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Market-based Government Activities in Texas

A Sampling from the Local and State Levels

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As government seeks to hold the line on broad-based tax rates, some departments and agencies have implemented market-based activities as a means to maintain and expand public services. Two entrepreneurial success stories can be found in the voluntary programs of Austin Energy and the State of Texas Parks and Wildlife Department (TPWD). These market-based activities claim relatively minor percentages of both budgets, present little risk to jobs, and yet are integral to the departments and to their customers. More importantly, these activities highlight the growing trend of government agencies and departments becoming more market-oriented and relying less on traditional budgetary allocations from taxes.

Unlike continuing criticisms from small businesses regarding the market-based federal prison industries services, the response to the market-based activities of Austin Energy and TPWD has been muted. In fact, it seems likely that other government entities will join these departments in their efforts to expand public services without also expanding their requests for public funds.

Market-based Programs, Local Level: the Case of Austin Energy

In response to Austin City Council goals—clean energy and the development of additional revenues from services currently unavailable from private sector businesses—Austin Energy established several programs:

DSM. Since the early 1980s, Austin has been in the forefront of demand side management (DSM), offering rebates and other incentives for customer conservation efforts. Increased installations of high-efficiency air conditioning equipment and other appliances, lighting retrofits, and weatherization have resulted in the reduction of peak demand. Private sector businesses perform nearly all the work.

Using a shared savings (or avoided cost) model, the city pursues programs that produce demand savings at a cost that is less than that of new generation capacity, and the resulting savings are shared with customers in the forms of incentive rebates and lower electric bills. Because these programs aim at peak demand reduction, they also result in better utility asset use. Since the inception of its DSM efforts, Austin has produced demand savings equivalent to a 500-megawatt power plant (see figure 1). These programs cost between 12 percent and 45 percent of the cost of new conventional generation capacity, achieving substantial capital savings. By design, these results are attained in collaboration with Austin Energy's customers: residential customers have participated in more than 370,000 DSM and energy efficiency projects, and more than 4,000 commercial customers, including all of Austin Energy's largest 200 customers, have participated. Over the life of the DSM project, Austin has provided more than \$150 million in

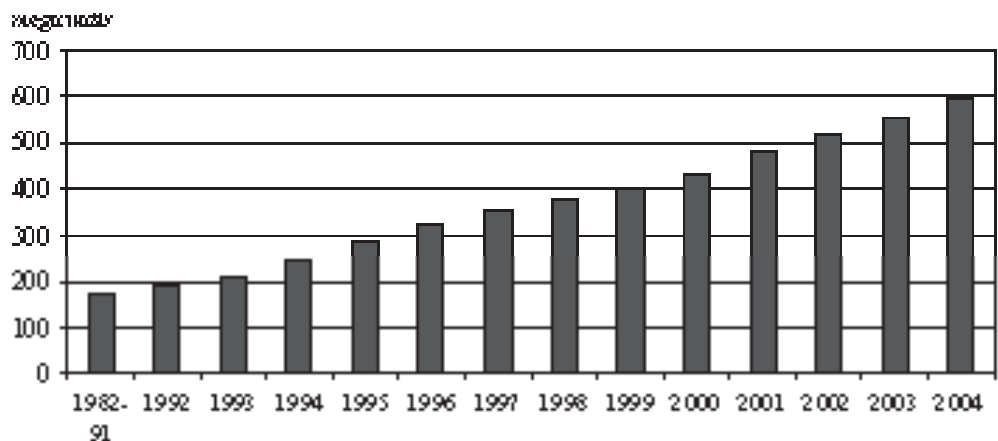
incentives. In total (Austin Energy's incentives and customer contributions), the DSM program has generated more than \$500 million for energy-efficient improvements, most of which has gone to local Austin businesses. In its *2003 Strategic Plan*, the Austin City Council recommitted Austin Energy to pursuing cost-effective DSM and energy-efficient options as a priority in meeting new load growth.

Green Choice®. Another success story for Austin Energy, the voluntary Green Choice

proportion to the amount of Green Choice selected; full customers are recognized in print and television media. Another factor is marketing: Austin Energy assigns employees to market the program to business customers directly. The key factor, however, is the program's record for creating value for customers through the fixed price aspect of the charge. This contrasts Austin Energy's standard fuel charge, which can be significantly affected by fluctuations in

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Figure 1
DSM Cumulative Savings



Source: Austin Energy.

program has led the nation in renewable energy sales for three years in a row. Under this program, customers elect to receive a portion or all of their electricity from renewable energy sources. A Green Choice customer commits to a ten-year agreement, during which his fuel charges are replaced with a charge that remains fixed for the term of the contract. Although current customers pay a one-half cent premium for their electricity, Green Choice has won many converts, even among cost-conscious large business customers, and is now a national model for clean energy alternatives. Launched in 2000, Green Choice serves 8,200 residential, 325 small business, and 42 large business customers and totals more than 430 million kilowatt-hours annually (figure 2).

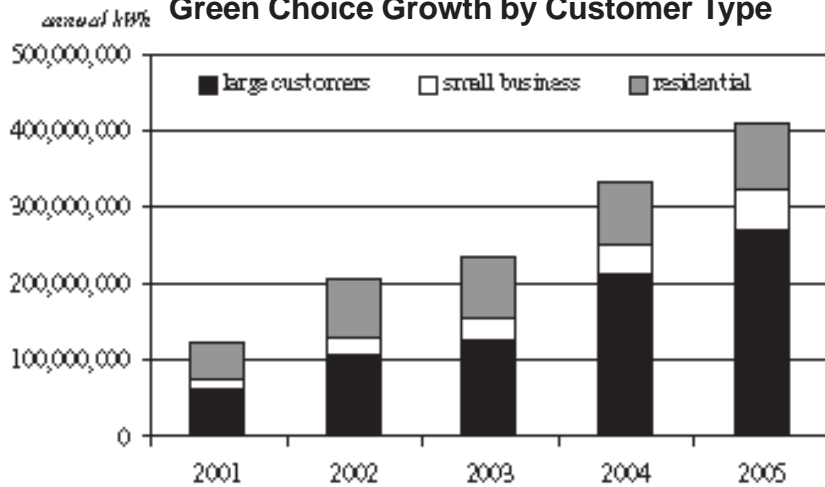
Several factors have contributed to the success of this program. For one, Green Choice offers a significant advertising package to its business customers in

natural gas and other fuel prices. In other words, the program helps a business both meet bottom line targets and be a responsible corporate citizen.

CHP. Austin Energy's combined heat and power (CHP) initiative captures the waste heat given off in the production of electricity and uses it to provide other energy services such as hot water, steam, and chilled water. Overall efficiencies can be as high as 70 percent, which are almost twice the efficiencies experienced in most conventional electric generating plants. Austin Energy's CHP service, currently unavailable from private energy sector businesses, offers expanded energy value by providing additional thermal energy services tailored to a customer's requirements. The customer avoids the capital expenditures associated with boilers and chilled water plants, and if emergency power is needed, that capital cost can be avoided as well.

“We’ve had to be very creative about finding new revenue sources,” said Lydia Saldaña, TPWD Communications Division director. “We raise more than half of our operating revenue through hunting and fishing license sales and state park entrance and camping fees, so we are more like a private business in that sense. We rely less on tax money than most other state agencies. Sponsorships generate additional revenue that make possible programs and products for our customers that would not otherwise be possible.”

Figure 2
Green Choice Growth by Customer Type



Source: Austin Energy.

Austin Energy designed the CHP program to stand autonomously and produce revenue. Currently, the utility has one commercial CHP project in operation and a second under construction. The operating project provides chilled water to customers in a north Austin business park. The second one will provide chilled water, hot water, and steam, as well as backup power during emergencies, to the new Dell Children’s Medical Center of Central Texas and chilled water to a district cooling system that will serve the adjoining medical office building, the Ronald McDonald House, and future customers.

Market-based Programs, State Level: the Case of Texas Parks and Wildlife

The Wildlife Conservation Act of 1983 charged the Texas Parks and Wildlife Department with managing the state’s parks and fish and wildlife resources. The costs of this responsibility have continued to increase even as limited state budget dollars have been stretched in many different directions. As the expense of conserving the state’s natural resources grows, TPWD has concentrated its market-based activities on innovative marketing and promotional responses to maintain programs and tailor them to the submarkets served by the department.

Areas of emphasis include, for example, the retention of established customers and the recruitment of new ones for hunting and fishing licenses, a captive yet totally voluntary market. Also, TWPD sets entrance and camping fees to remain competitive with national and municipal/county parks and uses its promotional and marketing efforts to emphasize the unique attributes of individual state parks.

Although most entrepreneurial approaches begin with seed money for salaries and operating expenses from the departmental budget, some activities generate a net profit. For instance, *Texas Parks and Wildlife* magazine now covers about two-thirds of its operating expenses from subscription fees and advertising revenues, a considerable change from twenty years ago when it was funded almost entirely from state funds.

In addition, in 1991, the Texas Parks and Wildlife Foundation was chartered and later became the official nonprofit partner of TPWD. The Foundation has entered into a number of significant private company sponsorships that help fund specific activities, programs, and enhancements for fisheries, wildlife conservation, and state parks, and it accepts charitable donations, which are used in a variety of projects to support the department’s mission. Since its inception, the Foundation has raised more

Because of the benefits for the state's citizens and departmental customers, the Texas Parks and Wildlife Department Foundation continues to seek new partnership opportunities with private corporations, individuals, and organizations.

than \$43 million for natural and cultural resource conservation and management.

To decrease its reliance on public fees and tax dollars, the department created several entrepreneurial programs that generate revenue statewide:

Big Time Texas Hunts. Since 1999, this program has been the most successful TPWD entrepreneurial fundraising project (figure 3). For a \$10 fee, anyone can enter to win one of seven prize hunts, and TPWD sets no limits on the number of entries. The big prize, the Texas Grand Slam, combines the top four big game hunting opportunities—desert bighorn sheep, white-tailed deer, pronghorn antelope, and desert mule deer—into one hunting package. In 2004, TPWD saw net revenue of \$395,702 from more than 82,000 entries. This income funded wildlife research, habitat management, and public hunting.

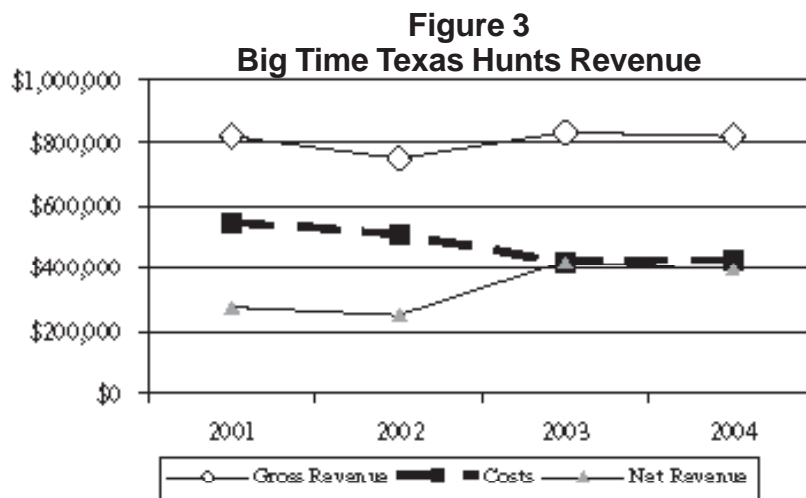
Texas State Parks Pass. This \$60 pass provides access to the more than 120 state parks and historic sites in Texas. Introduced in 2004, the program generated \$3.7 million in its first year from sales of almost 60,000 passes. The department uses this revenue for park operations.

"Kids Ride Free." The historic Texas State Railroad offers a 50-mile round-trip steam

engine ride between Rusk and Palestine State Parks. In 2004, the railroad initiated the "Kids Ride Free" program to attract families to ride the state's official railroad during the summer months, typically a slack period for ridership. As figures 4 and 5 show, from 2003 to 2004, railroad ridership and concession sales more than doubled: ridership grew by 107 percent; concessions by 116 percent. Ticket sales revenue jumped 37 percent, and gift shop sales increased dramatically, showing 78 percent growth. The overall growth provided more money to help offset the high cost of maintaining and operating the steam engine.

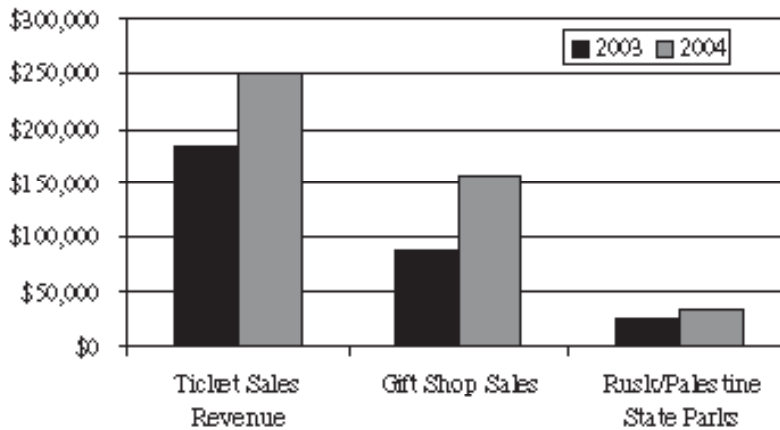
An Eye to the Future: Collaboration and Cooperation

Austin Energy and TPWD are creating partnerships and sponsorships as a means to meet goals, maintain and expand programs, and remain responsive to their respective customers. Although the strategies are similar, the particulars differ significantly. The future clean energy goals of Austin Energy, for example, will require additional clean energy technologies, some of which may not yet be commercially available.¹ Understanding that it does not possess the competencies needed for the rapid development of technological innovations, Austin



Source: Texas Parks and Wildlife Department.

Figure 4
Texas State Railroad Revenue Before and After
Establishment of Kids Ride Free Program, May-August



Source: Texas Parks and Wildlife Department.

Energy sees the establishment of strategic *technological partnerships* as critical. Appropriate collaboration with academic and industry research and development organizations will be necessary to bridge the expertise gap. Such partnerships will help provide the insight and experience needed for the successful deployment of innovative clean energy technologies and associated business models. When properly coupled with innovative utility business models and a keen customer focus, clean energy technologies can offer customers competitive energy options and a more secure energy future.

Texas Parks and Wildlife will be relying increasingly on *financial partnerships* with private companies. These partnerships have been developed through a specific, detailed policy on sponsorship that establishes procedures for the solicitation and acceptance of contributions by TPWD and its nonprofit partners.² Private company sponsorships have enhanced numerous departmental activities. For example, through major company sponsorships, the Foundation has funded projects such as the World Birding Center and Sheldon Lake Environmental Learning Center. Sponsorships also fund the Texas Parks and Wildlife Expo, an annual free outdoor festival, and the publication of the *Texas*

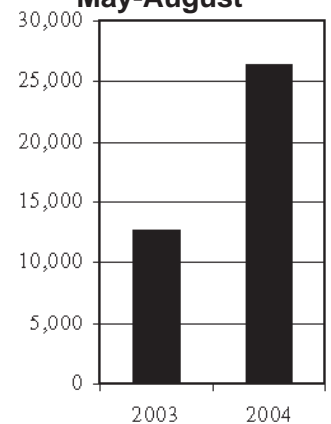
State Park Guide. Because of the benefits for the state's citizens and departmental customers, the TPWD Foundation continues to seek new partnership opportunities with private corporations, individuals, and organizations.

Notes

1. Austin Energy, like much of the utility industry, uses substantial quantities of natural gas for the production of electricity. Unfortunately, future domestic natural gas supplies may be inadequate to meet future demand, and the United States may have to import increasing amounts of natural gas to meet future requirements. Unlike natural gas, renewable energy sources will be completely available domestically. These clean energy sources will not be subject to international supply and price uncertainties.

2. Guidelines include protocol for establishing the level of sponsorship recognition and appropriate use of department name and logo in conjunction with sponsored projects. Donations of \$500 or more to TPWD require approval from the Texas Parks and Wildlife Commission, the nine-member board appointed by the governor to oversee the department.

Figure 5
Texas State Railroad
Ridership Before and
After Establishment of
Kids Ride Free Program,
May-August



Source: Texas Parks and Wildlife.

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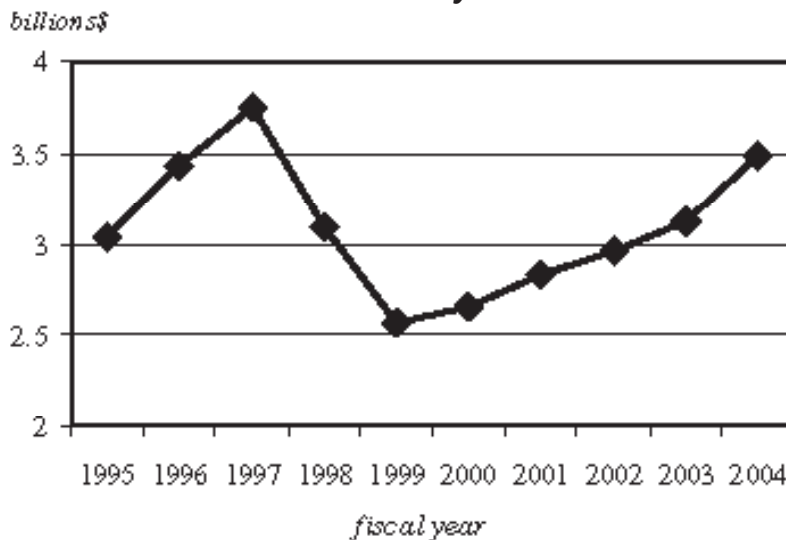
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Large-Scale Market-Based Activities *Texas Lottery Sales*



Source: Texas Comptroller of Public Accounts.

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