

FORTUNE

July 21, 2008

NORTH TEXAS

By Susan Caminiti

Three months ago, Dallas Mayor Tom Leppert led a delegation of city officials and local business leaders on a weeklong visit to China. The April trip had many highlights, most notably meetings with Chinese officials in Beijing, Tianjin, Qingdao, Shenzhen, and Hong Kong. At each stop the Mayor presented a detailed overview of his city's attributes: everything from its central U.S. location, proximity to a world-class international airport, and good demographics to its favorable business climate and solid commercial and residential real estate markets.

The sales pitch worked: At the end of the visit, ZTE—the giant telecom company based in Shenzhen—announced it would establish U.S. headquarters in Dallas, bringing with it nearly 100 new jobs to start and an initial \$1 million to outfit its 21,000 square feet of new office space. With China now Dallas's top trading partner, the hope, says Mayor Leppert, is that ZTE is just the first of many Chinese companies that will be calling "Big D" their U.S. home. "We can't afford to think of business on just a national scale, or even limit our efforts to this hemisphere," says the Mayor, who prior to taking office in June 2007 was chairman and CEO of Turner Corp., a multibillion-dollar global construction company. "We have to be actively recruiting foreign companies, foreign trade, and foreign investment."

Mayor Leppert's worldview underscores the global thinking taking place not just in Dallas but also throughout the entire North Texas area. Once labeled a one-industry region—think oil—the Dallas/Fort Worth Metroplex, as it's called, is now a thriving, economically diversified part of the state that also happens to be among the most attractive places in the U.S. to start or expand a business. According to

the Census Bureau, the Metroplex is one of the three fastest-growing metropolitan areas in the country. With a labor force of nearly three million people, it ranks third in the nation in annual employment growth. And the 12-county region, covering 9,000 square miles, is accessible to North America's four major business cities; New York, Los Angeles, Toronto, and Mexico City.

Recognizing these strengths, 23 Fortune 500 companies have established headquarters in North Texas; not to name-drop, but the list includes Exxon Mobil, AMR (parent of American Airlines), Texas instruments, Kimberly-Clark, J.C. Penney, and Burlington Northern Santa Fe. In addition, during the past year, Fluor, Research In Motion (maker of the Blackberry), and Comerica Bank relocated their headquarters to North Texas, attracted by the region's business-friendly stance and easy access to Dallas/Fort Worth International Airport.

There are other pluses, too. Companies located in the Dallas/Fort Worth area pay no corporate state income taxes and, according to the U.S. Commerce Department, Texas has one of the lowest state and local tax burdens in the country. And while areas in Florida, California, and the Northeast struggle with mounting home foreclosures, North Texas has dodged that particular bullet. "We didn't see the big run-up in prices that many other parts of the country saw," says Steve Golding, president of Jackson-Shaw, a real estate development company based in Dallas. "This area saw low single-digit increases. As a result we haven't experienced that big drop in prices."

www.allengroup.com



In addition to retaining its strong position in oil and gas, North Texas has become a formidable presence in high tech, banking, air and rail transportation, health care, and retailing. The region is second only to Silicon Valley in terms of its technology-trained workforce, with 6,000 high-tech companies employing nearly 250,000 workers. Dallas/Fort Worth is also a major telecommunications hub, with the second-highest concentration of telecommunications manufacturing workers in the country. William Sproull, president and CEO of the Metroplex Technology Business Council (MTBC), the largest technology trade association in Texas, says he is always impressed by the strong image Texas projects in the U.S. and around the world. "It's an area of the country that has always supported mavericks like Herb Kelleher [founder of Southwest Airlines] and Mark Cuban [owner of the NBA's Dallas Mavericks], and businesspeople believe they can make money here."

In early June, the MTBC hosted a program designed to seek out innovative technologies from a variety of individuals, universities, and small- and medium-sized businesses. Its partner in the event-which was called TechQuest-was chipmaker Texas Instruments. To help focus the submissions, TI listed medical and health technology, energy management, and other such areas on the online application for the event. "We're not looking to make these products," says Mark Denissen, vice president of worldwide strategic marketing for TI, "but rather to figure out if there is a potential business relationship between TI and these smaller companies or individuals. We might fund the development of the technology, or even license it. The point is to foster innovative sourcing of new technologies right here in North Texas." Fort Worth One of America's fastest growing cities, Fort Worth is a thriving, dynamic community of 700,000-plus on the move. Still known as "Cowtown" -a reference to its colorful past as a major meatpacking hub on the Chisholm Trail-today the city is a global business powerhouse that retains a small-town feel. It's conveniently situated in the Central Time Zone at the crossroads of interstate highways and cross-country railways. Another plus is Fort Worth's proximity to Dallas/Fort Worth International Airport and Alliance Airport, a first-of-its-kind, purely industrial aviation

facility. This commercial infrastructure makes Fort Worth a major player on the international business stage.

Thanks to the diversity of the North Texas economy, Fort Worth continues to grow. The region boasts a highly skilled workforce, the ready availability of land and a supportive municipal government-just a few of the reasons that Fortune 500 companies and other large companies are moving to the city where the West begins.

While nonrenewable energy sources become scarcer globally, the region has found itself sitting atop the Barnett Shale, the largest natural gas field in Texas and one of the largest in the U.S. It's an economic engine that is bringing new jobs to Fort Worth and bolstering the North Texas economy against uncertain times. And will for years to come.

Through its award-winning Sister Cities International program, Fort Worth has established strong international alliances with cities around the world and plans to expand to Canada as well as South and Central America. Fort Worth has also set its sights on China and will establish a sister city relationship there to strengthen ties and partner in its remarkable economic growth.

Despite its folksy charm, Fort Worth is a cosmopolitan city offering a quality of life second to none. Its cultural district boasts three world-class art museums-the Kimbell Museum, the Amon Carter Museum, and the Modern Art Museum. Other museums include the Fort Worth Museum of Science and History, undergoing a multimillion-dollar renovation. Sundance Square, the city's growing, exciting downtown, offers a wide array of restaurants, theaters, and nightspots plus the world-renowned Bass Performance Hall. New buildings continue to rise as older ones undergo facelifts. Fort Worth's renaissance is a result of the resurgence of commercial and retail development in the city's core.

More than any other Texas city, Fort Worth has remained true to its Western heritage. A city with tomorrow in mind, Fort Worth honors its history and traditions while building for a bright, progressive future. Transportation Mecca Without question, the

Dallas/Fort Worth International Airport (DFW) is one of the biggest draws in North Texas. Spread over 18,000 acres, DFW handles 59 million passengers and nearly 700,000 flights a year, making it the third-busiest airport in the world. Despite its size-seven runways, five terminals, 1,900 daily flights, and the capacity to land four planes simultaneously-DFW is well-run, easy to navigate, and allows corporate executives to get in and out quickly.

"The growth of DFW and the growth of North Texas go hand in hand," says Jeff Fegan, DFW's CEO. When the airport was planned more than 30 years ago, the area between Dallas and Fort Worth was mostly prairie. Today the communities that ring DFW are thriving suburban enclaves with homes in every price range, and everyone from Starbucks to big-box retailers like Best Buy and Lowe's are within a short drive.

While soaring energy costs are hurting many of the country's airlines, DEW is well-positioned. A sizeable portion of its annual revenue-\$640 million last year-comes from sources other than airlines, including concessions, parking, rents from commercial developments, and land leases. New royalties from natural gas drilling are being used to renovate DEW's four domestic terminals and other key capital projects. DFW contributes some \$16 billion to the local economy each year, making it the clear economic engine of North Texas.

The airport's international terminal, completed in 2005, now draws about six million passengers a year, with a potential capacity of 14 million. Adding nonstop service to China would help get there. The mayors of Dallas and Fort Worth are pitching DFW as the ideal airport for Asian carriers, and American Airlines is expected to file for a China route in 2009. This year's Open Skies agreement between the U.S. and the European Union has already paid dividends for DEW and the local economy, thanks to new service to London's Heathrow on American and British Airways and daily nonstops to Amsterdam on KLM Royal Dutch Airlines.

Anyone who views railroads as a quaint throwback to a simpler time hasn't been to Burlington Northern

Santa Fe's intermodal facility at Alliance Airport in Fort Worth. This sprawling 376-acre facility is a 24/7 hub of train and trucking activity designed to move freight from ports on the West Coast to locations throughout the U.S. More important, it positions the Metroplex as a key North American intermodal hub. "Rail is the most fuel-efficient way to move goods over ground," says Steve Branscum, group vice president of consumer products at BNSF Railway, which is headquartered in Fort Worth. "And with the heavy traffic at West Coast ports due to an increase in Asian imports, it's only going to make that scenario more common."

To be sure, with 32,000 miles of track covering two-thirds of the U.S., BNSF has felt the effects of the nation's rising energy costs. Spending on fuel in just the first quarter of this year totaled nearly \$1 billion, which is what the company spent during all of 2003. Still, even with higher fuel costs, the concern over ever-more-congested highways and greenhouse gas emissions from long-haul trucks lead transportation experts to say rail travel remains an attractive mode of transportation for companies that want to move their goods around the U.S. quickly and cost-effectively.

At Alliance, a seemingly endless convoy of trucks drives into its intermodal facility each day, either to drop off or pick up the containers of freight that arrive on BNSF's trains daily. With a completely automated system, says Joe Lumbert, hub manager at Alliance, truck drivers simply type in information about their vehicles and are then issued slips, detailing where they need to drop off their particular containers. On the other end of the facility are "strip tracks," where the containers are parked. From there enormous cranes position themselves over the one-ton containers and lift them onto or off the rail cars for delivery around the country. Alliance is BNSF's fifth-largest intermodal facility in the U.S.; two larger ones are in Chicago and another two are in Los Angeles. In the area surrounding the complex, J.C. Penney, Coca-Cola, Hyundai, and other large companies have established huge warehouse and distribution centers, giving them easy access to rail transportation for their goods and contributing to the economic health of the region. "Alliance is our inland port," says Fort Worth Mayor Mike Moncrief.

"The growth in rail traffic there is a good indicator of growth in the whole region."

Across the Metroplex, located 12 miles south of downtown Dallas, is the Dallas Logistics Hub. This 6,000-acre logistics park-being developed by The Allen Group, commercial development company-surrounds the Union Pacific intermodal facility that opened in October 2005. Dan McAuliffe, president of The Allen Group's Texas operations, says the logistics park will eventually contain 60 million square feet of retail, office, distribution, manufacturing, and warehouse space.

Deep below 18 counties of North Texas lies the Barnett Shale formation, the largest natural gas field in the state and one of the biggest in the country. The field benefits North Texas in numerous ways and is responsible for pumping billions of dollars into not only the local economy but the entire state of Texas as well.

While the tight, black rock known as shale was formed from organic deposits over 300 million years ago, geoscientists didn't figure out how to extract the natural gas inside the shale until the 1980s. Before then, drilling didn't yield much gas. But over the years, with technological improvements in drilling techniques, Barnett Shale has proved to be one of the most prolific natural gas fields around.

One of the companies at the forefront of Barnett Shale drilling is Chesapeake Energy, the largest independent producer of natural gas in the U.S. Julie Wilson, vice president of corporate development for the company, says Chesapeake has been drilling in the Barnett Shale since 2004 and has pumped billions of dollars into local economies from its activities. Natural gas is clean, abundant, affordable, and American, and Chesapeake is providing a domestic energy source that can meet our nation's energy needs.

A big beneficiary of that drilling is DFW International Airport, which receives annual payments for lease rights and royalties. Residents in Tarrant and Johnson counties are benefiting, too. According to Wilson, Chesapeake paid out \$500 million in 2007 for lease rights to thousands of mineral owners whose property sits above the

natural gas field. Those mineral owners include schools, businesses, cities, and churches, and may be eligible for royalty payments ranging from \$50 to thousands of dollars a month, depending on the amount of land they own. Advances in drilling, Wilson is quick to point out, mean that Chesapeake is able to establish drill sites in urban areas, and can drill several horizontal wells from one padsite, thereby reducing its environmental footprint.

Devon Energy is another big driller and the largest natural gas producer at Barnett Shale. John Richels, president of the company, says Devon has drilled more than 1,300 wells since 2002 and now accounts for nearly half of the field's overall daily production. "Barnett Shale is such an important resource to this area," he says. "It's generating billions of dollars for local economies and is responsible for thousands of new jobs."

While the direct payments to the region are staggering, the indirect benefits are substantial as well. A March 2008 report on the economic impact of Barnett Shale shows that activity from drilling added an additional \$8.2 billion to the North Texas economy in 2007 and created 83,823 new jobs. Of course, growth of this nature creates stresses. "Barnett Shale is benefiting everyone by creating new jobs and new businesses," says Fort Worth Mayor Mike Moncreif, "but the challenge is keeping up with that growth." Building new roads and schools to accommodate the increases in the workforce connected to Barnett Shale means that some new roads don't even have street signs yet, says the Mayor. "We welcome the growth, but we want it to be responsible growth," he cautions.

To ensure that it happens. Fort Worth has developed strict municipal ordinances. These laws determine where and when drilling can be done and detail what local communities can expect from companies like Chesapeake and its competitors. For instance, says Mayor Moncrief, instead of making just lease and royalty payments to a community for the right to drill in its backyard. Fort Worth and surrounding areas are encouraging, and in some instances requiring, beautification efforts by these companies. "We are pushing the energy companies to give back to the community, which may include adding

something like a new walking trail in an area where they are drilling," he says. "The companies understand they are more apt to be welcomed back if they're helping to keep up the neighborhoods where they're drilling. We like to call this doing business the Fort Worth way."

Fortifying the robust economic health of North Texas is a rich and varied quality of life. The area offers affordable home prices, a solid public school system, and cultural and sporting events to satisfy every taste. Dan Petty, president and CEO of the North Texas Commission (NTC), a nonprofit dedicated to promoting the economic health of North Texas, points to a new opera house and performing arts center in downtown Dallas, and to Bass Hall and the Texas Motor Speedway in Fort Worth, as some of the more notable cultural and recreational hotspots in the region.

The Metroplex also boasts nearly 30 colleges and universities, including Southern Methodist University, University of Dallas, Texas Christian University, Texas Wesleyan University, and the University of Texas system, which is active in making grants for high-tech development.

The Dallas Cowboys, who play football in Texas Stadium in nearby Irving, lead the roster of big-time sports names. Professional hockey, basketball, and baseball teams also do their thing in North Texas. And much to the delight of government and business officials, the region recently won out over scores of other U.S. cities to host the 2011 Super Bowl. A new stadium in Arlington is being constructed-complete with a retractable roof-for the big day. Based on recent Super Bowls in other cities, says the NTC's Petty, the event and the days leading up to it are expected to bring \$500 million of spending into the region.

As with any region experiencing rapid growth, North Texas faces its own set of challenges. Estimates show the area's population mushrooming from six million to nine million over the next 20 years. Such growth puts a strain not only on the area's infrastructure but on its natural resources as well. Dallas Mayor Leppert says he's proud that earlier this year the Environmental Protection Agency listed

his city as the nation's top municipal purchaser of renewable energy. The city, he says, is getting 40% of its 2008 energy needs from renewable resources, primarily wind power.

Mayor Moncrief of Fort Worth points out that with such rapid population growth, the region can't build roads fast enough. He is working with other government officials and business leaders to establish a light-rail system-similar to the one now used in Dallas-to help ease the transportation squeeze. "There will be some kind of light-rail service in Fort Worth sooner rather than later," he vows.

Putting it all together, North Texas stands out as a vibrant, diversified region of the country with a can-do attitude and a larger-than-life vision that seems to be an ingrained part of the state's DNA. "We don't do anything small here," says a lifetime resident of North Texas. "If it's worth doing, we do it big-and we do it well."