an emotion or a moment) but rather be truth itself, and intrinsic to that truth was context. "My first and largest interest is in relation to the natural world," he wrote. That conviction was perhaps lost on some of the locals, who thought Judd's boxes looked like antelope shelters. His rebellion against the artificial context and power of museums, however, did appeal to other artists, such as Flavin, who designed eight-foot-long fluorescent grates for six of Chinati's U-shaped sheds.

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Judd likely never envisioned Marfa as a fashionable art scene—and he almost certainly would have disliked that outcome. But his ideas left such an imprint that today, almost twenty years after his death, art and its meaning is a regular topic of debate around town, though not always in predictable ways. Many residents, for example, have yet to forget an incident in 2003, when the local chapter of the Knights of Columbus designed two billboards with a Madonna-and-child image and the words “Consider Life” and placed them alongside U.S. 67/90. Not long afterward, someone complained that the signs violated the Highway Beautification Act, a law passed in 1965 by Lyndon B. Johnson to limit outdoor advertising along interstate and federal-aid highways. (The law allows signs outside commercial zones only if they are on the premises of the business they promote.) When the Texas Department of Transportation ordered the signs removed, discussions erupted over whether the images had been unduly subjected to a scrutiny rarely given to the art at, say, the Ballroom Marfa gallery, which soon after hosted an exhibit that included a video of bare-chested women kissing.

Two years later, emotions ran just as high over Prada Marfa, not only because the installation was plopped onto the landscape that Judd had prized but also because its allusion to high fashion seemed utterly tone-deaf to the economic reality of the town. Former resident Melissa Keane remembered the opening on October 1, 2005: “The area ranchers stood in denim and cowboy boots beside New Yorkers dressed up to their necks in black, saying things like, ‘Isn’t it sad that it’s out in the middle of nowhere?’”

So perhaps it was inevitable that, at the end of May, after Judge Hunt passed around the artist’s rendering of the Playboy installation during a break in the commissioner’s court meeting, the piece would become huge news. When *Big Bend Sentinel* reporter Alberto Halpern called Playboy to ask about it, however, the company refused to comment. “But you can’t ignore this forty-foot structure coming to your backyard,” Halpern told me. After looking into a trail of public documents, he broke the news of the patron’s identity on May 30 in a story that quickly went viral. “Playboy to Erect Sculpture Near Marfa,” read the headline, the first of many puns. Constructed in Austin, the rabbit appeared a few days later, hitched to a white pickup, an ear almost scraping the pavement.

Dick DeGuerin, a subscriber to the *Sentinel*, was at home in Houston when he read the news. A week later, the lawyer was flying his Cessna back from a spa day with his daughter in Mexico and decided to stop in Marfa for a Jimmie Dale Gilmore concert. The bunny, which had gone up in a matter of days, was all anyone could talk about. Some people got a kick out of it: there was Bob Wright, the white-mustachioed owner of Marfa Realty, who had initially put Playboy in touch with six area landowners,

and Ty Mitchell, a rakish cowboy who’d had a part in True Grit and helped persuade the Eppenausers to lease their land. (Though Sheri had twice rejected the lease, when Playboy allegedly tripled its first offering, to \$20,000 for twelve months, she sought the permission of her preacher and the school principal before signing.) Some ropers and mechanics expressed excitement, and a few creative types, such as Marfa Film Festival director Robin Lambaria, thought it made a funny contrast to the town’s serious art scene.

DeGuerin and his daughter bicycled from their adobe, just a couple of blocks from the courthouse, to the plot on U.S. 90. Playboy still wasn’t acknowledging anything, but as the two crested a hill, there it was: the bunny, the concrete box, and what appeared to be the Charger sitting beneath a plastic sheet. Delighted, DeGuerin hopped off his bike and struck a yoga pose as his daughter took a picture. “Even though Playboy has its own agenda, I loved the fact that someone with some bucks was putting something there,” DeGuerin told me.

There were others, however, who were furious. The sign was a corporate intrusion, said some. It branded the West Texas sky with a logo, and a misogynistic one at that. Others felt the installation mocked Judd’s art—the very art that had put Marfa on the map in the first place. “I like titties and I like Playboy, but I don’t like bad art,” one thirtysomething musician told me. “You can’t make bad art in a place just because it has an art connotation.” Artist Julie Speed designed bumper stickers with a bunny in crosshairs, which sold out at the Marfa Book Company. Marianne Stockebrand, the former director of the Chinati Foundation and Judd’s partner for the last five years of his life, penned a letter to the *Sentinel*. “What a lousy piggybacking,” she wrote. “Not even respect for the landscape, Marfa’s greatest treasure.” As another arts elder said, speaking on the condition of anonymity, “People in the community who take art and art-making seriously are stung by the speed, the sloppiness, and the lack of respect.”

Indeed, Playboy seemed to be going out of its way to provoke ill will. Claiming that the *Sentinel* piece was “ruining the integrity” of the project, the company’s PR firm called Halpern to ask if he would remove his article online. (It turned out Playboy had negotiated an exclusive with the *New York Times*.) Halpern declined. A week or so later, when Playboy representatives finally agreed to speak to the *Sentinel*, they explained that the installation, dubbed Playboy Marfa, was part of an effort to revitalize the company brand (“Playboy Reveals All About Installation,” read the headline). Playboy had named Neville Wakefield, a New York critic and curator who had organized a successful show at Ballroom Marfa in 2011, its new creative director of special projects, and Wakefield had tapped Richard Phillips, according to one press

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release, to help reenergize Playboy's "alignment with the art world."

The explanation, over a phone call from New York, did little to help the company's image on the ground. "They should have hosted something for the community, to acknowledge that they dropped a huge billboard in our backyard," noted one resident. Playboy had not relied on any locals to install the piece—an affront all the more galling because it had initially reached out to a few of the town's artists and laborers, only to go silent. (Welder William Parrott said he'd spent more than thirty hours procuring a 1972 Dodge Charger when Playboy stopped responding to his calls.) As for remaking its image, well, that seemed ludicrous. "The magazine exploits women," said former city council member Maria Williams, who refused to go see the installation. "It's against my principles as a Christian, a Catholic, a human being." Leo Salgado, a former city bookkeeper, didn't understand how a Playboy symbol could stand when the Knights of Columbus billboards, which he'd helped design, had been taken down. One parent was especially vocal. "It's disgusting," she said, standing in the post office. "The devil is bringing all this, so let's say no to the devil."

Most maddening of all, perhaps, was a feeling of powerlessness. Playboy had asked no one in Marfa for input. The work was designed from afar—Phillips had never even visited—and executed without the artist's presence or accountability. On June 12, Playmate of the Year Raquel Pomplun arrived for a dawn video shoot at Playboy Marfa; a week later, the installation had an opening—two thousand miles away, at the Standard Hotel on Manhattan's High Line. "It was great," Wakefield told me later. "There were Playmates there, and the most unlikely people—art-world people—were drawn to their magnetism." Phillips also enjoyed the evening, though he acknowledged its unusual nature. "You know," he noted, "it's the first time I've done an off-site opening."

The only fest Marfans were privy to was the media fest, as reporters called from all over the country to ask about a work the townspeople knew nothing about. "Playboy demonstrates their power in the world, which is a financial power, by putting this here," said Tim Johnson, a poet and the owner of the Marfa Book Company. "And then the people who live here are made responsible for answering for it, which is not something any of us asked for."

One of those who felt exploited was Lineaus Lorette, an accountant, leatherworker, and self-professed communist who moved to Fort Davis in 1991 and opened an office in Marfa to house his peculiar collections, which include mid-century-modern lamps and leftist pyrographic wood reliefs. He is known for his hand-sewn leather medicine balls, sold to the likes of Mick Jagger and Harrison Ford, but even more so for being a

quixotic rabble-rouser. (In 2000, he ran for mayor and got 24 votes.) Lorette thought Playboy Marfa was rather handsome—he wasn't one for Judd's minimalism, which he found elitist—but he believed the neon bunny, much like the Knights of Columbus billboards, qualified as illegal advertising. Aware of his reputation as an agitator, however, he had resolved not to say anything.

That is until June 24, when he was scheduled to report for jury duty. It was a Monday, and Lorette wasn't due at the courthouse until ten o'clock. So he drove over to Marfa's TxDOT office to kill some time. What, he asked the clerk, might one need to do to bring an illegal sign to TxDOT's attention? The clerk was friendly and asked if the sign had a permit posted to it. Lorette drove out to the bunny, observed that it didn't, and drove back to the office, where the clerk walked him through filing a complaint online. Lorette hit submit and was at the courthouse by ten.

Three days later, Lorette received a letter in the mail from TxDOT's Right of Way Management Division, in Austin. "It was determined that the sign is indeed an illegal sign," it stated. "We are handling it through our process for addressing illegal signs." Lorette drove the letter over to the offices of the *Sentinel*. TxDOT had also issued another letter, to the Eppenauers. It was an order of removal. They had 45 days to get rid of the bunny.

Maria Williams was eating enchiladas at Mando's, a Tex-Mex joint, when she saw Lorette being interviewed on Channel 9 about the order of removal. She was thrilled. "Lineaus knows the law," she thought with admiration. Leo Salgado read about it in the *Sentinel* and was one of the first to congratulate Lorette at the post office. A woman stopped Lorette in town to shake his hand, and when he delivered his usual two buckets of flowers to St. Mary's Catholic Church on Saturday afternoon, one of the nuns told him how grateful she was. The head of *Marfa Magazine* and one mechanic did stop by his house to ask that he withdraw his complaint, but mostly Lorette was seen as a hero. "God Bless Lineaus Lorette," read a letter to the *Sentinel*.

The news went national. "Playboy Sculpture in Marfa Has Texas Highway Officials Hot and Bothered," wrote the *Huffington Post*. "How Playboy Pissed Off an Artsy West Texas Town," read Jalopnik.com. The story was picked up by ABC, NPR, network affiliates across the state, and any blog attuned to pun potential. Many, like the installation's nearest neighbor, actor and director Barry Tubb, who lived in an Airstream one hundred yards away, thought the controversy was "accidental genius marketing." What had started as a rebranding effort was garnering more publicity than Playboy could have hoped.

As soon as DeGuerin saw "Playboy Bunny Sign Must Go" in the *Sentinel*, he knew he had to step in. He had once defended Texas artist Bob "Daddy-O" Wade against a similar illegal-signage charge in Houston, though the fate of Wade's controversial sixty-foot saxophone sculpture outside Billy Blues jazz club was

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eventually resolved in a city council meeting. (It was allowed to stay.) DeGuerin showed up at the Marfa Realty office and offered his legal services to those responsible for the installation. Shortly after, he received a copy of the order of removal from Sheri Eppenauer. It was dated June 21, three days before Lorette had filed his complaint. Though every news outlet had attributed TxDOT's ruling to Lorette, it turned out that the agency had arrived at the conclusion on its own. Alpine-area TxDOT engineer Christopher Weber had learned of the new electrical line approved a mile outside Marfa, and when he saw in the *Sentinel* what it was for, he had immediately questioned the installation's use of a logo.

Playboy partnered with DeGuerin. When the company refused to comment publicly, the lawyer launched his own campaign, affably debating the sculpture's merits around town. In response to the bunny-in-crosshairs bumper stickers, he suggested "Save the Bunny" T-shirts. "If there's some stupid-ass regulation that interferes with freedom of expression, then guess what has to yield?" DeGuerin said. "That stupid-ass regulation."

But was Playboy Marfa creative expression or crass commercialism? The debate over art versus advertising has consumed artists and critics for decades. Andy Warhol brought it to a head in 1962 with his paintings of Campbell's soup cans; a few years later, critic Marshall McLuhan proclaimed that "art is anything you can get away with." In the eighties artist Richard Prince got away with photographing and enlarging Marlboro's cowboy ads; in the nineties Chinese artist Ai Weiwei got away with making ceramic vases with the Coca-Cola logo.

Could Playboy get away with this? That Warhol's cans hung in New York's Museum of Modern Art and Prince's photos hung at the Museum of Contemporary Art in Los Angeles changed how a viewer experienced them. They were art by virtue of context. Was Marfa now such a context? Even if it was, something about the power dynamic felt different: MoMA had chosen Warhol, but Marfa had not chosen Playboy.

"If you say the word 'art,' then we must deal with it as art," Tim Johnson reasoned in his bookstore. "That doesn't mean it's good art." Phillips told me that he had been commissioned to do "corporate portraiture," and Playboy's image "was resolved in the illuminated bunny." But in a column for the *Sentinel*, Fort Davis historian Lonny Taylor was blunt: "It prominently displays Playboy's corporate logo, it was paid for by Playboy Enterprises, and it was designed and erected by an employee of that company. Ergo, it is advertising." He sarcastically suggested building a corporate sculpture garden between Marfa and Valentine, an idea that DeGuerin relayed to Daddy-O Wade, who thought it was brilliant. (Wade had long dreamed of creating "Logo Park.")

TxDOT officials were the first to admit they weren't art critics. The department was not "in a position to approve or disprove [sic] of any art," one of them wrote to me in an email.

But they were beholden to the law, which defined an advertising sign in Title 43 of the Texas administrative code as "an object that is designed, intended, or used to advertise or inform, including a sign, display, light, device, figure, painting, drawing, message, plaque, placard, poster, billboard, logo, or symbol." Playboy's logo was advertising. And because it sat on U.S. 90 and was ineligible for a permit, it violated the Highway Beautification Act.

DeGuerin was not dissuaded. "Frankly," he said, "I think it makes the highway beautiful." He helped Playboy form a legal team, including Alpine defense attorney Kirk Meade and Austin lawyer Ace Pickens, who requested a meeting between Playboy and TxDOT, so that Phillips could explain his work. At nine-thirty in the morning on August 6, at the Right of Way Management Division library in Austin, Phillips, who had flown in from New York, passed around a handout to the nine people who had gathered. They included Pickens, Playboy executive and general counsel Rachel Sagan, TxDOT outdoor advertising supervisor Wendy Knox, and assistant attorney general Oren Connaway. (Perhaps due to his vocal advocacy efforts, DeGuerin was not present.) The handout included a section titled "Inspiration," with images from the Chinati—Judd's boxes, Flavin's lights, Chamberlain's cars—and of Phillips' studio modeling of Playboy Marfa (a binder clip holding a pencil with the bunny logo; a toy car on a little box). The section titled "Installation" offered glamour shots of the completed project: at sunset, at night, after a storm, framed by a double rainbow. It included Phillips's biography, highlighting his work for MAC Cosmetics, Gossip Girl, and the Art Production Fund, which, in collaboration with Ballroom Marfa, had produced Prada Marfa.

The officials at TxDOT were unmoved. A month later they issued a new order, dated September 3, to remove the bunny within 45 days. Playboy could get a 60-day extension, but if the installation wasn't gone by December 23, the case would be referred to Texas attorney general Greg Abbott's office. The Playboy bunny had to go.

What few had considered in the uproar over the bunny were the implications for other works of art in town. As TxDOT representatives discussed Playboy's logo, their conversation turned to the other trademark on U.S. 90: Prada Marfa. Didn't its awnings constitute advertising too? (The Alpine engineer who first flagged Playboy Marfa, in fact, had raised concerns about Prada at the same time.) Suspecting that Playboy would reference Prada to make its own case, TxDOT official Gus Cannon consulted with the Federal Highway Administration before confirming his agency's position: yes, Prada Marfa was outdoor advertising.

The debate over what is and isn't art exploded once more—this time with farther reach. "If they want to go to court, I will be able to teach them some lessons in art history," said the installation's co-creator Michael Elmgreen from London. "There's

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a difference between being commissioned by a company to do something and use their logo and using their logo on your own.” (Prada permitted the use of its logo and provided the merchandise but did not fund the piece.)

DeGuerin shrugged this off as “a distinction without a difference,” but others disagreed. “Dick DeGuerin wants us to team up with Playboy,” said Ballroom Marfa executive director Fairfax Dorn, who helped bring Prada Marfa to town. “But there’s no reason to, because we’re a completely different project.” A Save Prada Marfa group appeared on Facebook, quickly garnering more than six thousand likes, and Democratic representative Poncho Nevarez, of Eagle Pass, wrote a public letter to TxDOT in support of the installation.

By early October, the agency had not yet issued an order of removal, which made the demise of Prada Marfa seem unlikely; perhaps, some theorized, TxDOT would simply require the awnings, which stretched illegally over the highway’s shoulder, to be adjusted, or perhaps the agency would find a way to extend a pardon. Meanwhile, up the road, the bunny continued to light the sky. Residents expected Playboy to broker a new agreement with TxDOT before its December deadline, though no one could guess the outcome. Would Phillips alter the logo, or would Playboy give up? Earlier in the summer, the company had announced that there would be a “phase two” to its art efforts before year’s end, involving another Dodge Charger and “definitely not” in Marfa; maybe now it would make a big show of relocating Playboy Marfa and unveiling this second work at the same time. Phillips, at last, planned his first visit to Marfa for a television segment, but then filming—and his trip—was postponed.

Around Marfa, emotions remained raw. Lorette still felt indignant over how DeGuerin had visited him at the end of the summer to tell him that the bunny paid homage to the Chinati artists, not realizing that Lorette found minimalism pretentious. Irate, Lorette had written an open letter and mailed it to thirty newspapers, denouncing TxDOT for allowing a corporation “to market its smut and sexism” in defiance of the law. If the agency didn’t take action, he told me, he would threaten to sue. A few days later, Lorette ran into the Chinati’s associate director, Rob Weiner, who was also angry. Lorette’s moralistic tirades, he said, had weakened the pure advertising argument against the sign. Further, Lorette himself had erotic art in his house, which made him a hypocrite. “It was really hurtful,” Lorette told me later. “But that’s part of the argument. This isn’t Wonder Bread.” Some Marfans, however, were beset with bunny fatigue. At a fancy dinner party in town, when the table erupted in yet another debate, the host came out of the kitchen and screamed, “Stop! This is so boring,” and forbade any further talk about it.

Back at the courthouse, Judge Hunt buried himself in issues of the budget and the border. He had known the bunny

would invite criticism. But he’d not anticipated the depth of reaction from the art community. “It was the jokes on the contemporary art, in fact, that seemed to cause the biggest stir,” he said. The landscape was sacred, he knew that. “But what Donald Judd did with those concrete boxes was sacred too.”

*Reprinted with permission from the November 2013 issue of Texas Monthly.*

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# QUARTERLY MEETING OCTOBER 2013

## THE STATE OF PHILANTHROPY



The 2013 Texas Lyceum schedule concluded in Dallas, Texas, where for the first time in the Lyceum's 34 year history we hosted a conference dedicated to the subject of philanthropy. The "State of Philanthropy" conference was designed to tell the story of giving, from aspirational visions to quantitative outcomes from a variety of sources in a comprehensive format.

While this conference included a bevy of foundation and corporate philanthropy experts, nothing captured the spirit of philanthropy quite like Katherine and Isabelle Adams (ages 10 and 7), who gave the conference's introductory speech. These young inspirational leaders and champions of Paper for Water opened the conference challenging Lyceum directors, alumni, and guests to calibrate their personal and institutional philanthropy with the tools and lessons of the conference and to align their time, talent, and treasure in such a way as to not only make an impression, but to make a difference.

From there, we introduced a new dynamic in setting a conference agenda through the use of "continuous content," whereby we intermixed panel discussions with short "TED-style" personal speeches, and connected them together through several short videos highlighting insights from today's leading names in philanthropic giving. We were also reminded during a festive debate that a good old-fashioned policy debate can be fun and a post lunch wake-up call when properly scheduled.

From collective impact to social enterprise and donor-advised funds to "intrapreneurship," we were again reminded that there are many avenues to doing good, but that desire and impact can often be different things.

In Dallas, we suggested that Mark Twain had it right when he posited that "[t]he two most important days in your life are the day you are born and the day you find out why." What we do with what we have—time, talent, and treasure—says far more about us than the words from our mouths or those written on paper.

Our communities, our state, and our nation would thrive beyond the telling if we could find ways to foster giving beyond the two percent of GNP, the 4.7% and 5.1% as a nation and state (respectively). For Texas to be 13<sup>th</sup> of 50 in anything is acceptable, but not remarkable. Are there ways that as a state leadership organization we could encourage philanthropy to grow at a rate equal to or higher than wealth is created? What would happen if we did? And what is the cost if we do not?

We were honored to highlight one of the great stories of giving in modern history with the airing of the Oseola McCarty video. An octogenarian Mississippi laundry woman had saved her entire life off the small pay for services she was given only to shock the world with her six-figure gift to the University of Southern Mississippi.

Mark Twain also encouraged us to give of our best on this earth: "Let us live so that when we come to die even the undertaker will be sorry." It is our hope that Lyceum directors and alumni will affirm this philosophy in our own communities.

JJ Baskin  
Lyceum Class of 2012

Paul Schulze  
Lyceum Class of 2009

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# YOUR PHILANTHROPY ROADMAP

by Melissa A. Berman

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**Melissa Berman** has been the President and CEO of Rockefeller Philanthropy Advisors, Inc. since January 2001. A frequent speaker, Ms. Berman has been profiled in the *New York Times* and the *Stanford Social Innovation Review*. Her ideas and views are featured regularly in the *Economist*, *Wall Street Journal*, *New York Times*, *Business Week*, *Financial Times*, *USA Today*, and the *Chronicle of Philanthropy*. She has been interviewed on the Today Show, NBC Nightly News, NPR, CNBC-TV, and Bloomberg TV.

Ms. Berman is a director of Rockefeller Philanthropy Advisors and an adjunct Professor at Columbia University's Business School, where she also serves on the Advisory Board for the Social Enterprise Program. She is a member of the International Council of the New Israel Fund and a former director of the Foundation Center. She holds a B.A. from Harvard University and a Ph.D. from Stanford University.

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At Rockefeller Philanthropy Advisors, we are in the privileged position of advising some of the world's most successful families on how they can make a difference through philanthropy. We are often asked how we help donors begin their philanthropic journey. We find that one helpful way to start this trip is by creating a map – Your Philanthropy Roadmap. That simple metaphor makes sense to virtually everyone.

Like any good planning tool, the Roadmap is a series of questions with options -- not a set of answers. We recommend that both emerging philanthropists and those looking to refresh and revamp their programs consider working through these questions with their advisors and their families as way to create their giving plan.

## Motivations: Why Are You Giving?

People have many motivations for philanthropy that change over time and with experience. But unless a giving program addresses the needs that drive these motivations, it's unlikely to be sustained or successful. Some of the categories that we encounter with donors we advise include:

- **Heritage** – Ethnic or national identity can create a set of important values as well as an impetus to support and honor that heritage.
- **Family** – Honoring and appreciating ancestors can be among the strongest of motivators.
- **Legacy** – Those motivated by legacy seek to influence the future, and their philanthropy is their public commitment to making a better world.

- **Faith** – Many donors center their giving around their spiritual beliefs and/or religious practice.
- **Experience** – Inspiration comes from an individual's own life. People who've benefited from scholarships often wish to create that opportunity for others or those who have seen a loved one suffer from medical problems can be inspired to tackle that problem through philanthropy.
- **Analysis** – Analysis-driven donors deemphasize the personal in their articulation of philanthropic goals. Instead, they seek to look objectively at what the biggest needs are, or what issues can be successfully addressed with philanthropic resources.

An example shows how successful donors think about these categories. Known as the "\$2 billion man" after selling Grey Goose Vodka to Bacardi, Sidney Frank was a marketing wizard (and avowed Anglophile). As a young man in the 1930s, he left Brown University after only one year because he couldn't pay the tuition. In 2005, his Sidney E. Frank Foundation gave \$100 million to Brown to endow scholarships for the neediest students. "My father believed one individual could change the world," said Cathy Frank Halstead, Sidney's daughter. Sidney himself used to say it this way: "I just love giving money away."

## Goals: What Do You Want to Achieve?

As a donor, you'll make the most sustained and successful contributions when you focus on issues that connect directly to your motivations and convictions. Here are a few ways of framing the issues as you're thinking:

- **Big Challenges** – Some examples: poverty, disease, education, climate change; most donors will drill down from the big challenge to further define their focus. For instance, someone interested in education might look closely at early childhood learning centers and focus even further on teacher training.
- **People** – Some donors concentrate on the types of people whom they wish to support, such as girls and young women or musicians.
- **Places** – Place-based funders are often driven by heritage or experience and focus on different, interlocking issues within a geography.
- **Institutions** – Other funders want to support organizations that achieve the goals they care about. They will want to help build institutions that make a difference.

### **Strategy: How Do You Think Change Will Happen?**

The method by which you personally believe change will happen is variously called a strategy, a theory of change, a logic model, or an approach. In our experience, the terminology is less important than your belief in how change happens. Suppose your goal is to protect a critical watershed area. You could choose among approaches such as research, advocacy, policy, innovation, remediation or a combination of all these strategies to achieve your goal.

Chuck Feeney, for example, helped create Duty Free Shoppers Group (DFS), the world's largest luxury goods retailer. In 1984, he gave his 38 percent share in the company to his foundations, called the Atlantic Philanthropies. It was huge gift that grew bigger when DFS sold for \$2.5 billion in 1996. Feeney adopted the "giving while living" strategy and decided to give away all the money in the foundations by 2020. Through December 2009, grants totaled \$5 billion, including investments in Ireland that have led to the creation of 64 research institutes, centers and programs, and tens of millions of dollars that are transforming the health infrastructure in Vietnam. "I had one idea that never changed in my mind," said Feeney. "That you should use your wealth to help people."

Like Mr. Feeney, you may be faced with competing theories about the best strategy to adopt. Is education the best route out of poverty? Access to capital? Better health? Your choices will need to be informed not only by the facts available, but by the thinking behind various theories of what might work, by your own convictions and by your comfort level about what sort of philanthropic investment you're willing to make.

### **How Will Progress be Assessed?**

Philanthropists often use various approaches to assessment, including evaluation of results or return on

investment. We believe that assessment, while more art than science, is an important part of the philanthropic endeavor.

Andrew Carnegie was an early champion of effective philanthropy. His way of assessing nonprofit work was straightforward. In addition to libraries, he supported the creation of public resources - parks, art galleries, museums, concert halls; the founding and expansion of universities, medical institutions and laboratories; and, under specific circumstances, churches. Using his business acumen, he sought to ensure impact by setting pre-conditions to some gifts such as sufficient community investment to ensure the library's financial sustainability. At its fundamental level, assessment start with these questions:

- What problem am I trying to solve?
- How will it be solved?
- What is being done with my funding to solve it?
- What will be the direct results of the funding (number of teachers trained; number of children fed)
- What will be the outcomes of those results (better graduation rates; lower malnutrition rates)

You can start with a straightforward assessment just as the grant level (did we train as many teachers as the plan stipulated) and then move to the beneficiaries and further out to the community/population level. The wider that circle is, the more complex (and expensive) the assessment will be.

### **Who Will Be Involved?**

Many people say their work in philanthropy gives them great joy. Philanthropy becomes their new vocation. But that role isn't natural for everyone. You'll need to consider how much time and effort you wish to devote, how public you want to be, whether and how to engage family, and if you'll bring other non-financial resources and influence to address a problem. If your giving and social investing is at a large scale, or involves complex issues, you may need expertise outside your family and current advisors. Options include an advisory board; a consultant; a philanthropy service; partnerships with established programs; or your own staff.

### **Moving forward**

Great philanthropists – like great business and civic leaders – take inspiration from their intuition, personal insight and passion, but they build their good works on a foundation of planning and experienced advice. In other words, you don't have to do this alone. In fact, we recommend that you involve your most trusted personal advisors and family from the beginning. Talk to others who are funding in the areas you care about. A final point to remember is that thoughtful philanthropy is just that – thoughtful. And thinking takes time.

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# MISSION RELATED INVESTING: A NEW PHILANTHROPIC OPPORTUNITY FOR TEXAS AND BEYOND

by Michael Kellerman and Randall Kempner



**Michael Kellerman** is a founding steering committee member of IMPACT Texas, a conference and emergent network focused on innovative investment approaches to address wicked social and environmental problems. Michael's recent experience includes work in revenue consulting, impact investing, and social innovation.

Currently Strategic Counsel at KUT Public Media, Austin's NPR Affiliate, Michael is developing new strategic programs and revenue models. Michael was recently a Senior Consultant with Corcoran & Co. in Austin, Texas, where he is now Of Counsel. At Corcoran & Co., Michael advised a diverse portfolio of clients on revenue development, strategic planning, executive leadership, and campaign design. Previous leadership positions include Vice-President of Austin Habitat for Humanity, Capital Campaign Director for Zach Theatre, and more. Michael is a writer and editor, and has written for *The Austin Chronicle*, The University of Texas at Austin, Texas State University, and other institutions.

Michael earned a Master of Public Affairs at the LBJ School for Public Affairs at the University of Texas at Austin in 2013, where he focused on impact investing, social finance, and economics. Michael is a graduate of Leadership Austin's 2008 Essential Class, served on the City of Austin Community Development Commission and holds board and leadership positions at various organizations in Austin.

A graduate of the New School University in New York, Michael also studied saxophone performance at the Eastman School of Music. Michael is fluent in French, and studied in Aix-en-Provence, France through a program with the United Nations.



**Randall Kempner** is Executive Director of the Aspen Network of Development Entrepreneurs (ANDE), a global network of organizations that propel entrepreneurship in emerging markets. The network's members provide critical financing and business support services to small and growing businesses (SGBs) that create significant economic, environmental and social impacts in developing countries. ANDE's 200 plus members have operations in 150 emerging market countries.

As executive director of ANDE, Randall oversees the implementation of ANDE's extensive program and policy agenda, including efforts to develop standardized social and environmental metrics for impact investment, training seminars on supporting and investing in emerging-market entrepreneurs and the ANDE Capacity Development Fund, a \$1m facility which supports capacity building and innovation within the SGB sector.

Randall has nearly twenty years of experience in the field of national and international economic development. Most recently, he served as Vice President for Regional Innovation at the U.S. Council on Competitiveness. Prior to joining the Council, Randall was co-founder of OTF Group, an international consulting firm that advises regions and nations on how to create competitive advantage. He is a frequent speaker on entrepreneurship-based economic development strategies.

Randall graduated from the University of Texas with an M.B.A and an M.P.Aff. He earned his bachelor's degree in Government from Harvard College.

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As the global population explodes beyond 7 billion, the crippling realities of inequality, poverty and other social and environmental problems confront us more than ever before. Despite recent advances, there are still over one billion people living under two dollars a day<sup>1</sup>. In the U.S. and in Texas, while we are clearly better off, tens of millions are

unemployed and face persistent poverty. In Texas in 2014, nearly one in five residents lives under the poverty levels, and when adjusted for children, this statistic rises to one in four<sup>2</sup>.

In the U.S. we have a long-standing tradition of philanthropic support for social and environmental issues. While this tradition deserves reverence, it is important to

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acknowledge the limitations of traditional philanthropy and public subsidy against the tremendous problems we face globally and nationally. Now more than ever, we are turning to private sector innovators and entrepreneurs to create new ideas and systems to address community challenges. Increasingly, philanthropic organizations are adjusting their grant and investment philosophies to support these innovators. A transformation is underway in how philanthropists, social entrepreneurs and global change-makers are interacting to bring about positive social impact, and we are beginning to see its impact in Texas.

Traditionally, foundations have had a relatively simple financial strategy: earn as much financial return as possible from investing the endowment so that the annual grant budget (legally set at a minimum of 5% of total assets) can be maximized. At most foundations, the grant-making process and investment decisions are intentionally kept separate, with investments focused solely on making profit and grants on driving social impact.

In recent years, however, pioneers from inside the world's financial system have begun to question why social impact and financial return should exist on separate polarities. As Anthony Bugg-Levine and Jedd Emerson wrote in their groundbreaking book *Impact Investing: Transforming How We Make Money While Making A Difference* "we can no longer afford to waste capital and talent by organizing ourselves around the separate poles of financial return and social good, which forces us to play the middle against itself."

Consider a prominent case from the Gates Foundation. In the mid-2000s, the Gates foundation was making millions of dollars in grants to the Niger Delta region of Nigeria to combat the significant health issues caused by the environmentally erosive practices of the international oil industry. *The Los Angeles Times* revealed in a 2007 investigation, however, that at the same time the foundation's investment managers had been actively investing in the very oil conglomerates their charitable activities were aimed at fighting against. The authors of the piece ultimately found that 41% of the Gates Foundation's assets were with companies that stood in opposition in some way to the Foundation's charitable mission."<sup>3</sup>

This is a particularly acute example of the challenge facing foundations when they separate their charitable goals and investment strategies. But this issue is every bit as relevant to local philanthropies as it is to the Gates Foundation, and underscores the cultural and structural complexity of the shift to mission-related investment strategies. For foundations large and small, there is the potential not just to avoid undermining their charitable aims but to significantly enhance their social impact by aligning mission with money.

## The Rise of Impact Investing: A new perspective

Over the past two decades, there has been a growing movement around what is now called **Impact Investing**. According to the Global Impact Investing Network (GIIN), a leading industry body, impact investments are investments made into companies, organizations and funds with the intention to generate social and environmental impact alongside a financial return.<sup>4</sup> To truly be considered an impact investment, the investment goals must explicitly include a social or environmental impact from the outset, and such impact should be measured along with the financial return. In the context of foundation investments, impact investments are often called program or mission related investments.

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### A Texas Example: Aunt Bertha

The United States has roughly 1.4 million governments, charities, and congregations that administer human services programs and over 75 million people that reach out to these programs. Yet finding the right program, at the right place, for which one is eligible, can be incredibly difficult. Millions of people who should be getting social services do not because they can't figure out the system.

Aunt Bertha helps people overcome this challenge. The Austin based software company has created an online marketplace that helps people search for food, health, housing, or education programs through a simple ZIP code search. By entering three questions – anonymously – about family size and income, users can immediately find out if they qualify for a program. In seconds, users can find suitable programs and obtain enrollment information.

Aunt Bertha was created to make a social impact by making the public and social sectors work better. Founder Erine Gray was frustrated by the challenges his mother faced in finding social services and launched the firm to make sure others do not face the same barriers. He also wants to make a profit for himself and his investors. After some successful pilot programs, the firm has raised nearly \$1 million in early stage impact investment from a combination of foundations and individual angel investors.

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Impact Investing can take place in many forms and with many different goals. Just like traditional investments, they can be made across the full spectrum of asset classes. Impact investing opportunities exist in debt markets, public equity markets, and private equity markets. And, they can be made to fit a variety of different risk profiles. Some private investors make impact investments with the intention of achieving a fully risk-adjusted market rate of return. They believe that there need not be a tradeoff between impact and financial return, and typically seek high performing social entrepreneurial firms via early stage equity investments.

Foundations and development agencies may pursue a similar strategy, or may choose to accept greater financial risk in return for greater expected social reward. Examples of foundation driven mission related investments include:

- Cash and cash equivalent investments in depositories that lend to underserved places
- Fixed-income investments that support specific types of environmental projects
- Public equity funds that target high social performance, and/or engage with companies on issues such as climate change, diversity and gender issues, or workforce relations
- Real estate investments that target mixed-income, smart growth, affordable and work force housing, urban regeneration, or green building
- Venture capital funds that target clean technologies, or workforce development for underserved communities<sup>5</sup>

In recent years, there has been an explosion of interest in impact investing. Driven by greater demand from foundations and wealthy individuals, major global financial institutions like Citibank, Goldman Sachs, JP Morgan Chase and UBS all have social finance arms and increasing numbers of wealth advisors focused on impact investing options. Both the US and UK national governments are supporting social innovation funds and major international development entities like the Inter-American Development Bank, International Financial Corporation and World Bank have developed impact investing facilities aimed at improving the lives of the globe's poorest. Leading global conveners like the World Economic Forum and the Clinton Global Initiative have launched impact investing initiatives.

Finally, numerous industry associations and networks have arisen to promote the concept including the GIIN, which is made up of 190 institutional members, as well as TONIC, a cheekily named sister organization that convenes individual investors and angel networks focused on impact investing. The Mission Investors Exchange out of Seattle organizes US foundations focused specifically on program and mission related investing.

There are great expectations for the industry. In 2010, JP Morgan studied five sectors-urban affordable housing, rural access to clean water, maternal health, primary education and microfinance-and estimated there was a potential global investment opportunity of between \$400 billion and \$1 trillion over the next decade.<sup>6</sup> A Monitor Group report found that "impact investing could mobilize US\$500 billion annually within 10 years, US\$120 billion from U.S. retail investors alone."<sup>7</sup>

### **The Roots of Impact Investing**

From the foundation perspective, the roots of impact investing reach back to the late 1960s. It was then that the Ford Foundation recognized that some of the nonprofits to which it contributed had models that could benefit from loans, not just grants. In 1969, the foundation successfully advocated for a change in the U.S. tax code to allow what is called a Program Related Investment, or PRI. PRIs are defined in Section 4944 of the Internal Revenue Code and require that the investment further the charitable mission of the foundation. These loans are taken from the same 5% allocation private foundations are expected to donate annually. PRIs can be used for loans, loan guarantees, linked deposits and even equity investments in charitable organizations or in for-profit ventures with a charitable purpose.

This innovation represented a tremendous step in the direction of investments for the private philanthropy industry. While the private foundation industry has been slow to systematically adopt PRIs, between 1990 and 2009, the total U.S. foundations invested in PRIs annually jumped from \$139 million to \$701 million.

In the late 1990s, the New York based F.B. Heron Foundation took this concept even further. In seeking greater impact for philanthropic goals, the Heron board asked if there was a way to unlock the power of its endowment. Why focus on the 5% when there was another 95% to consider? In 1996, the Board of Directors of the Heron Foundation embarked upon a conscious strategy of using their corpus to further their philanthropic mission. Through this process the Foundation was among the first to define the Mission Related Investment, or MRI.

Unlike the PRI, a mission related investment is made from the foundation's asset base. It is always intended to make a profit and it does not count against the five percent annual requirement. Foundations who make MRIs believe that they can serve their mission and make a positive financial return simultaneously.

The potential of unlocking full foundation assets for impact investment is tremendous. According to Emerson and Bugg-Levine, "if U.S. foundations committed as little as 5% of their endowments to impact investing, they would create a \$30 billion investment pool." The pool would be as large as the entire U.S. venture capital industry, which in 2013 alone invested \$29.4 billion<sup>8</sup>.

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The key word in the paragraph above is potential. Thus far, neither the broad impact investing field nor foundation-supported mission related investments come close to meeting their expectations.

### **More Talk than Action**

Despite the rosy predictions, impact investing continues to grow at a linear, rather than exponential pace. In October 2013, the World Economic Forum released an estimate that global impact investing was no more than \$40 billion<sup>9</sup>. That's far less than one percent of the total amount of global managed capital (which is in the tens of trillions of dollars). The Global Impact Investing Network's (GIIN) annual survey of impact investing organizations with at least \$10 million in capital under management had 99 respondents who claimed a total of \$8 billion in impact investing in 2012, and predicted they would make \$9 billion in 2013<sup>10</sup>. The implied 12.5% growth rate is encouraging, but as the World Economic Forum report indicates, the impact investing industry has still not moved from the "margins to the mainstream."<sup>11</sup>

When it comes to the foundation community, there are a number of reasons for this relatively slow growth. First, many smaller and medium sized foundations are unaware of mission related investment and its opportunities. Further, uncertainty regarding regulations around mission related investing and fiduciary responsibility have mitigated against MRI investment. Boards are understandably cautious about making any investments that could run afoul of IRS rules. However, with recent clarifications and new business classifications in many states<sup>12</sup>, the barrier to making MRIs is now primarily cultural and structural, not legal.

On the structural side, it is still not always easy to find good mission-related deal opportunities, particularly for community or regional foundations that focus on a small or sparsely populated area. Though expanding quickly, there are still too few intermediaries who specialize in developing impact investing deals. A related point is that successful impact investing demands the development of standardized measurement systems to assess social and environmental impact. To this aim, several new organizations, coalitions and regulatory agencies are creating standards for measurement of ROI in impact investing, including the GIIRS (Global Impact Investing Rating System), IRIS (Impact Reporting and Investment Standards) and the SROI Network.

Yet the biggest challenge remains the internal barriers constructed by foundations. As described above, foundations typically have separate oversight bodies for grant-making and investments. Investment committee members are typically drawn from the traditional investment community and rely upon investment advice from external advisors who are more comfortable with established financial products. The result is

a built-in cultural bias against MRIs. With a new generation of foundation board members, this culture is shifting, but the pace is still slower than proponents of impact investing would wish.

### **A Turning Tide in Texas**

Recent developments in Texas show momentum in the impact investing sector. This past January, the inaugural Texas-focused Impact Investing Conference was launched. Funded by the Ford Foundation, the **Impact Texas** conference convened 350 leaders and entrepreneurs from across the spectrum of social impact to deepen the ecosystem for impact investing in Texas.

At Impact Texas we learned about Chilton Capital, a private wealth management firm in Houston that is helping build and define impact investment funds primarily for its client base of high net worth individuals and families. Social impact is now becoming embedded in Chilton's investment strategies. While Chilton's direct role in impact investing relates to the impact funds they are creating for their client base, the firm has played an increasing role as a convener for impact investors from a variety of sectors, having created growing partnerships with organizations like Village Capital and the Hitachi Corporate Foundation.

Prominent among the innovations on the frontier of impact investing is the social impact bond (SIB). The SIB uses private investment to provide services that have the ultimate goal of achieving cost savings to governments. The first SIBs focused on reducing recidivism rates among young criminals. While the social impact of this change is clear, it was the reduction in incarceration costs that provided the opportunity for investment. If a proven cost savings is achieved, the government entity then repays the private investors, in some cases paying a considerable return on investment based on the scope of the reductions achieved. Invented in the United Kingdom and recently replicated in New York City, several SIBs are being explored in Texas, including a SIB focused on educational attainment in Dallas, and one focusing on a pay-for-success model to support the chronically homeless in Austin.

Finally, foundations in the state are beginning to play in this space. One important example is the Michael and Susan Dell Foundation (MSDF). MSDF is Texas' 7<sup>th</sup> largest foundation, with a corpus of more than \$800 million. MSDF hadn't made any impact investments in the domestic market until 2013 (although they had done this several times with positive results by helping establish the urban microfinance industry in India), when the Foundation took a \$1,500,000 private equity stake in Mastery Connect, a for-profit educational services and software startup<sup>13</sup>.

### **Conclusion**

Impact investing has the potential to reorient the entire system of investment to the achievement of positive social impact.

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As the impact investing industry expands, finding ways to define, measure and ultimately judge the achievement of blended value, financial return and social impact is essential to ensuring impact investing evolves to become a standard practice of the global financial system. The tremendous amount of capital in play in the world that has yet to enter into the impact investing market will not likely do so until data and measurement tools substantiating social impact are standardized or mainstreamed in some way.

Changes are happening, though, especially in the wake of the 2008 financial crisis. The crisis forced successful investors to re-evaluate their belief in the measurement systems underlying the world's financial industry because of its failure. Additionally, the pace of profits slowed enough to bring investment opportunities into focus that provide lower returns but established social impact. While innovations continue to proliferate in the impact investing industry, and the potential for the practice to become a core component of the global investment toolkit is clear, it remains to be seen to what extent impact investing will be another layer to the quest for deeper and more sustainable social impact or the spark that forever alters the world's system of money movement.

Texas is a unique place for this idea. With our current population boom, the growing prominence of Texas cities on the global stage and an explosion of business activity and wealth, Texas is the new American symbol of opportunity and prosperity. At the same time, Texas falls near the bottom of the list of U.S. states in terms of educational attainment, health care coverage, child poverty rates and many other social and environmental indicators. Many Texas philanthropists and private foundations have pledged significant resources to address these inequities; however, it is clear that traditional philanthropy and government subsidy alone cannot solve the deep and expanding needs of Texas' diverse communities.

Our unique Texas culture will play a significant role in how impact investing emerges in our region. We choose low taxes and have no state income tax, which limits the role of public subsidy for social investment. We are conservative and individualistic, and prefer a bootstraps-approach to community development. At the same time, we support entrepreneurs and innovators, and value private sector approaches to problem solving. Impact investing appeals to those who want less government intervention, who value the most effective social outcomes, and who take great pride in extending Texas' rich history of doing things differently.

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<sup>1</sup> <http://www.globalissues.org/article/26/poverty-facts-and-stats> accessed March 14, 2014

<sup>2</sup> <http://www.spotlightonpoverty.org/map-detail.aspx?state=Texas> accessed March 16, 2014

<sup>3</sup> LA Times <http://www.latimes.com/news/la-na-gatesx07jan07,0,2533850.story#axzz2w8NGH8a8> While the original response to the coverage by the Foundation was defensive, the Gates Foundation now releases its endowment investment portfolio annually and explicitly seeks to align their endowment with values that drive the foundation's work and have defined areas in which the endowment will not invest, such as companies whose profit model is centrally tied to corporate activity that they find egregious.

<sup>4</sup> Global Impact Investing Network [www.thegiin.org](http://www.thegiin.org)

<sup>5</sup> <https://www.missioninvestors.org/node/314> accessed March 15, 2014

<sup>6</sup> <http://www.thegiin.org/cgi-bin/iowa/resources/research/151.html> accessed March 14, 2014

<sup>7</sup> [http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact\\_Investing.pdf](http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf)

<sup>8</sup> <http://www.pwc.com/us/en/press-releases/2014/annual-venture-investment-dollars.jhtml>

<sup>9</sup> [http://www3.weforum.org/docs/WEF\\_II\\_FromMarginsMainstream\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf) p.1 Accessed 3/15/14

<sup>10</sup> <http://www.thegiin.org/cgi-bin/iowa/resources/research/489.html> Accessed 3/15/14

<sup>11</sup> [http://www3.weforum.org/docs/WEF\\_II\\_FromMarginsMainstream\\_Report\\_2013.pdf](http://www3.weforum.org/docs/WEF_II_FromMarginsMainstream_Report_2013.pdf) p.1 Accessed 3/15/14

<sup>12</sup> Many states are addressing regulatory uncertainty by creating a special type of business classification called "For Benefit Corporations" or 'B Corps.' In addition to explicitly being allowed to pursue social impact as a goal of their business operations, B Corps must meet standards of accountability to more than their owners, such as to its employees, the environment, and their clients.

Within the past half-decade, 20 states have passed laws and 16 are currently exploring policy changes that adopt the B Corp model and incentivize the creation of social businesses. While Texas has yet to establish any such law, several B Corps have found success, such as Aunt Bertha, Tech Ranch Austin, and Truewellbeing Inc.

<sup>13</sup> [http://www.msdf.org/assets/MSDF\\_MissionInvest\\_I2A5B114.pdf](http://www.msdf.org/assets/MSDF_MissionInvest_I2A5B114.pdf) accessed 5/2/13