



Texas Comptroller of Public Accounts

Manufacturing Development in Texas

HB 2482 | 83rd Legislature | December 2014

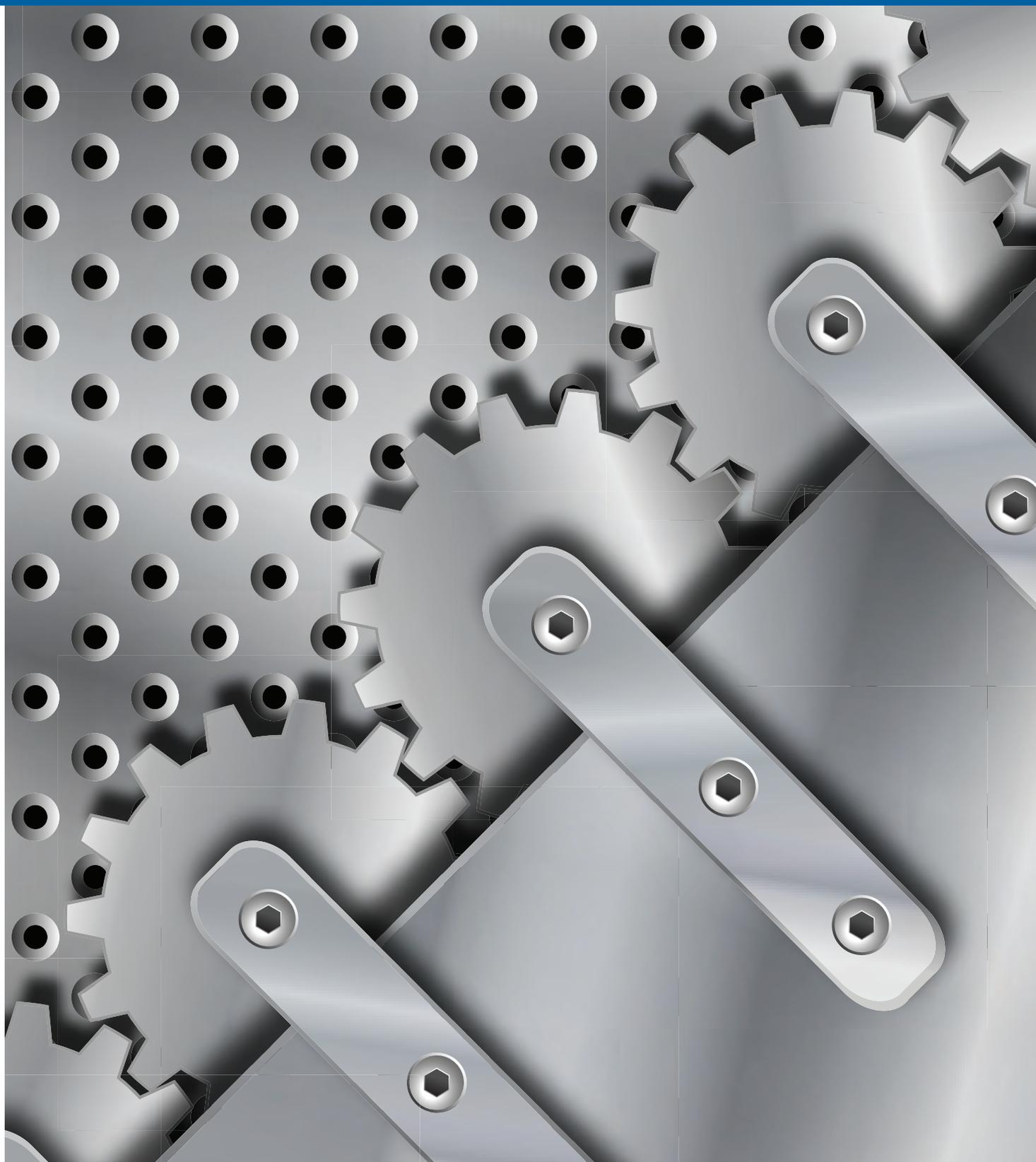


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EXECUTIVE SUMMARY

The manufacturing sector is an important part of the Texas economy, providing jobs, capital investment and other economic value to the state and local communities. This report presents the findings and analysis of a study required by House Bill (HB) 2482 (83rd Legislature) on why manufacturing companies may choose to locate in another state after considering Texas.

The Texas Comptroller's office has conducted significant research on economic development incentives and their role in bringing investment to the state. Various Comptroller publications provide data to help evaluate business incentives and include recommendations on how best to strengthen these programs to support economic growth while managing taxpayer resources in the most efficient and transparent manner possible.

To conduct this study, the agency reviewed relevant literature and requested information related to economic incentives, the promotion of manufacturing development and recommendations for maintaining the state's manufacturing competitiveness.

Texas has a number of economic incentives for manufacturing businesses, ranging from tax incentives to training programs, many of them offered at the local level. The Comptroller's office found that Texas communities are doing an outstanding job of bringing manufacturing investment to the state. Even so, not all companies that consider investing in Texas decide to move here. Multiple factors play a role in company location decisions, including workforce skills, proximity to customers and economic incentives.

Comptroller's staff found relatively few manufacturing operations that located in another state after being offered economic incentives by a Texas community and/or the state. Losses of manufacturing investment generally appear to occur early in the process, before offers of economic incentives.

Our study found that no single factor seems to drive investment losses to other states. Instead, companies that invest elsewhere cite multiple reasons, including workforce availability and training programs, real estate availability and costs, proximity of final location to market or related industry and the nature of state and local government assistance.

The Comptroller's office proposes several recommendations to improve the promotion of manufacturing development in Texas:

- Focus on training and workforce development.
- Streamline the incentive programs to offer companies a coordinated transparent process.
- Ensure Texas communities have flexibility and a variety of tools to use in promoting manufacturing development.
- Review and evaluate economic incentive programs.

The Comptroller's Economic Development and Analysis Division appreciates the assistance of company executives, economic development professionals and community leaders in the development of this report, and looks forward to working with businesses, communities and other state agencies to continue promoting manufacturing development and economic growth in Texas.

BACKGROUND

House Bill (HB) 2482, authored by Representatives Carol Alvarado, John Davis, Jim Murphy, Eddie Rodriguez and Jason Isaac, sponsored by Senator Larry Taylor and cosponsored by Senator Sylvia Garcia in the 2013 session, requires the Texas Comptroller of Public Accounts to conduct a study on why major manufacturers choose to invest in other states after they have been offered state and/or local economic incentives to develop in Texas. A report on the results of the study must be submitted no later than Dec. 1, 2014, to the speaker of the House of Representatives, lieutenant governor, governor and each standing committee of the Legislature with relevant jurisdiction.

This report includes the findings of this study in accordance with HB 2482 (**Appendix A**).

MANUFACTURING IN TEXAS

Texas is a leading manufacturing state, with the second-largest number of manufacturing jobs in the nation.¹ Nearly 20,000 Texas manufacturers provided more than 881,000 jobs with an average annual wage more than \$70,000 at the end of 2013.² Since then, manufacturing employment has continued to rise; by August 2014, the sector had 890,400 jobs in Texas.³ Nearly 60 percent of Texas’ manufacturing jobs are in five manufacturing industries – fabricated metal products, machinery, transportation equipment, computer and electronic products, and food manufacturing (**Exhibit 1**).⁴

EXHIBIT 1

TOP FIVE TEXAS MANUFACTURING INDUSTRIES FOR JOBS (FOURTH QUARTER 2013)

Industry	Firms	Employees	Average Annual Wage
Fabricated Metal Product Manufacturing	4,251	137,008	\$62,348
Machinery Manufacturing	1,726	106,648	\$82,212
Transportation Equipment Manufacturing	805	95,466	\$76,024
Computer and Electronic Product Manufacturing	1,086	95,387	\$105,456
Food Manufacturing	1,731	85,118	\$42,172

Source: Texas Workforce Commission

¹ U.S. Bureau of Labor Statistics, “Table D-2. Employees on nonfarm payrolls in states and selected areas by major industry,” <http://www.bls.gov/web/laus/taled2.pdf>.

² Texas Workforce Commission, “Texas Labor Market and Career Information Quarterly Employment and Wages, 4th Quarter 2013,” Accessed through <http://www.lmci.state.tx.us>.

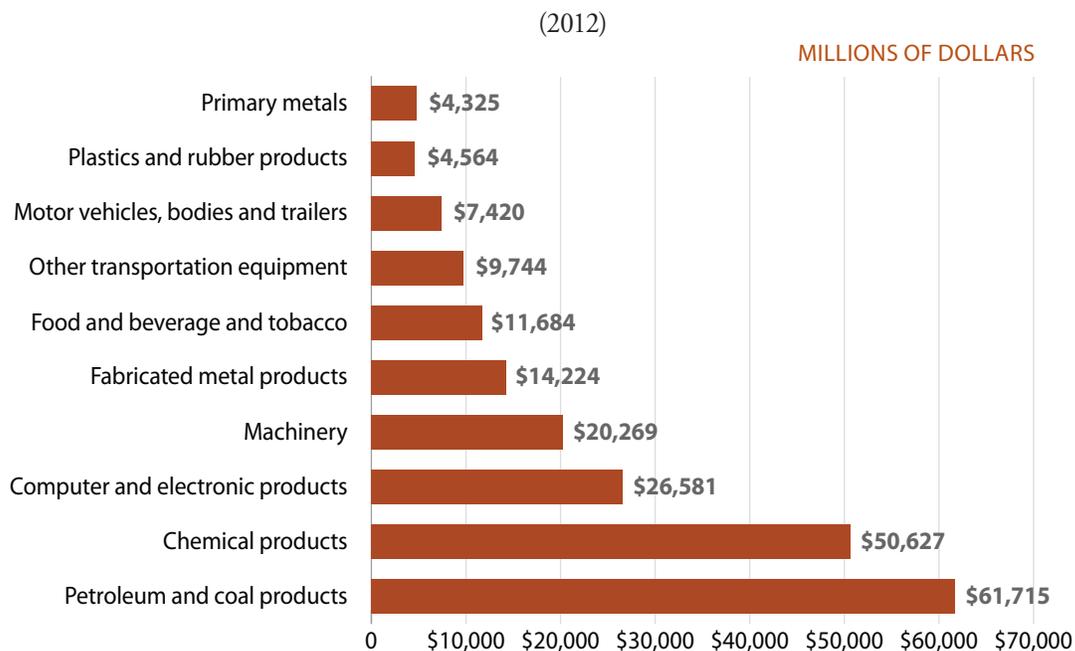
³ Texas Workforce Commission, “Texas Labor Market and Career Information Current Employment Statistics (CES) for Texas (Actual Series),” www.tracer2.com/admin/uploadedPublications/602_CesTXcurrent.xls.

⁴ Texas Workforce Commission, “Texas Labor Market and Career Information Quarterly Employment and Wages, 4th Quarter 2013.”

In 2013, manufacturing operations accounted for 15 percent of the state’s gross domestic product.⁵ Petroleum and coal products, chemical products and computer and electronic products manufacturing combined account for nearly two-thirds of the value produced by the state’s manufacturing sector (**Exhibit 2**).

EXHIBIT 2

TOP 10 MANUFACTURING INDUSTRIES IN TEXAS BY CONTRIBUTIONS TO GDP



Source: U.S. Bureau of Economic Analysis

Manufacturing is growing substantially faster in Texas than in the nation as a whole. Between January 2011 and December 2013, Texas manufacturing employment rose by 7.7 percent, versus only 4.6 percent for the U.S. (**Exhibit 3**).

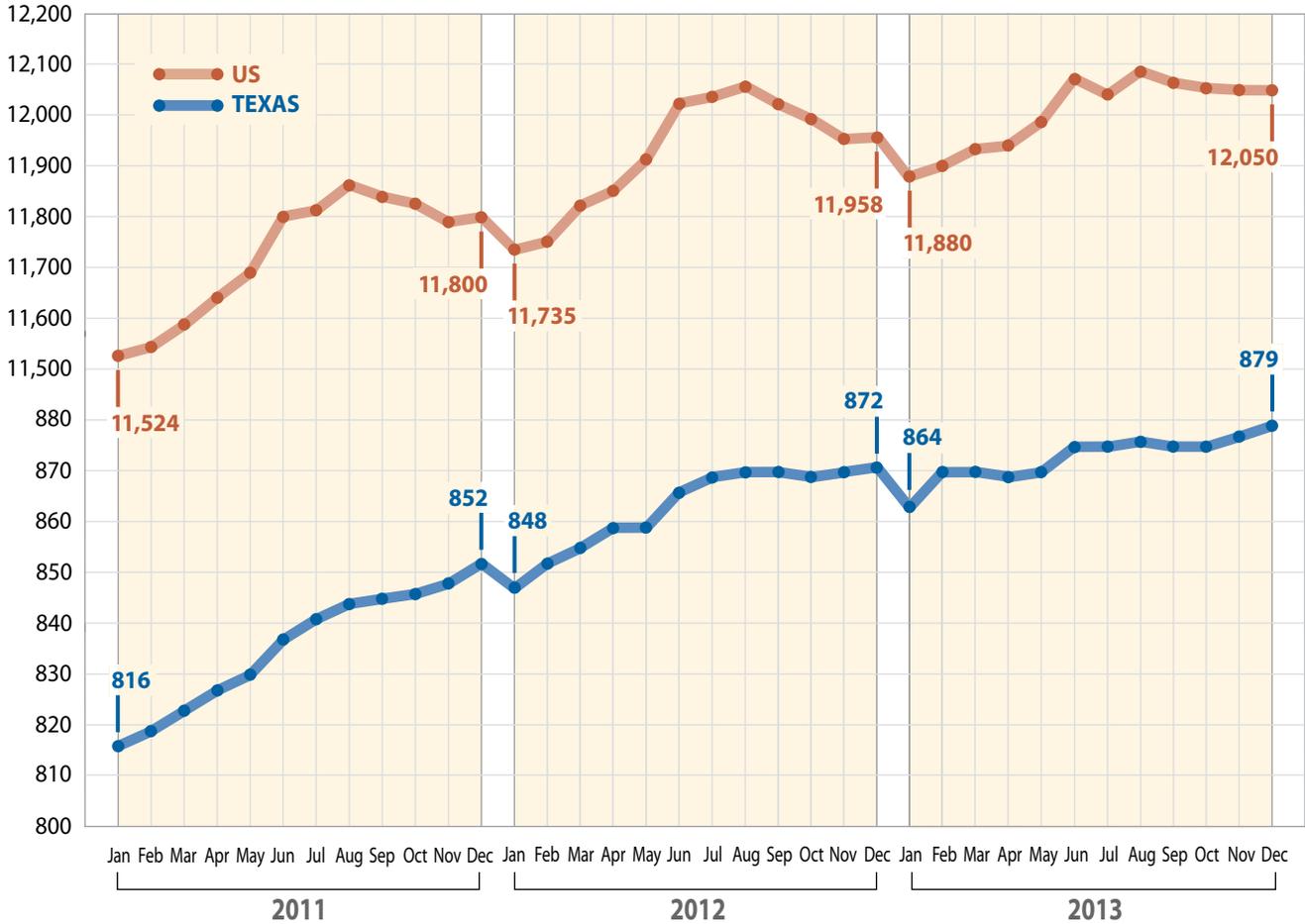
⁵ U.S. Bureau of Economic Analysis, “Gross Domestic Product by State, 2013.”

EXHIBIT 3

GROWTH IN TEXAS AND U.S. MANUFACTURING JOBS

(Jan. 1, 2011 – Dec. 31, 2013)

THOUSANDS



Source: U.S. Bureau of Labor Statistics

Manufacturing output in both Texas and the United States is expected to continue growing for the foreseeable future. According to the U.S. Bureau of Labor Statistics, real output from manufacturing is expected to rise by nearly \$1.2 trillion nationwide by 2022, although overall employment in the sector is expected to decline.⁶

Despite the expected decline in nationwide employment, several manufacturing industries, including fabricated metal products, nonmetallic mineral products and transportation equipment manufacturing, are expected to gain jobs.⁷

Comptroller analysis indicates that Texas has a competitive advantage in 16 of the 21 manufacturing industries; however, the state could be competing with as many as 30 other states in these industries so continued promotion of manufacturing development is important.

⁶ U.S. Bureau of Labor Statistics, "Industry employment and output projections to 2022," *Monthly Labor Review* (December 2013), <http://www.bls.gov/opub/mlr/2013/article/industry-employment-and-output-projections-to-2022-1.htm>.

⁷ U.S. Bureau of Labor Statistics, "Table 2.7: Employment and Output by Industry," http://www.bls.gov/emp/ep_table_207.htm.

THE ROLE OF ECONOMIC INCENTIVES

Manufacturing companies considering expansion or relocation typically review a variety of factors based on the specific needs of the project. These multiple factors can be described as a “basket of goods” that helps determine a company’s final decision.

Examples of location-specific considerations include:

- availability of qualified workforce
- economic development incentives
- environmental regulations
- tax climate
- transportation accessibility and cost
- utility costs and accessibility

Area Development, a site selection magazine, conducts an annual survey of corporate executives and site selectors that includes a review of the factors they consider in site selection. Thirty-nine percent of the respondents to the 2013 survey were manufacturers.⁸ **Exhibit 4** lists these factors in order of importance as found by survey. State and local incentives were eighth in order of importance, although 82 percent of the respondents considered them “very important” or “important.”

EXHIBIT 4

IMPORTANT SITE SELECTION FACTORS, 2013 *AREA DEVELOPMENT* SURVEY

1. Availability of skilled labor	14. Expedited or “fast-track” permitting
2. Highway accessibility	15. Proximity to major markets
3. Labor costs	16. Availability of long-term financing
4. Occupancy or construction costs	17. Environmental regulations
5. Availability of advanced ICT services	18. Inbound/outbound shipping costs
6. Available buildings	19. Proximity to suppliers
7. Corporate tax rate	20. Raw materials availability
8. State and local incentives	21. Accessibility to major airport
9. Low union profile	22. Proximity to technical college/training
10. Energy availability and costs	23. Training programs
11T. Tax exemptions	24. Availability of unskilled labor
11T. Right-to-work state	25. Railroad service
13. Available land	26. Waterway or ocean port accessibility

Source: *Area Development*

⁸ “28th Annual Survey of Corporate Executives: Availability of Skilled Labor New Top Priority,” *Area Development*, <http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2014/28th-Corporate-Executive-RE-survey-results-6574981.shtml>.

In Texas, local and state economic incentives provide financial or in-kind assistance to manufacturing businesses locating or expanding operations in the state. These incentives range from tax breaks to training programs (**Exhibit 5**). It is worth noting that most incentives are offered by local, not state, entities in keeping with Texas’ “bottom-up” approach to economic development.

EXHIBIT 5

COMMON ECONOMIC INCENTIVES AVAILABLE TO TEXAS MANUFACTURING OPERATIONS*

Economic Development Incentives
Chapter 380/381 Agreements (Local Government Code Chapters 380-381)
Economic Development Corporation Incentives (Local Government Code Chapters 501-505)
Enterprise Zones (Government Code Chapter 2303)
Tax Increment Financing (Tax Code Chapter 311)
Texas Emerging Technology Fund (Government Code Chapter 490)
Texas Enterprise Fund (Government Code Section 481.078)
Tax Assistance
Property Tax Assistance
Freeport and Goods in Transit Exemptions (Tax Code Sections 11.251 and 11.253)
Pollution Control Equipment Exemption (Tax Code Section 11.31)
Property Redevelopment and Tax Abatement Act (Tax Code Chapter 312)
Texas Economic Development Act (Tax Code Chapter 313)
Sales Tax Assistance
Gas and Electricity Sales Tax Exemption (Tax Code Section 151.317)
State Sales and Use Tax Exemptions on Certain Equipment Used in Manufacturing (Tax Code Section 151.318)
Other Tax Assistance
Research and Development Sales Tax Exemption/Franchise Tax Credit (Tax Code Chapter 171, Subchapter M)
Workforce Programs
Skills Development Fund (Labor Code Chapter 303)

* Includes assistance commonly available to manufacturing companies, not a complete list of incentives that may be provided.

Source: Texas Association of Manufacturers and Texas Comptroller of Public Accounts

Comptroller surveys of economic development professionals and community leaders across the state identified multiple economic incentives typically included in incentive packages prepared for manufacturing companies, with the most common being support from the local economic development corporation (**Exhibit 6**).⁹

EXHIBIT 6

COMMON ECONOMIC INCENTIVES OFFERED FOR TEXAS MANUFACTURING OPERATIONS

Incentive	Response Percent
Local Economic Development Corporation Incentives*	68.5%
Infrastructure Incentives	58.4%
Local Government Code, Chapters 380/381	52.8%
Permitting Assistance	52.8%
Skills Development Fund	47.2%
Texas Enterprise Fund	40.4%
Freeport Exemptions	36.0%
Enterprise Zone/Projects	34.8%
Employee Recruitment	32.6%
Tax Code, Chapter 312	19.1%
Training Facility Space and Equipment	19.1%
Other	18.0%
Tax Code, Chapter 313	16.9%
Tax Code, Chapter 311	13.5%
Non-Annexation Agreements	9.0%

* Economic development corporations may use sales tax or other revenue to fund land, buildings, equipment, promotional assistance, job training, targeted infrastructure and improvements for projects.

Source: Texas Comptroller of Public Accounts

When a manufacturer considers Texas for an expansion or relocation, the company or a site selector working on its behalf typically works with the state and/or multiple local governmental entities to identify the incentives that may be available, and weighs this package against the project’s specific needs. Economic incentives thus are one factor considered in the “basket of goods,” but they are not always the *determining* factor.

⁹ Texas Comptroller of Public Accounts, Survey on Investments by Major Manufacturers in Texas (HB 2482), December 2013. Question: Which economic incentives are typically included in the incentive package for companies engaged in the business of manufacturing interested in locating in your community, either by the city, county, state or other entity? Select all that apply.

STUDY PROCESS

It is difficult to fully identify all companies that locate elsewhere after considering Texas, due in part to the competitive nature of site selection and business expansion. Much company information is kept confidential in the early stages of the site selection process. Communities sometimes respond to a lead without even knowing the name of the company in question; more detailed information may be provided only if the community advances through the site selection process. In addition, local governments and state programs may enter into non-disclosure agreements with a company with which they are negotiating until a location is announced.

Furthermore, due to Texas' "bottom-up" approach to economic development, there is no centralized registry of all companies that have expressed interest in locating in Texas, or that have been offered incentives by a local government. Incentive recipients may not be easily found on local or state agency websites, and little information is published regarding incentives that were not accepted.

In view of these limitations, the Comptroller's office conducted a broad-based study through online surveys, contacts with other state agencies and conversations with community and economic development leaders and manufacturing companies and associations.

In December 2013, the Comptroller's office sent an online survey via email to more than 6,000 people including mayors, city managers, county clerks, county judges and economic development corporations. The Texas Economic Development Council also shared this survey with its members. In June 2014, the agency sent another survey to professional site selection consultants to identify additional companies meeting the criteria for inclusion in this report — that is, those that were offered and subsequently declined Texas incentives. In September 2014, the agency sent a follow-up online survey to further identify companies (**Appendix B**).

Comptroller's staff also requested information from the Governor's Economic Development and Tourism Division regarding Texas Enterprise Fund applicants and other manufacturing projects.

Finally, the agency contacted economic development professionals across the state via email and phone. For companies meeting the criteria for inclusion in the report (declined incentives and located elsewhere), staff requested an interview with an executive to solicit recommendations for the state to effectively compete with other states in promoting manufacturing development. Since not all companies responded to this request, we also reviewed press releases, news articles and other available information.

In all, the agency contacted more than 7,000 people via phone and email for this study.

STUDY RESULTS & ANALYSIS

Texas is attracting a large amount of manufacturing investment. Forty-four of the local officials and economic development corporations responding to the first survey indicated that one or more manufacturing companies accepted economic incentives and located in Texas between Sept. 1, 2011 and Dec. 1, 2013. In addition, according to the Governor's Texas Business Expansions Database, more than 730 manufacturing business expansions were announced in Texas between September 2011 and September 2014.¹⁰

Texas' success in gaining manufacturing investment also can be seen in awards from the two of the largest state incentive programs, the Texas Enterprise Fund (TEF) and Chapter 313 property tax value limitations. The TEF, administered by the Governor's Office, is a grant program for projects in which a Texas site is competing with an out-of-state location. Chapter 313 is a property tax incentive program administered by the Comptroller's office for certain projects that may not occur in Texas without the incentive.

Of 40 projects under contract through the TEF for fiscal 2012 through 2014, 45 percent were described as manufacturing projects, involving more than 3,800 estimated direct jobs and nearly \$7.9 billion in capital investment.¹¹

More than 40 percent of the Chapter 313 applications received in fiscal 2012 through 2014 were manufacturing projects. These projects committed to create about 3,000 qualifying jobs and invest nearly \$65 billion in Texas during the length of their agreements.¹² While these programs represent only a portion of the incentives Texas offers, they still provide an idea of the economic stakes involved.

COMPANIES THAT CHOOSE TO INVEST IN OTHER STATES AFTER CONSIDERING DEVELOPMENT IN TEXAS

In many cases, Texas loses manufacturing opportunities early in the site selection process, before an incentive offer is even made. Local communities and the state may provide initial information very early in the process to a site selector and/or company regarding the types of incentives that may be available. This is often a response to a lead or a prospect and is not an official economic incentive offer from state or local governmental entities. Local and state economic officials may never learn about the final location decision for a project — or why a Texas location was not selected.

In some instances, a company may consider locating in Texas, but the proposed expansion or relocation does not occur at all because of financial reasons. Or a company may significantly invest in Texas while at the same time investing in a project in another state.

¹⁰ Information from Texas Office of the Governor, Business Expansions Database, <http://governor.state.tx.us/fitexas/BusinessExpansion.aspx/BusinessExpansion.aspx>.

¹¹ Texas Office of the Governor, "Texas Enterprise Fund (TEF) as of Aug. 31, 2014," http://www.governor.state.tx.us/files/ecodev/TEF_Listing.pdf.

¹² Information supplied by Texas Comptroller of Public Accounts.

Our review identified five companies engaged in manufacturing that chose to invest in other states after official offers of state or local economic incentives, and found a variety of reasons for the companies’ decisions (**Exhibit 7**).

EXHIBIT 7

MANUFACTURING COMPANIES THAT LOCATED IN ANOTHER STATE AFTER RECEIVING AN OFFER OF ECONOMIC INCENTIVES IN TEXAS

(Sept. 1, 2011 - Sept. 1, 2014)

Company Name	Type of Manufacturing	Estimated Job Creation	Estimated Investment*	Final Location
9to5 Seating	Furniture Manufacturing and Assembly	510	\$39.5 million	Tennessee ¹³
Benteler Steel/Tube	Steel Tube Manufacturing	675	\$975 million	Louisiana ¹⁴
Beretta USA	Gun Manufacturing	300	\$45 million	Tennessee ¹⁵
The Dow Chemical Company**	Chemical Manufacturing	84 ¹⁶	\$1.06 billion	Louisiana ¹⁷
Pacer Technology	Adhesive Products Manufacturing	120	\$10.6 million	Baja California, Mexico ¹⁸

* Estimated job creation and investment number are those announced at the final location.

** Dow Chemical simultaneously announced two similar projects in Texas with estimated 96 jobs. At the time of project announcement, investment in Texas totaled \$2.5 billion.¹⁹

Source: Various (see footnotes)

With information from the Governor’s office, the Comptroller’s staff also identified an additional 34 companies that considered locating a project in Texas but ultimately went elsewhere presumably before incentives were offered. These projects were estimated to create more than 11,500 jobs and nearly \$6.7 billion in capital investment. In these cases, company information was not provided; but records indicate that Texas was not on the short list for nine of these companies, while three did not relocate or go through with the proposed manufacturing project.

As per HB 2482, the Comptroller’s office requested interviews with an executive of each of the five major manufacturers identified in **Exhibit 7**. Two companies did not respond; the agency greatly appreciates the feedback of those who did, and hopes the state will have the opportunity to work with these companies in future projects.

¹³ Tennessee Department of Economic and Community Development, “Governor Haslam, Commissioner Hagerty Announce 9to5 Seating, Inc. to Relocate Manufacturing Operations to Union City,” October 21, 2013, <https://news.tn.gov/node/11547>.

¹⁴ Louisiana Economic Development, “Gov. Jindal And Benteler Steel/Tube Break Ground On \$975 Million Manufacturing Site At The Port Of Caddo-Bossier,” September 16, 2013, <http://www.opportunitylouisiana.com/index.cfm/newsroom/detail/486>.

¹⁵ Tennessee Department of Economic and Community Development, “Haslam, Beretta USA Announce New Manufacturing Facility,” January 29, 2014, <https://news.tn.gov/node/11944>.

¹⁶ Texas Comptroller of Public Accounts, email correspondence with company representative, September 9, 2014.

¹⁷ Louisiana Office of the Governor, “The Dow Chemical Company To Make \$1 Billion-Plus Investment In Plaquemine Site,” August 27, 2013, <http://gov.louisiana.gov/index.cfm?md=newsroom&tmp=detail&articleID=4248>.

¹⁸ Texas Comptroller of Public Accounts, email correspondence with company representative, July 22, 2014.

¹⁹ Texas Office of the Governor, “Gov. Perry Announces TEF Investment in Dow Creating Nearly 100 Jobs, Bringing Dow’s Investments in Brazoria County to \$2.5 Billion,” August 27, 2013, <http://governor.state.tx.us/news/press-release/18835/>.

TESLA MOTORS: A Case Study in Location Decisions

On September 4, 2014, Tesla Motors announced the selection of Nevada as the site for its “Gigafactory,” a \$5 billion lithium-ion battery manufacturing plant.²⁰ The Tesla announcement provides another example of the “basket of goods” companies consider in location decisions.

While the location announcement occurred after the period covered in this report, it is one of the largest economic development projects in recent news. Cities in Arizona, California, New Mexico, Nevada and Texas competed for the site, which will provide an estimated 6,500 jobs.²¹ In the days leading up to the announcement, press accounts discussed the potential for multiple sites, and Texas was often identified as a contender.²²

At an October meeting to start the site selection process, Tesla indicated the final location for the Gigafactory should have the following characteristics:

- low-cost renewable energy;
- an affordable and well-trained labor force;
- good transportation links to the assembly plant; and
- a strong economic incentive package.²³

When the Nevada site was announced, reasons cited for the selection included Nevada’s proximity to the Tesla plant in Fremont, California; direct rail access to that plant; Nevada’s lack of a corporate income tax; and the state’s right-to-work provisions.²⁴

Nevada announced incentives for the company worth an estimated \$1.3 billion. Tesla’s vice-president for Business Development said Nevada “did not offer the most money, but when combined with various other factors, like logistics and costs for land and energy, had the best package.”²⁵

According to news reports, Texas cities offered competitive incentive packages. For example, the *San Antonio Express News* reported that the San Antonio Economic Development Foundation offered Tesla an incentive package larger than the tax breaks the company received in Nevada.²⁶

²⁰ Tesla Motors, “Nevada Selected as Official Site for Tesla Battery Gigafactory,” September 4, 2014, <http://www.teslamotors.com/about/press/releases/nevada-selected-official-site-tesla-battery-gigafactory>.

²¹ Laylan Copelin and Brian Gaar, “Report: Tesla Picking Nevada, Not Texas, for ‘Gigafactory,’” *Austin American Statesman* (September 3, 2014), <http://www.statesman.com/news/news/report-tesla-picking-nevada-not-texas-for-gigafact/nhFTN/>; and Tesla Motors, “Gigafactory,” February 26, 2014, <http://www.teslamotors.com/blog/gigafactory>.

²² “Is Texas Still a Threat to Land Tesla’s Gigafactory?” *Austin American Statesman* (August 23, 2014), <http://www.statesman.com/news/business/is-texas-still-a-threat-to-land-teslas-gigafactory/ng58k/>.

²³ Justin Pritchard, “Tesla Motors Dealing as States Play Factory Poker: Texas Remains in the Game,” *Fort Worth Business Press* (August 31, 2014), <http://fwbusinesspress.com/fwbp/article/1/6753/Breaking-News/Tesla-Motors-dealing-as-states-play-factory-poker-Texas-remains-in-the-game.aspx>.

²⁴ Laylan Copelin and Brian Gaar, “Report: Tesla picking Nevada, not Texas, for ‘Gigafactory.’”

²⁵ Matthew L. Wald, “Nevada Woos Tesla Plant in Tax Deal, but Economic Benefits Prompt Debate,” *New York Times* (September 12, 2014), <http://www.nytimes.com/2014/09/13/business/nevada-woos-tesla-plant-in-tax-deal-but-economic-benefits-prompt-debate.html>.

²⁶ “Memo: S.A.’s Incentives for Tesla Topped Nevada’s,” *San Antonio Express News* (September 9, 2014), <http://www.mysanantonio.com/business/local/article/Memo-S-A-s-incentives-for-Tesla-topped-Nevada-s-5743704.php>.

ANALYSIS

Feedback from local economic development officials, site selectors and companies indicated that Texas is generally doing a good job in recruiting manufacturers, and that existing state and local incentive programs are beneficial. Respondents described the business environment for manufacturing as favorable, but stressed the importance of ensuring that incentive programs are customer friendly and provide certainty to companies.

A number of executives and communities expressed concerns about the confidentiality of their responses in these interviews; for this reason, responses are aggregated and not attributed to a specific company or project.

Major decision factors provided on projects reviewed by the Comptroller's office include:

- **workforce availability and training programs**, the factor most often mentioned by respondents. For example, support for training played a leading role in the final location decision of one company. In this case, the winning state built a training facility for the company to use in preparing an initial workforce, to guarantee a seamless start to operations once the manufacturing facility opened. While the training facility is not for the company's sole use, it has priority rights to its use.
- **real estate availability and costs**, cited by multiple companies. Two companies located in another state because of features of available buildings.
- **proximity of the final location to markets or related industry**. One company located in another state to be near its end customers; another chose a location near a university that licensed technology the company uses. The latter company was a startup, so a location close to the university offered them the best opportunity to address issues quickly and thoroughly.
- **assistance and incentives from state and local governments** were a factor for several companies. A state grant to offset some costs associated with establishing a research and development center drew the attention of one company.
- additional reasons provided included **length of time to complete the project, transportation/freight costs and availability, utility costs** and **tax considerations**.

Several companies provided more than one reason for locating in a different state. One company cited minimum wages, freight and duties costs, available workforce and reasonable real estate costs as its four main criteria. Also of concern for this company was the cost of moving operations. While incentives offered in Texas were considered "good," they were not sufficient to cover all of the moving costs.

The following is a summary of suggestions provided to the Comptroller's staff concerning how Texas can compete more effectively with other states for manufacturing investment.

- Communities should listen to what is most important for a specific project and be creative in finding a solution that addresses its needs. While projects may have different technical requirements or logistical needs depending on a project, the availability of training and qualified workers seems to be most important. Flexibility in incentive packages is important to address the different technical needs of each project. Cash incentives offer the most flexibility, as it can be used to address many needs.

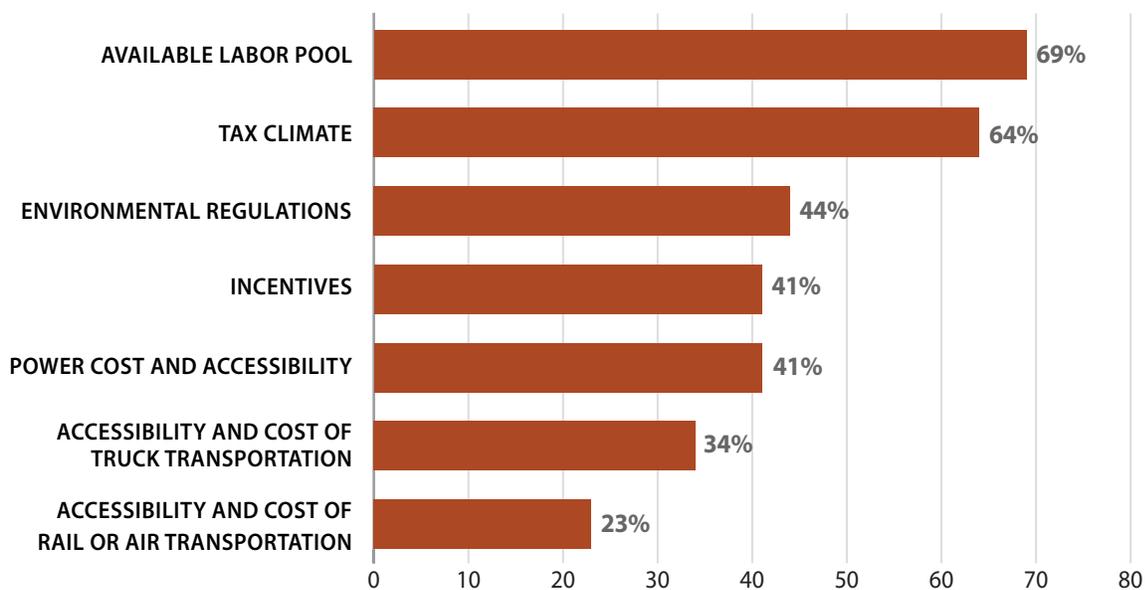
- The approval process for state incentives should be streamlined and simplified, with clear criteria. A preapproval process is one suggested way to let companies know what they might be eligible for.
- Local and state economic development entities should coordinate their efforts more closely.
- Texas should ensure that the process for obtaining assistance is predictable and provides certainty for companies. Finalizing incentive packages can take longer in Texas due to the involvement of multiple local entities; one suggestion is to balance the “bottom-up” approach used in Texas with the “one-stop shop” approach used in other states.
- Another recommendation is to have a special process to assist new companies moving to Texas that may be unfamiliar with local conditions and contacts.
- The incentive process should consider the quality and value of the jobs and capital investment offered by a project, instead of basing awards solely on promised job counts.

Other suggestions received included an increased focus on workforce training and development; short-term loan assistance to help defray moving costs; and steps to improve the availability of water and transportation.

The agency’s survey results indicate that the most important topics Texas should address to attract manufacturers are the **availability of labor, tax climate** and **environmental regulations** (Exhibit 8).

EXHIBIT 8

ATTRACTING MANUFACTURING TO TEXAS



Source: Texas Comptroller of Public Accounts

²⁷ Survey on Investments by Major Manufacturers in Texas (HB 2482), December 2013. Question: What are the most important topics for the state of Texas to address in order to attract manufacturing to Texas? Select up to three from the list below.

SUMMARY & RECOMMENDATIONS

Because of its favorable business climate, manufacturing businesses will continue to consider Texas as a promising location for investment. A variety of factors are involved in location and expansion decisions, and economic incentives are only a single aspect. Based on the study findings and the Comptroller's continued review of economic development incentives, the agency makes the following recommendations to continue and improve Texas' promotion of manufacturing development.

- **Focus on training and workforce development.** The state and local communities must enhance workforce development efforts to ensure that Texans have the skills for available jobs. The Comptroller's July 2014 *Texas Workforce Report* includes strategies for cultivating effective training opportunities for all Texas workers.²⁸
- **Streamline incentive programs to offer companies a coordinated, transparent process.** A manufacturing company may need to work with multiple contacts at the local and state level to obtain assistance and economic incentives. State and local programs should coordinate their efforts to ensure that prospective companies understand the requirements for incentives and receive all the assistance they need to pursue them.
- **Ensure local flexibility so communities can employ a variety of tools to promote manufacturing development.** Local communities should continue to have the ability to assist manufacturing businesses with multiple tools, such as tax exemptions and abatements, sales tax dedications to infrastructure, etc. Because each manufacturing project has different needs and each community has specific assets, a diverse toolbox will help to ensure continuing support for manufacturing investment.
- **Review and evaluate economic incentive programs.** To ensure that incentives and assistance programs meet the changing needs of businesses, communities and Texas citizens, it is important to review them periodically and adjust them as needed. Continued evaluation of each program can be facilitated through transparency and reporting efforts at the local and state levels. Such reports also can help Texas track its progress in gaining manufacturing investment.

The Legislature should consider additional recommendations and information provided by a variety of Senate, House and joint committees currently studying economic development, workforce and manufacturing issues.

Texas can take these steps to improve the effectiveness and cost-efficiency of its incentive and assistance programs, to ensure the state remains a leading competitor for investment, providing jobs and prosperity for all Texans.

²⁸ Texas Comptroller of Public Accounts, *Workforce: Capitalizing on Our Human Assets* (Austin, Texas, July 2014), <http://www.window.state.tx.us/specialrpt/workforce/96-1756.pdf>.

APPENDICES

APPENDIX A: HB 2482 (83rd Legislature)

AN ACT

relating to a study to determine the reasons major manufacturers have chosen to invest in other states after considering development in this state.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. In this Act, “major manufacturer” means a person that:

- (1) is engaged in the business of manufacturing;
- (2) invested \$1 million or more in developing, expanding, or maintaining manufacturing operations in another state after September 1, 2011, and before September 1, 2014; and
- (3) was offered economic incentives by the state or a local government related to developing, expanding, or maintaining manufacturing operations in this state before choosing to make that investment.

SECTION 2. The comptroller of public accounts shall conduct a study on the reasons major manufacturers have chosen to invest in other states after the manufacturers were offered economic incentives by the state or a local government to develop in this state. The study may include examining those reasons specific to the economic incentives that were offered and to the promotion of manufacturing development. The comptroller’s office shall solicit interviews with an executive of each major manufacturer that declined the incentives. The interviews must address recommendations for this state to effectively compete with other states in promoting manufacturing development.

SECTION 3. Not later than December 1, 2014, the comptroller of public accounts shall provide a report on the results of the study, including an analysis of the results, to the speaker of the house of representatives, the lieutenant governor, the governor, and each standing committee of the legislature that has relevant jurisdiction.

SECTION 4. This Act expires January 1, 2015.

SECTION 5. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2013.

APPENDIX B: SURVEYS FOR HB 2482 STUDY

December 2013 Survey for Local Governments

The following survey is to assist in determining the current environment for attracting manufacturers to Texas and reasons major manufacturers have chosen to invest in other states after considering development in this state.

1. In which county is your community located?
2. How do you market your community as a desirable location to develop, expand or maintain manufacturing operations? Select all tools that you use.
 - a. Web site
 - b. Marketing plan
 - c. Trade shows
 - d. Advertising in magazines or online
 - e. Providing analysis of available sites and commercial real estate
 - f. Providing analysis of local workforce
3. What are the most important topics for the state of Texas to address in order to attract manufacturing to Texas? Select up to three from the list below.
 - a. Available labor pool
 - b. Accessibility and cost of truck transportation
 - c. Accessibility and cost of rail or air transportation
 - d. Power cost and accessibility
 - e. Tax climate
 - f. Incentives
 - g. Environmental regulations

Questions continued on following pages.

4. Which economic incentives are typically included in the incentive package for companies engaged in the business of manufacturing interested in locating in your community, either by the city, county, state or other entity? Select all that apply.
 - a. Tax Code, Chapter 311
 - b. Tax Code, Chapter 312
 - c. Tax Code, Chapter 313
 - d. Local Government Code, Chapters 380/381
 - e. Freeport Exemptions
 - f. Non-Annexation Agreements
 - g. Enterprise Zone/Projects
 - h. Economic Development Corporation
 - i. Texas Enterprise Fund
 - j. Employee Recruitment
 - k. Skills Development Fund
 - l. Training Facility Space and Equipment
 - m. Infrastructure Incentives
 - n. Permitting Assistance
 - o. Other: _____

5. Between September 1, 2011 and November 1, 2013, did you have any companies engaged in the business of manufacturing express interest in investing \$1 million or more in developing, expanding or maintaining manufacturing operations in your city/county?
 - a. Yes
 - b. No

6. Did the local government (city, county or other local government entity) offer one or more economic incentives to the company or companies related to developing, expanding or maintaining manufacturing operations in your city/county?
 - a. Yes
 - b. No

7. How many companies expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and December 1, 2013?
 - a. One company
 - b. Two to three companies
 - c. Four to five companies
 - d. More than five companies

8. Of the companies that expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and December 1, 2013, how many **accepted** the incentives and **located** (or intends to locate) in Texas?
 - a. None
 - b. One company
 - c. Two to three companies
 - d. Four to five companies
 - e. More than five companies

9. Enter the following information for each company that expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and December 1, 2013, accepted incentives and located or intends to locate in Texas.
 - a. Project Name:
 - b. Final/Proposed Project Location:
 - c. NAICS Code for Business:
 - d. Estimated Investment:
 - e. Estimated Number of Employees:

10. Of the companies expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and December 1, 2013, how many **did not accept** the incentives and/or **did not locate** in Texas?
 - a. None
 - b. One company
 - c. Two to three companies
 - d. Four to five companies
 - e. More than five companies

11. Enter the following information for each company that expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and December 1, 2013, and did not accept the incentives and/or did not locate in Texas.
 - a. Project Name:
 - b. Final/Proposed Project Location:
 - c. NAICS Code for Business:
 - d. Estimated Investment:
 - e. Estimated Number of Employees:
 - f. City/County/Local Government:
 - i. Contact Person:
 - ii. Phone:
 - iii. Email:
 - g. Company Name:
 - iv. Contact Person:
 - v. Phone:
 - vi. Email:

June 2014 Survey for Site Selectors

HB 2482 (83 R) requires the Comptroller’s Office to conduct a study to determine the reasons major manufacturers have chosen to invest in other states after considering development in Texas.

The following survey is to assist in determining the current environment for attracting manufacturers to Texas and reasons major manufacturers have chosen to invest in other states after receiving economic incentive offers from a local community and/or the state.

1. What do you consider to be the most important criteria for you and your clients in choosing a location for relocation or expansion? Select up to three from the list below.
 - a. Available labor pool
 - b. Accessibility and cost of truck transportation
 - c. Accessibility and cost of rail or air transportation
 - d. Power cost and accessibility
 - e. Tax climate
 - f. Incentives
 - g. Environmental regulations
 - h. Other: _____

2. What are the most important incentives the state, local governments or other entities can provide to your clients engaged in the business of manufacturing that are interested in locating in a Texas community? Select all that apply.
 - a. Tax Code, Chapter 311
 - b. Tax Code, Chapter 312
 - c. Tax Code, Chapter 313
 - d. Local Government Code, Chapters 380/381
 - e. Research and Development Sales Tax Exemption/Franchise Tax Credit
 - f. Freeport Exemptions
 - g. Non-Annexation Agreements
 - h. Enterprise Zone/Projects
 - i. Economic Development Corporation Incentives
 - j. Texas Enterprise Fund
 - k. Workforce/Training Incentives or Programs
 - l. Infrastructure Incentives
 - m. Permitting Assistance
 - n. Other: _____

3. How important is the ready availability of a technically skilled workforce in your assessment of locations?
 - a. Very important
 - b. Of medium importance
 - c. Not important
 - d. Comments: _____

4. What workforce development/training programs and/or incentives in Texas do you find most competitive with other states? Select all that apply.

Are there examples of workforce programs in other states that you consider valuable?

- a. Employee Recruitment
- b. Skills Development Fund
- c. Customized Employee Training Programs
- d. Training Facility Space and Equipment
- e. Other: _____
- f. Example(s) of valuable programs in other states: _____

5. What is the timeframe you would expect a state to be able to offer a financial incentive to your client?

- a. Less than two weeks
- b. Less than one month
- c. Less than three months
- d. Greater than three months

6. Between **September 1, 2011 and May 1, 2014**, did you work with any companies engaged in the business of manufacturing that expressed interest in investing **\$1 million or more** and received an offer of state and/or local economic incentives related to developing, expanding or maintaining **manufacturing operations in Texas**?

- a. Yes
- b. No

7. Of the companies that expressed interest in investing \$1 million or more in manufacturing operations between **September 1, 2011 and May 1, 2014**, how many **accepted incentives and located** (or intends to locate) in Texas?

- a. None
- b. One company
- c. Two to three companies
- d. Four to five companies
- e. More than five companies

8. Enter the following information for each company that expressed interest in investing \$1 million or more in manufacturing operations between **September 1, 2011 and May 1, 2014**, **accepted incentives and located** or intends to locate in Texas.

- a. Project Name:
- b. Final/Proposed Project Location:
- c. NAICS Code for Business:
- d. Estimated Investment:
- e. Estimated Number of Employees:

9. Of the companies that expressed interest in investing \$1 million or more in manufacturing operations between **September 1, 2011 and May 1, 2014**, how many **did not accept** the incentives and/or **did not locate** in Texas?
- a. None
 - b. One company
 - c. Two to three companies
 - d. Four to five companies
 - e. More than five companies
10. Enter the following information for each company that expressed interest in investing \$1 million or more in manufacturing operations between **September 1, 2011 and May 1, 2014**, and **did not accept** the incentives and/or **did not locate** in Texas.
- a. Project Name:
 - b. Final/Proposed Project Location:
 - c. NAICS Code for Business:
 - d. Estimated Investment:
 - e. Estimated Number of Employees:
 - f. City/County/Local Government:
 - vii. Contact Person:
 - viii. Phone:
 - ix. Email:
 - g. Company Name:
 - x. Contact Person:
 - xi. Phone:
 - xii. Email:
11. Is Texas competitive compared to other states as a location for manufacturing operations?
- a. Yes
 - b. No
- Comments: _____
12. What other states are competitive with Texas as a location for manufacturing operations? What makes them so attractive to you and your clients?
- Comments: _____
13. Do you have any additional information or feedback related to the current environment for attracting manufacturers to Texas and reasons major manufacturers may choose to invest in other states instead of Texas?
- Comments: _____
14. Contact Information (Optional)
- a. Name:
 - b. Organization:
 - c. Phone:

September 2014 Survey Regarding Investments by Major Manufacturers in Texas

HB 2482 (83 R) requires the Comptroller's Office to conduct a study to determine the reasons major manufacturers have chosen to invest in other states after considering development in Texas.

The following survey is to assist in identifying major manufacturers that chose to invest in other states after considering development in Texas. *If you provided responses to the previous Comptroller survey on this topic, please only provide information on projects since December 2013.*

1. In which county is your community located?
2. Between September 1, 2011 and September 1, 2014, did you have any companies engaged in the business of manufacturing express interest in investing \$1 million or more in developing, expanding or maintaining manufacturing operations in your city/county?
 - a. Yes
 - b. No
3. Did the local government (city, county or other local government entity) offer one or more economic incentives to the company or companies related to developing, expanding or maintaining manufacturing operations in your city/county?
 - c. Yes
 - d. No
4. How many companies expressed interest in investing \$1 million or more in manufacturing operations and received an offer of economic incentives from the state or local government between September 1, 2011 and September 1, 2014?
 - a. One company
 - b. Two to three companies
 - c. Four to five companies
 - d. More than five companies
5. Of the companies that expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and September 1, 2014, how many **did not accept** the incentives and **did not locate** in Texas? *Do not include information on companies you reported in the previous Comptroller survey.*
 - a. None
 - b. One company
 - c. Two to three companies
 - d. Four to five companies
 - e. More than five companies

6. Enter the following information for each company that expressed interest in investing \$1 million or more in manufacturing operations between September 1, 2011 and September 1, 2014, and **did not accept the incentives** and **did not locate** in Texas.
 - a. Project Name:
 - b. Final/Proposed Project Location:
 - c. NAICS Code for Business:
 - d. Estimated Investment:
 - e. Estimated Number of Employees:
 - f. City/County/Local Government:
 - i. Contact Person:
 - ii. Phone:
 - iii. Email:
 - g. Company Name:
 - i. Contact Person:
 - ii. Phone:
 - iii. Email:

Texas Comptroller of Public Accounts
Economic Development and Analysis Division
PO Box 13528 • Austin, Texas 78711-3528

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