



Glenn Hegar Texas Comptroller of Public Accounts

Community Reinvestment in Texas

Fiscal 2015 – 2017



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Community Reinvestment in Texas Fiscal 2015-2017

Overview

In 1997, the Texas Legislature created the Community Reinvestment Work Group to collaborate with the financial industry to develop statewide community reinvestment strategies. Community reinvestment strategies include financial literacy education, investment pools and other vehicles used to leverage private capital from banks, insurance companies and other entities for community projects.

The Community Reinvestment Work Group includes representatives from the:

- Texas Comptroller of Public Accounts (Comptroller)
- Texas Department of Banking (DOB)
- Texas Department of Insurance (TDI)
- Governor's Economic Development and Tourism Division (EDT)
- Texas Department of Housing and Community Affairs (TDHCA)

Each biennium, the work group summarizes its community reinvestment programs and evaluates the effectiveness of its strategies. The following state agencies contributed to this update:

- Texas Certified Capital Company (CAPCO)
- Texas Comptroller of Public Accounts
- Texas Department of Agriculture (State Office of Rural Affairs)
- Texas Department of Banking
- Texas Department of Housing and Community Affairs
- Texas General Land Office (Disaster Recovery)
- Texas Department of Insurance
- Governor's Office Economic Development and Tourism Division

This update provides an overview of the Community Reinvestment Act (CRA); highlights national and state financial benchmarks; and describes small business, small farm and community development lending in Texas. Also discussed are state agencies' community reinvestment strategies and examples of Texas community reinvestment initiatives, including financial literacy surveys and related workshops held across the state.

The Community Reinvestment Act Overview

The Community Reinvestment Act was one of the first federal acts to address "redlining" by banks and savings and loan institutions — the figurative practice of drawing a red line on a map to mark areas in which banks will not invest. The term redlining also describes discrimination against persons based on gender or race. In 1977, Congress created the CRA (12 U.S.C. 2901), also known as Title VIII of the Housing and



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Community Development Act, to encourage commercial banks and savings and loans to help meet the credit needs of all segments of the communities they serve. The CRA applies to all federally insured depository institutions, national banks, thrifts and state-chartered commercial and savings banks.

Community Reinvestment Work Group Facts and Figures

Employment

- U.S. employers added 156,000 jobs in August 2017.¹
- Despite fewer jobs in August 2017, compared to one month earlier, the U.S. labor force participation rate remained steady at 62.9 percent.²
- Texas' seasonally adjusted unemployment rate was 4.4 percent in August 2017.³

Small Businesses and Small Business Lending

- According to the Office of Small Business Advocacy's August 2017 research update, small businesses employ near half of all U.S. private-sector employees and represent 99.9 percent of all employer firms.⁴
- Small businesses account for 41.2 percent of private-sector payrolls and 97.7 percent of firms that export goods.⁵
- Generally, to finance business expansion small businesses rely on personal and family savings (21.9 percent), business assets and profits (5.7 percent), business loans through financial institutions (4.5 percent) and business credit cards from banks (3.3 percent).⁶
- Small businesses create more than half of nonfarm gross domestic product (GDP) annually.⁷
- The Small Business Administration Office of Advocacy found that minority- and women-owned small businesses are more apt to be discouraged from seeking additional credit or financing.⁸
- U.S. small businesses recorded positive trends in sales growth, hiring and increased profitability between 2015 and 2016.⁹



Members of the Community Reinvestment Work Group.

State Agency Community Reinvestment Programs and Strategies

Each agency represented by the Community Reinvestment Work Group submitted information on its programs for fiscal 2014-2017 and strategies for promoting community reinvestment in Texas for fiscal 2016-2019. These strategies do not necessarily reflect the views of all group members.

Texas Department of Agriculture

The Texas Department of Agriculture (TDA) assists rural communities and hospitals in Texas in attracting and retaining businesses, expanding and improving public infrastructure and securing quality health care. TDA also provides financial assistance to agricultural producers, especially young farmers and ranchers, to expand their production capabilities.

Programs

TDA'S Office of Rural Affairs includes the Texas Community Development Block Grant (TxCDBG) Program unit and the Texas State Office of Rural Health.

- Administered by TDA, the TxCDBG focuses on providing basic human needs and sanitary infrastructure to rural communities. Local needs eligible for financial assistance include clean drinking water, sanitary sewer systems, disaster relief and urgently needed projects including housing, drainage and flood control, navigable streets, economic development and community centers. In 2016, 227,843 persons were assisted.
- Proposed activities must meet one of three HUD National Program Objectives: principally benefit low- and moderate-income persons; aid in the elimination of slums; or, meet other urgent community development needs that represent an immediate health or safety threat to community residents.
- The TxCDBG program is the nation's largest. HUD awarded the program \$61.5 million for program year 2014; \$59.8 million for 2015; \$61.0 million for 2016; and \$59.6 million for 2017.¹⁰ The program serves 1,015 HUD-designated, non-entitlement cities and 244 HUD-designated, non-entitlement counties or rural communities. Non-entitlement cities are those with populations of fewer than 50,000; non-entitlement counties are those with fewer than 200,000 persons in their non-entitlement cities and unincorporated county areas.
- The *Community Development Fund* (CDF) is the largest in the TxCDBG program. Every biennium, eligible cities and counties may apply through a regional competition for CDF assistance. Eligible activities include infrastructure projects such as drainage, sewer and water system improvements; housing rehabilitation and improvements to bridges and streets. Each of the 24 state planning regions receives an annual allocation based on its population and levels of poverty and unemployment.¹¹



The TxCDBG (HUD) Program is the nation's largest, providing services to more than 483,000 Texans annually.

- TDA's Texas State Office of Rural Health serves approximately 150 rural hospitals, benefits nearly four million rural residents and indirectly benefits all Texans. The office works with local, state and federal partners to develop, support and coordinate programs and services to improve access to health services in rural areas of the state.¹²
- TDA's Jobs for Texas (J4T) is an innovative program that helps promote small business' access to capital and enables private entrepreneurs to make market-driven decisions to grow jobs. The program won a \$46.5 million award from the U.S. Department of the Treasury as part of the State Small Business Credit Initiative (SSBCI). J4T is a venture capital investment program that allows Texas businesses and investors access to increase the amount of funds available to qualifying small businesses as defined by the SSBCI.
- Investment proceeds can be used for any business purpose including startup costs, working capital, business procurement, franchise fees, equipment and inventory.
- TDA's J4T program, introduced in 2016, supports rural small businesses' access to capital and enables private entrepreneurs to make market-driven decisions to grow jobs, assist their growth potential and enhance employment capabilities through partnering with community development financial institutions.

Strategies

TDA's TxCDBG program operates four programs that stimulate job creation/retention activities to primarily benefit low- and moderate-income (LMI) communities and persons, prevent/eliminate slum and blight conditions and support community planning efforts.

- The TCF Real Estate and Infrastructure Development Programs
- The Downtown Revitalization Program
- The Main Street Development Program
- The Planning and Capacity Building Fund



Texas Department of Banking

Texas Department of Banking (DOB) monitors how well state-chartered banks are meeting the needs of communities through funding of affordable housing projects, loans to businesses and individuals and projects compliant with the CRA. Texas continues to attract out-of-state banks due to preferable economic conditions, low unemployment levels and geographic location.

Programs

- Financial institutions contribute to the community and economy through community reinvestment programs consistent with safe, sound operating practices and help not only individuals but community service organizations and small businesses.
- DOB waives corporate fees for applicants that plan to serve LMI areas and in accordance with 7 TAC §15.
- Branching activities have continued at a consistent pace with 120 new branch offices approved by DOB between Jan. 1, 2014 and Dec. 31, 2016. Texas has been an attractive place for out-of-state banks to expand due to preferable economic conditions, geographic location and unemployment levels. As of Dec. 31, 2016, there were 31 non-Texas state chartered banks operating branches in Texas, along with 24 out-of-state national banks with branches in Texas.

Strategies

- DOB promotes financial education through financial literacy initiatives and hosting financial education events throughout the year. Reaching wide audiences in both rural and urban areas, DOB hosts quarterly teleconferences and webinars covering a variety of financial education topics. Sessions target financial institutions, government agencies, nonprofit organizations, teachers, individuals and community leaders who have an interest in providing consumer education and improving financial literacy in their communities. Topics include fraud prevention and identity theft for senior citizens, in-school banking initiatives such as children's savings accounts and best practices in community development and meeting CRA obligations.
- In fall 2015 and summer 2016, DOB provided financial education at Train-the-Trainer Workshops in Dallas, San Antonio and Houston for financial institutions, teachers, government agencies, non-profit organizations and community leaders.
- DOB encourages state-chartered banks to develop or enhance financial education programs. The Centers of Monetary Education for Texans (COMETs) program encourages state-chartered banks to provide financial education programs and services in Texas schools.
- DOB educates and protects consumers and actively promotes and participates in financial literacy initiatives each year bringing institutions, businesses, schools, nonprofit organizations and government agencies together. These include:
 - Alliance for Economic Inclusion (FDIC sponsored)
 - "Bank On" programs in Texas
 - Financial Fitness Greater Austin, Dallas and Fort Worth
 - Houston Money Week and Money Smart Week El Paso
 - Texas Financial Education Endowment
 - Texas financial literacy in public schools
 - Train-the-trainer workshops

Texas Comptroller of Public Accounts Texas Certified Capital Company (CAPCO)

Programs

The Comptroller's office and the Texas Treasury Safekeeping Trust Company administer the \$400 million CAPCO Program. CAPCOs are government-sponsored, private venture capital companies that provide alternative sources of venture capital to Texas entrepreneurs. Funded by insurance premium tax credits, the CAPCO Program supports economic development and generates tax revenues for the state by encouraging business growth and job creation. The CAPCO Program is authorized by Insurance Code §228.001-353 and Rule 3.833 in Title 34, Texas Administrative Code Part 1, Chapter 3, Subchapter GG. The Comptroller reviews each CAPCO to ensure compliance with program requirements.

- As of December 2015, more than \$367 million had been invested in Texas businesses through the CAPCO Program.
- By Dec. 15 of each even-numbered year, the Comptroller's office publishes a biennial report on CAPCO-related job creation and program data to the governor, lieutenant governor and speaker of the Texas House of Representatives.

For details on CAPCO's certified capital received and reporting status for Program I and Program II, view the 2016 CAPCO Report at <https://comptroller.texas.gov/programs/systems/capco/docs/capco2016.pdf>.



Funded by insurance premium tax credits, the CAPCO Program supports economic development and generates tax revenues for the state by encouraging business growth and job creation.

Strategies

- The CAPCO Program continues to support economic development in Texas by encouraging business growth and job creation through government-sponsored, private venture capital companies that provide alternative sources of venture capital for Texas entrepreneurs.

Texas General Land Office Community Development and Revitalization (GLO-CDR)

The Texas General Land Office (GLO), through its Community Development and Revitalization Program (GLO-CDR), works to rebuild Texas communities by putting Texans back in their homes, restoring critical infrastructure and mitigating future damage through resilient community planning.

- Since 2011, the GLO has been the lead Texas state government agency for administering almost \$4 billion in HUD Community Development Block Grant Disaster Recovery (CDBG-DR) funds. These funds were allocated following hurricanes Rita, Dolly, and Ike; the 2011 wildfires and the 2015 and 2016 floods.
- About 20.9 million people in Texas, 76 percent of the state's population spread across 160 counties, felt the impacts of the 2015 and 2016 floods.

Programs

- GLO-CDR oversees \$50.7 million in CDBG-DR funds from HUD for recovery and rebuilding due to 2015 storms and flooding events.¹³ A total of 116 counties are eligible for recovery funding from presidential disaster declarations in 2015. Harris, Hays, Hidalgo and Travis counties suffered the greatest impact from severe storms, tornadoes, straight-line winds and flooding.

Strategies

- The GLO's State Action Plan, available on the GLO website, <http://www.glo.texas.gov/recovery/reporting/action-plans/index.html>, identifies recovery, rebuilding and revitalization funds and methods of distribution for declared disasters.



TDHCA committed \$655.4 million in total funds and tax credit assistance in fiscal 2016.

Texas Department of Housing and Community Affairs

The Texas Department of Housing and Community Affairs (TDHCA) is the lead agency responsible for affordable housing. TDHCA's programs address a range of housing and community service needs of lower income individuals, households and special needs populations. TDHCA also promotes safe, decent, affordable home ownership; financing of the development and rehabilitation of affordable rental housing and supporting community and energy assistance programs and *colonia* housing programs.¹⁴

Programs

- TDHCA administers programs and services, excluding the Section 8 Housing Choice Voucher Program, through a network of organizations across Texas and does not fund individuals directly.
- TDHCA provides de-obligated, discretionary or other funds, as needed, for disaster relief support. This includes HOME Disaster Relief funds for distribution to non-entitlement, disaster-impacted areas and community services block grant disaster relief funds pending funding availability for persons affected by disasters in need of food, clothing and essentials such as hygiene products.

- The agency committed \$628.1 million in total funds and tax credit assistance in fiscal 2015 and \$655.4 million in fiscal 2016.¹⁵ Most funding and assistance came from federal or federally-authorized resources or market-based loan mechanisms, and slightly more than 1 percent came from state sources.¹⁶ Funding and assistance primarily benefited individuals and households earning less than 80 percent of the area median family income.
- More than 97.6 percent of the households/individuals served by TDHCA housing programs in fiscal 2015 had incomes between 31 and 60 percent of the area median family income.¹⁷

Strategies

TDHCA implements the following strategies, which may encourage community reinvestment while addressing the housing and community services needs of those with lower to moderate incomes.

- For fiscal 2017, TDHCA announced the availability of \$3 million from the State of Texas Housing Trust Fund (HTF) for the Texas Bootstrap Loan Program. This self-help housing construction program provides opportunities for very low-income households and persons with special needs to purchase or refinance real property on which to build new housing or repair existing homes through “sweat equity.”¹⁸
- In fiscal 2016, the agency infused the state’s economy with a total of \$102 million in multifamily housing funds, which supported the development of new and existing multifamily rental housing.¹⁹
- TDHCA administers multifamily housing funds through its multifamily loan, bond and credit programs. The Housing Tax Credits program²⁰ directs private capital toward the development and preservation of affordable rental housing for lower income households. TDCHA also administers programs to help people avoid or move past homelessness.



Texas Department of Insurance

Programs

The Texas Department of Insurance (TDI) regulates the state’s insurance market, including more than 1,900 insurance companies, health maintenance organizations and other insurance risk-bearing carriers.

- In 1995, the Legislature authorized, in Insurance Code Chapter 2211, creation of the Fair Access to Insurance Requirements (FAIR) Plan. The commissioner implemented the Texas FAIR Plan Association (TFPA) in 2002 to provide residential property insurance to qualified Texas citizens who cannot obtain coverage from licensed insurance companies. This alternative market is a residual market of last resort and is not intended to compete with the standard property insurance market.
- Consumers who have been declined residential property insurance by at least two insurance companies in Texas may apply for coverage, which is available for:
 - one- and two-family dwellings;
 - townhouse units and condominium units that are owner occupied;
 - rental dwellings (one- and two-family) and their contents; and
 - personal property of tenants living in rental dwellings or apartments.

TFPA’s current insured liability is more than \$19.8 billion as of June 30, 2017. TFPA generated \$122 million in Texas premiums in 2016. Visit the TFPA website for more details.

Another residual market, the Texas Windstorm Insurance Association (TWIA), provides wind and hail coverage in the 14 Texas Tier 1 coastal counties, and certain portions of Harris County, that have been designated as a catastrophe area. A number of regular insurance companies have ceased writing wind and hail insurance in the coastal areas due to concerns about hurricanes. TWIA received nearly 19,000 claims in 2015, the second-highest volume of claims since Hurricane Ike.²¹ TWIA provided about \$74.8 billion in coverage as of June 30, 2017, and generated \$487.4 million in Texas premiums in 2016.²² Visit the Texas Department of Insurance website for more information.

Strategies

- The Texas Department of Insurance’s primary community reinvestment strategy fosters fair market competition to enhance the capacity and affordability of the insurance markets. Benefits to consumers and companies include greater choices in insurance products and companies as well as lower prices.
- The agency’s Consumer Protection Section helps consumers determine their available insurance options through publications and presentations at outreach events

Governor’s Office Economic Development and Tourism Division

Programs

The Governor’s Office of Economic Development and Tourism (EDT) and its bank division administer economic development projects benefiting private companies and the communities in which they choose to relocate or expand. These programs include the Office of Small Business Assistance (OSBA), the Texas Enterprise Fund (TEF), Texas Product Development and Small Business Incubator Fund (PDSBI), Capital Access Program, Texas Industrial Revenue Bond Program (IRB) and the Texas Enterprise Zone Program (EZP).

Office of Small Business Assistance

- In 2017, the Governor’s Office’s Economic Development and Tourism Division’s Office of Small Business Assistance (OSBA) worked with local, state and federal partners to select sites for the Governor’s Small Business Forums in cities across Texas. These forums educate members of the entrepreneurial and small business communities about the challenges involved in starting, operating and growing a business while highlighting available opportunities, tools and resources. The forums allow business owners to meet lenders; learn about financing options, insurance and healthcare concerns; licensing; professional development initiatives; exports and other small business matters. They also recognize the achievements of local small businesses and the contributions they make to their local economies. Forums also focused on:
 - workforce and skills development
 - “Skills for Small Business” Program (Texas Workforce Commission)
 - business start-up essentials and de-mystifying the lending process
 - marketing and social media tools, cybersecurity and data management
 - networking, connecting to other businesses and building capacity
 - contacts and procurement opportunities with federal, state and local government agencies



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- promoting entrepreneurship and access to capital, opportunities and resources for small, mid-size and historically underutilized businesses
 - export trade opportunities and resources
 - State of Texas small business awards
- The OSBA also administers Governor's Small Business Service Provider Grants, designed to enable Texas-based small service providers to diversify and enhance projects and activities benefiting the state's small businesses and HUBs. Grants of up to \$20,000 help small business service providers develop a greater degree of flexibility and creativity in offerings to small businesses in their respective areas.

Texas Enterprise Fund

The largest "deal-closing" fund of its kind in the nation, the TEF provides cash grants for projects that propose significant job creation and capital investment. Using the TEF is considered only when needed to help close deals already having significant local support.

Award amounts are determined using an analytical model applied to each TEF applicant. This model determines whether Texas will see a full return on its investment within the period of a project contract due to the resulting increase in sales tax revenues. Variations in award amounts are influenced by the number of jobs to be created, the expected timeframe for hiring and the average wages to be paid. Based on past history, awards have generally ranged from \$1,000 to \$10,000 per job.

Texas Product Development and Small Business Incubator Fund

The PDSBI is a revolving loan program funded through an original bond issuance. Its primary objective is to aid in the development, production and commercialization of new or improved products and to foster and stimulate small business in the state. Preference for funding is given to the state's defined industry clusters: nanotechnology, biotechnology, biomedicine, renewable energy, agriculture and aerospace. Funding priorities also include job creation and retention within Texas.

The PDSBI is an asset-based lending program with flexible loan terms and competitive interest rates. The loans can be secured by property, plant and equipment (PP&E) and amortized over the life of the asset. Loan proceeds may be used for a broad range of capital and operating expenditures. The Texas Economic Development Bank administers the PDSBI at the direction of the Governor's appointed nine-member board of directors.

Capital Access Program

The Capital Access Program was established to increase the availability of financing for businesses and nonprofit organizations that face barriers accessing capital or fall outside the guidelines of conventional lending. To begin the process, the borrower must apply for a loan with a participating lender with terms established between the borrower and the lender. Eligible lenders must be:

- a small or medium-sized business (499 employees or less);
- a nonprofit organization; or
- domiciled in Texas or have at least 51 percent of its employees located in this state.

Each participating lender has a reserve account with the funds to be used in case of the default of an enrolled loan. Use of proceeds may include working capital or the purchase, construction or lease of capital assets, which include buildings and equipment. Construction or purchase of residential housing and simple real estate investments (excluding those occupied by the applicant's business) are ineligible uses of capital access proceeds.



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Industrial Revenue Bond Program

The IRB is designed to provide tax-exempt or taxable financing for eligible industrial or manufacturing products as defined in the Development Corporation Act of 1979.²³ This law allows cities, counties and conservation and reclamation districts to form nonprofit industrial development corporations (IDCs) or authorities on their behalf. The purpose is to provide bonds for projects within their jurisdictions. The IDC acts as a conduit through which funds are channeled. Generally, bond debt service is paid by the business under the terms of a lease, sale or loan agreement and does not constitute a debt or obligation of the governmental unit, the IDC or the state.

Enterprise Zone Program

The EZP is an economic development sales tax incentive partnership of the state and local governments to help local employment and support business investment. The EZP is performance-based and allows qualified businesses to receive refunds of state sales and use taxes ranging from \$2,500 to \$7,500 per job created and or/retained during a five-year period, up to a maximum of \$3.75 million. The amount of the refund is related to the capital investment and jobs at the qualified business site.

Strategies

- The OSBA coordinates with the Texas Workforce Commission to foster Texas as the premier place to start and grow a small business by executing a series of statewide initiatives. The Small Business team assists small and medium enterprises (SMEs) through resources, strategies, insights, programs and promotion to help them succeed in the global marketplace.



2017 Legislation

85th Legislature: House and Senate Bills

In 2017, the Legislature enacted legislation affecting a number of agencies involved with community reinvestment in Texas. Several bills affected TDHCA's Texas Bootstrap Loan Program by clarifying where funds are deposited and held, housing tax credit thresholds and established a method for allowing motor vehicle registrants to make voluntary contributions to the Ending Homeless Fund also administered by TDHCA.

House Bill 1 covers a wide range of state government programs and functions including community reinvestment-related agency programs, including requiring TDHCA to produce an annual report on the number of low-income households benefiting from energy efficiency monies through state, federal and utility-funded programs. In addition, the bill requires no less than \$500,000 be spent each year of the biennium on low and moderate-income housing construction in enterprise zones.

House Bill 471 authorizes a credit union or other financial institution to conduct savings promotion raffles as a way to encourage savings among Texans.

House Bill 1512 removes caps on the maximum amount of total repayable mortgage loans made to the owner-builder through the Texas Bootstrap Loan Program, allowing the program to function in areas that have seen high increases in land value.

House Bill 2904 changes a memorandum of understanding between TDHCA and other agencies for the coordination of services to persons needing multiagency services for aging-in-place, emergency shelter, family preservation and strengthening, housing, information and referral.

House Bill 3574 allows TDHCA to consider educational quality as a part of threshold criteria but not as a part of scoring criteria for housing tax credit applications.

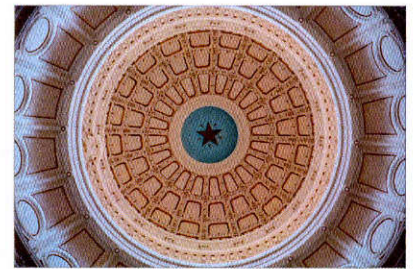
House Bill 3921 protects the financial well-being of vulnerable adults. Financial institutions as well as securities dealers and investment advisors are required to place a temporary hold on suspicious transactions involving disabled or elderly persons and report suspected financial exploitation to the Department of Family and Protective Services.

House Bill 4102 allows persons registering or renewing their motor vehicles to make voluntary contributions to the Ending Homeless Fund administered by TDHCA.

Senate Bills

Senate Bill 1238 changes the definition of at-risk development under the housing tax credit program.

Senate Bill 1677 requires TDHCA and other state agencies to include language on applications for assistance, services or programs notifying female veterans of possible resources for help.



State Capitol, Austin, Texas

Endnotes

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