

The Economic Impact of Chapter 313 Manufacturing Projects in Texas



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Overview

The economic development environment facing Texas has changed significantly. Traditionally, cost considerations and proximity to markets were the driving force on corporate relocation and expansion, with the competition almost entirely domestic. Today, while those factors are still at play, global trends (such as outsourcing of services), evolving demographics (including what appears to be a permanent reduction in labor force), the rising influence of information technology across all sectors, the emerging role of “digital nomads,” (who increasingly chose where they live and work) all heighten the competitive environment. This has not gone unnoticed in popular media. For example, the April 1, 2023 issue of FORTUNE magazine, in an article entitled ‘*A Wild West moment’: Competition to Host Microchip, Battery, and Electric Vehicle Factories Heats Up Among States*, discusses the current competitive environment:

Georgia, Kansas, Michigan, New York, North Carolina, Ohio and Texas have made billion-dollar pledges for a microchip or EV plant, with more state-subsidized plant announcements by profitable automakers and semiconductor giants surely to come.

States have long competed for big employers. But now they are floating more billion-dollar offers and offering record-high subsidies, lavishing companies with grants and low-interest loans, municipal road improvements, and breaks on taxes, real estate, power and water.

“We’re in the second war of the states,” said John Boyd, a principal at the Florida-based Boyd Company, which advises on site selections. “That’s how competitive economic development is between the states in 2023.”

Until recently, one the most widely used statewide incentives was the 2001 Texas Economic Development Act, “created to give Texas a competitive edge in business location decisions and codified as Chapter 313 of the Texas Tax Code (Chapter 313). Chapter 313 allowed school districts to temporarily limit a property’s appraised value to encourage business investment within their borders. The property owner agreed to create a certain number of permanent, full-time jobs, called “qualifying jobs,” and to build or install property in the school district. In exchange, the maintenance and operations (M&O) portion of the property’s taxable value is capped at a certain amount for 10 years.¹” Texas Education Code 48.256 requires the Texas Education Agency commissioner to remove the non-taxed value of these projects from the Districts Property Value. Lower District Property Values typically result in increased revenue provided to the district by the state (or lessens recapture paid).

¹ <https://comptroller.texas.gov/economy/fiscal-notes/2020/nov/313.php>

However, the Act expired at the end of 2022, which appeared to have immediate consequences. To quote from the FORTUNE article mentioned earlier:

In Texas, Gov. Greg Abbott promised to win passage of “economic development tools” during the current legislative session, saying the state lost out on a massive Micron semiconductor plant because it couldn’t match the \$5.5 billion in tax credits offered by New York. “The CEO of Micron was basically begging me because he really wanted to do business in Texas. He knew Texas was a better place. He said, ‘Please could you come up with some more?’” Abbott told a Greater Arlington Chamber of Commerce crowd in February. “We gave every penny that we could give.”

Largely as a result of this perceived loss of competitive position, lawmakers are considering a replacement for the value-limitation incentive program. The preferred vehicle appears to be HB5, which as introduced generally follows the parameters of previous legislation, although qualifying industries are limited to manufacturing, “critical infrastructure,” and “national and state security and critical domestic supply chain support.”

In order to provide context to this discussion, the Texas Association of Business (TAB) has tasked TXP with evaluating the economic impact of previous Chapter 313 projects. Given the narrower scope proposed under HB5, the analysis is limited to manufacturing projects (which constituted about one-third of the total deals done but accounted for the vast majority of investments, jobs, and net tax revenues). The report that follows outlines the results, as well as providing a contextual discussion to overall question of the need and validity of economic development incentives in Texas.

Economic Impact of Chapter 313 in Texas

Model Inputs & Assumptions

The Comptroller’s Office collects substantial information on each Chapter 313 deal, including data on the level of jobs committed to as part of the agreement, the number of actual jobs during 2021, total wages paid that same year, and the level of capital investment. The figures are significant, as just over \$105 billion in capital investment has created over 12,000 direct jobs (compared to less than 4,500 stipulated by the agreements) that paid over a billion dollars in wages during 2021, which translates into an average annual wage of over \$91,000. See Table 1 for detail by North American Industry Classification Sector (NAICS).²

² The data is only presented for projects that reported jobs as of 2021; the Comptroller’s Office indicates a significant number of applications and agreements in 2022 that are not captured in these figures.

Table 1: Chapter 313 Manufacturing Projects Direct Impact

NAICS	Jobs per the Agreement	2021 Jobs	2021 Wages
311119	10	14	\$449,050
311421	8	27	\$2,658,000
311514	10	119	\$6,219,873
321999	10	85	\$4,904,886
324110	176	192	\$19,365,898
324122	25	115	\$6,317,994
324190	62	145	\$15,957,437
325110	960	1,780	\$159,848,257
325120	870	1,281	133,852,709
325199	109	193	\$23,326,795
325211	114	171	\$16,078,384
325311	19	21	\$1,767,101
325320	10	10	\$1,401,121
325510	40	46	\$5,332,441
325900	8	21	\$1,836,557
327310	35	44	\$3,684,807
327420	10	5	\$291,169
331110	576	666	\$54,065,079
331210	240	978	\$80,252,093
331420	10	10	\$662,220
333132	100	455	\$48,151,000
333243	10	176	\$12,971,071
333618	879	1,598	\$88,937,531
334413	32	1,596	\$205,550,482
336111	25	2,356	\$210,108,080
336413	28	88	\$8,053,760
Total	4,376	12,192	\$1,112,043,795

Source: Texas Comptroller, TXP, Inc.

Economic Impact Methodology

Economists use a number of statistics to describe regional economic activity. Four common measures are “Output,” which describes total economic activity and is generally equivalent to a firm’s gross sales or top-line; “Value Added,” which equals gross output of an industry or a sector less its intermediate inputs or purchases from other firms used in the production process; “Earnings,” which corresponds to wages and benefits; and “Employment,” which refers to jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

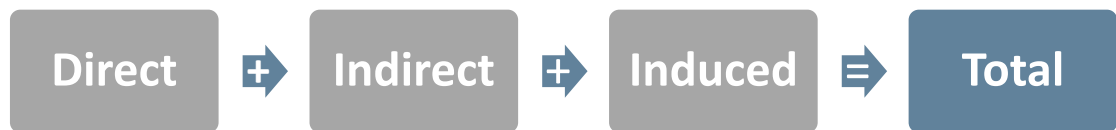
Direct effects are changes associated with the immediate effects or final demand changes. Sales by the company or industry under analysis are direct effects.

Indirect effects are changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand from customers means that manufacturers must purchase inputs, supplies, and other services. These downstream purchases affect the economic output of suppliers and other local merchants.

Induced effects are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. The restaurant owner experiences increased income from plant employees spending, as does the grocery store. Induced effects capture the way in which increased income is spent in the economy.

A multiplier reflects the interaction between different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, all other sectors produce an additional \$400 in output. The larger the multiplier, the greater the economic impact. Since these are primary industries, TXP used the RIMS II statewide input-output multipliers produced by the U.S. Bureau of Economic Analysis.

Figure 1: The Flow of Economic Impacts



Results

Based on almost 12,200 jobs collectively paying \$1.1 billion in earnings (all figures \$2021), the aggregate economic impact of Chapter 313 manufacturing projects was \$13.3 billion in economic activity/output, with \$5.8 billion in value-added. This increase in economic activity supports over 52,500 total jobs with total annual earnings of approximately \$3.0 billion. Finally, the Comptroller’s Office traditionally has used a “rule of thumb” that Texas realizes the equivalent of 5% of every dollar earnings in State general fund revenue (the 2021 figure is 4.2%). Using the 5% ratio, the State would realize \$152.3 million annually, or about \$300 million per biennium.

Table 2: Chapter 313 Manufacturing Projects Total Impact

NAICS	Jobs	Earnings	Value-Added	Output
311119	55	\$1,458,110	\$2,178,557	\$6,954,401
311421	99	\$8,575,505	\$15,375,458	\$40,198,653
311514	640	\$23,572,075	\$39,610,139	\$110,233,401
321999	217	\$13,747,414	\$25,394,842	\$56,939,646
324110	1,126	\$58,417,231	\$100,688,554	\$263,116,646
324122	576	\$19,907,367	\$39,427,862	\$89,286,550
324190	791	\$55,105,817	\$109,382,196	\$257,955,359
325110	11,249	\$560,188,217	\$1,120,791,926	\$2,727,191,105
325120	5,174	\$312,465,764	\$558,134,045	\$1,115,821,583
325199	1,146	\$84,855,882	\$147,035,129	\$406,456,971
325211	1,019	\$62,279,620	\$107,915,819	\$298,317,397
325311	95	\$5,432,952	\$11,839,518	\$25,318,567
325320	52	\$4,546,217	\$8,974,067	\$21,703,112
325510	210	\$17,472,276	\$34,927,226	\$82,936,134
325900	98	\$6,239,702	\$12,263,420	\$29,212,881
327310	205	\$12,327,522	\$27,278,888	\$55,521,685
327420	19	\$897,528	\$2,023,550	\$4,166,165
331110	2,694	\$175,727,726	\$305,242,710	\$804,284,188
331210	3,540	\$242,642,203	\$451,216,566	\$1,133,979,846
331420	37	\$2,164,532	\$3,307,832	\$10,357,175
333132	1,325	\$139,161,205	\$244,748,717	\$520,918,667
333243	810	\$33,596,371	\$65,555,766	\$133,304,824
333618	6,493	\$274,985,952	\$510,201,686	\$1,263,584,693
334413	5,827	\$385,921,030	\$788,801,599	\$1,193,085,296
336111	8,799	\$526,909,043	\$991,772,637	\$2,545,636,132
336413	275	\$18,568,749	\$36,379,660	\$71,075,616
Total	52,516	\$3,045,707,904	\$5,758,289,812	\$13,260,602,291

Source: TXP, Inc.

Discussion

Per the foregoing analysis, the impact of Chapter 313 projects is clear. Beyond the numbers, the following could provide additional context to the discussion.

Incentives typically are the icing, not the cake.

Corporate relocation decisions are largely based on factors such as available labor force, access to key inputs (either raw materials or supplier-produced inputs), transportation networks, cost of occupancy, and quality of life considerations. While Texas typically stacks up well on these factors, there usually are several competing sites who also meet the criteria

established. Once the competition has been narrowed to a handful of viable choices, incentives enter the mix, and many times can be the deciding factor.

Texas’ business climate is second to none, but the tax code weighs more heavily on transactions and physical assets.

The absence of an income tax (both corporate and personal) is a significant economic development advantage, especially for modern-economy firms whose primary value proposition is through the application of knowledge. The State has further enhanced our appeal by exempting inputs to manufacturing from sales tax, which is very helpful. However, our property taxes are high compared to many other states, which, all else being equal, is a disincentive for capital-intensive industry, including the vast majority of modern manufacturing. The solution has been incentives based on finite property tax reductions, to our great benefit.

The “but, for” question is at the heart of the matter.

Critics often charge that incentives are nothing more than corporate welfare, which implies that relocations and expansions were going to happen anyway. The evidence indicates that’s just not true. Per the discussion above, incentives often become the deciding factor among competing sites that are viable, and should therefore be seen as closing the deal, rather than being the foundation upon which a deal is based. In that situation, it should be evident that there are credible competing options for a firm outside of Texas, further supporting meeting the “but, for” test.

Good incentive deals are structured so that the community gets more than it gives, and that the company is prompted to do more rather than less.

Table 1 provides some evidence of how this has worked for manufacturing deals under Chapter 313, as the volume and level of job creation substantially exceeds what was stipulated in the agreements. On a personal note, I was engaged by Travis County to assist with the negotiations that brought Tesla to the Austin area in 2020 (separate from the agreement with Del Valle ISD). To receive the maximum incentive from the County, Tesla committed to invest at least \$2 billion and create 5,000 jobs. According to a recent report documenting 2022 activity, Tesla has invested \$5.8 billion and created 12,227 jobs. This is how its supposed to work; an incentive deal is struck that lays out acceptable levels of performance, and the company goes well beyond what is required, to the benefit of everyone.

There are benefits that extend beyond what is outlined here.

Economic impact (input-output) analysis relies on existing relationships within and between industries in a given area (in other words, established patterns of buying and selling). This approach does not account for cluster development, where the location of a given project or projects stimulates further relocation/growth in that industry and/or its suppliers/customers.

Petrochemical-related activity along the Gulf Coast is a good example. To quote the Dallas Branch of the Federal Reserve Bank:

Oilfield manufacturing and services companies that support the energy extraction firms include National Oilwell Varco, Schlumberger and Halliburton. This concentration has spawned significant clusters of machinery and fabricated metal manufacturers. The chemical industry is another major energy-related cluster, employing 2.4 percent of Houston's workforce. Leading employers include Dow Chemical Co. and many of the large energy companies, including Exxon Mobil, which also manufacture chemicals.³

In that same vein, the tax benefits to local governments associated with increased community income, such as increased local sales tax and property taxes, also are not captured; as the ripple effects move through the local economy, local jurisdictions (especially those that collect sales tax) see an increase in revenue.

In sum, Texas is well-positioned for long-term economic development success, as the fundamentals are in place. Current incentive policy undermines our competitive position; if HB5 can be implemented, we'll be well-positioned to win going forward.

About Jon Hockenyos/TXP

As President of TXP, Jon Hockenyos has been involved in policy issues with the Texas Legislature State agencies for over 25 years, starting with efforts led by capital-intensive industries to reform property taxes in the mid-1990s, electricity industry restructuring, numerous program evaluations, economic impact analysis of well over 100 projects that received Chapter 313 incentives from local school districts, current efforts to expand film incentives, and projects related to R&D tax credits, State sales tax policy, and broadband. Hockenyos was also personally involved in leading a successful legislative effort to expand medical insurance coverage for children/young adults with autism, a process that led to a Senate commendation for Hockenyos and his wife Dr. Rebecca Yerly.

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³ <https://www.dallasfed.org/research/heart/houston>

