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Catalyst for Growth:

The Importance of 25 Years of Projects Facilitated by
the Texas Sales Tax for Economic Development



TEXAS ECONOMIC DEVELOPMENT COUNCIL



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NOTE: For more information about The Perryman Group, the methodology used, and more detailed data and findings in this report, please visit the TEDC’s website at www.texasedc.org/members/tedc-publications.

Introduction and Overview

The Texas economy has been **outperforming the nation** for a number of years. There are many reasons for the strength of the state's business expansion, including factors which are difficult or impossible to influence. These basic conditions include the large and growing workforce, abundant resources such as land and oil and natural gas reserves, and a central location. **While Texas clearly has a strong base from which to generate prosperity, the mere presence of these characteristics is insufficient to secure and sustain economic health.**

There are also many aspects of the business climate which are within the control of legislators, government entities, business and community leaders, and individuals. Successfully developing an economy requires a business environment where companies want to locate. This task is achieved through, among other things, a favorable tax and regulatory climate, a fair and predictable judicial system, excellent education and training at all levels, infrastructure that can sustain growth, and a desirable quality of life. Texas does quite well in some of these areas, although the state faces notable challenges in others (particularly over the long term).

Even after these basic prerequisites are met, however, the

On average, **every \$1 in sales tax for economic development collected over the past 25 years returns a cumulative \$10.84 in annual economic activity** (real gross product) from assisted projects.

level of competition among states and even nations for quality corporate locations and expansions requires concerted efforts to attract new activity, including incentives. Some 25 years ago, on the heels of a major economic downturn in the state, the Texas Legislature passed legislation allowing local areas to vote to collect extra sales tax to be used for economic development. Voters in hundreds of communities across the state have since passed measures approving the tax, and the billions of dollars collected have been used for projects enhancing opportunities for Texans in communities large and small.

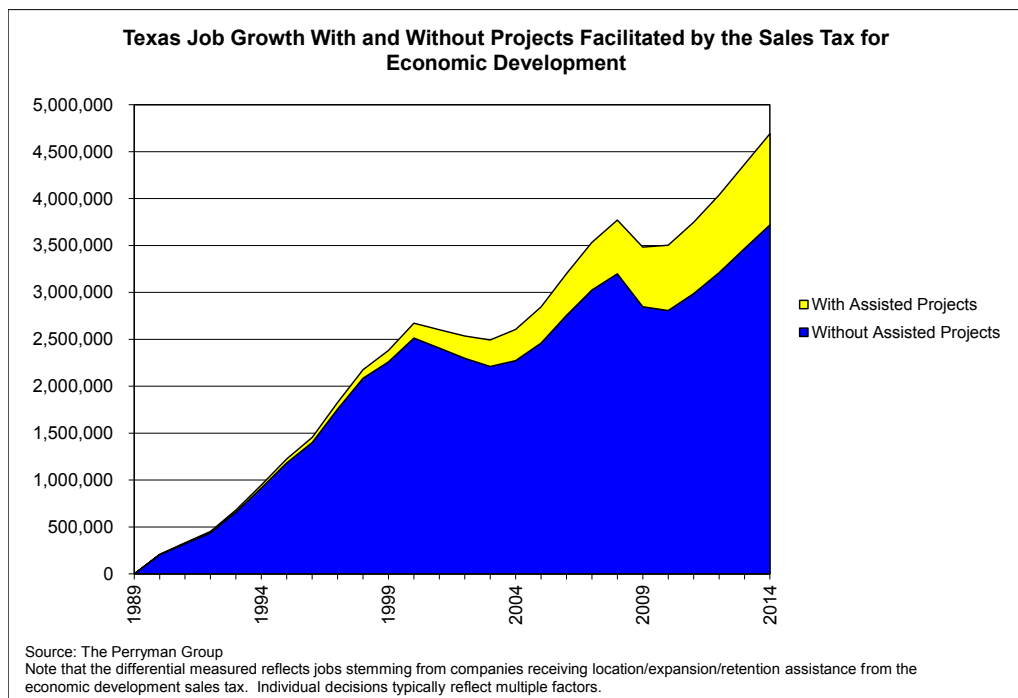
The Perryman Group estimates that projects receiving location, expansion, or retention assistance from the sales tax for economic development generate an overall impact (including multiplier effects) of **\$98.2 billion** in gross product each year and almost **971,900** permanent jobs in Texas.

Communities can choose between a “Type A” or “Type B” economic development corporation (EDC) under Texas law, referring to the section of relevant legislation where allowable actions by the EDC are set forth. Type A EDCs can invest in manufacturing and industrial development projects such as production facilities, distribution centers, certain infrastructure improvements, research and development and other facilities, and job skills training programs classes. Type B economic development corporations can fund all Type A projects as well as quality-of-life improvements such as parks, museums, sports facilities, and affordable housing.

The sales tax for economic development has played a role in **20.7% of net job growth** since 1990.

The hundreds of projects undertaken by economic development corporations across Texas (funded by sales tax for economic development proceeds) have enhanced the performance of the state economy, thereby increasing job opportunities, business investment, and tax receipts.

The Perryman Group (TPG) was recently asked to estimate the economic and fiscal benefits of projects facilitated by funds from the sales tax for economic development. Although there are many considerations in the location decision process, the initiatives undertaken by economic development professionals (and funded by economic development sales tax receipts) have been the major contributing factors in many cases, and the state economy has benefitted tremendously.



Highlights of Study Findings

- The Perryman Group estimates that projects receiving location, expansion, or retention assistance from the sales tax for economic development generate an overall impact (including multiplier effects) of **\$98.2 billion** in gross product each year and almost **971,900** permanent jobs in Texas.
- Receipts to the State and local taxing entities (City, County, and schools) stemming from this business activity are also substantial. The Perryman Group estimates that annual gains include **\$5.1 billion** to the State and **\$4.2 billion** to local entities each year (**\$3.5 billion** to local governments and **\$1.8 billion** to cities when net of economic development (ED) sales tax collections.)
- The sales tax for economic development has played a role in **20.7% of net job growth** since 1990.
- Every \$1 in sales tax for economic development collected over the past 25 years **returns a cumulative \$10.84** in annual economic activity (real gross product) from assisted projects.
- The annual real net **rate of return** of the cumulative payments over the entire period in terms of fiscal revenues associated with assisted projects is approximately
 - ✓ **56.2%** to the State,
 - ✓ **38.3%** to all local governments, and
 - ✓ **19.7%** to cities.
- **Every dollar of sales tax for economic development** currently collected each year is **significantly exceeded by the ongoing cumulative benefits of the projects supported by the program**, representing an annual impact of
 - ✓ **\$277.67** in expenditures,
 - ✓ **\$140.92** in gross product,
 - ✓ **\$89.72** in personal income, and
 - ✓ **\$3.57** in gross city tax revenue each year (\$2.57 per year when net of ED sales tax collections).

Note: The Perryman Group estimated these effects based on a representative sample of economic development corporations. These effects measure the overall impact of the assisted firms, some of which have located in Texas even without assistance. Dollar amounts are expressed in constant 2014 terms. Additional information regarding assumptions and methods used is included in this report and the accompanying Appendices.

Importance of Economic Development Funding

The highly competitive environment characterizing modern economic development virtually demands that communities and regions seeking continuing success be competitive with incentives and other location requirements. **Incentives, marketing efforts, and other enhancements are widely used, and communities need such tools to “level the playing field.”** In fact, a variety of factors have coalesced in recent years to make them even more significant.

First, **labor and capital mobility has greatly increased.** Skilled workers in key growth sectors have shown a willingness to relocate in response to enhanced opportunities, and financial markets efficiently move capital and money to their highest and best uses.

Second, **the site selection process has become more sophisticated.** Firms have come to recognize that they have significant “bargaining power” with state and local governments and are using it to effectively reduce overall costs.

Third, **increasing globalization has brought greater attention to all aspects of costs.** Firms, particularly in growth-oriented manufacturing sectors, must offer a mix of output, innovation, and profits that is competitive on an international scale. In such an environment, even relatively minor variations in costs across geographic areas can be a key factor in location decisions, and incentives are an important part of the equation when areas are roughly equivalent in other respects (which is the typical situation).

Fourth, **firms are now held to higher levels of public scrutiny in debt and equity markets** than has been the case historically. In seeking new locations, lower tax levels and specific economic incentive packages bring with them a fiduciary duty to minimize overall outlays and maximize profits; shareholders demand a higher level of accountability. Therefore, it is necessary to be aggressive and creative in structuring attractive packages to compete with other communities.

Fifth, **most large firms now employ agents (site selection consultants) to assist in the location process.** Because these firms largely compete with one another based on their ability to secure incentives, areas without competitive programs are often shut out of the process entirely (a fate which often befell Texas prior to the passage of the economic development sales tax and later legislation for State incentives in the early 2000s).

It must be remembered that economic development is a high stakes process in which winners receive very significant rewards of jobs, investments, and tax revenues; on the other hand, second place (even a very close second place) gets nothing. The availability of funds to support economic development efforts is essential, and the sales tax for that purpose has enabled communities across the state to improve their ability to compete for new business activity and retain existing firms.

In many cases, Texas' **economic development incentive options are making the difference between being on the short list of potential locations and sealing the deal.** The result is a steady inflow of desirable corporate locations. The new commercial and industrial ventures offer jobs for Texans and tax receipts for the State and local governments. Many of the new positions are well paying, and there is evidence that Texas leads in job gains across all levels of wages.

One objective measure of this success is Site Selection magazine's Governor's Cup, which ranks states by the number of major corporate location and expansion projects. To be counted, a project has to either involve a capital commercial investment of at least \$1 million, 50 or more new jobs, or 20,000 square feet of new construction. Last year, Texas had 657 such projects, far outpacing second-place Ohio (which had 480). Others near the top of the list include Illinois (with 383), Pennsylvania (348), and Michigan (312). The win is not a first for Texas; the state also won in 2004, 2005, 2010, 2012, and 2013 and was a close second in several of the intervening years and consistently among the top five.

The state's **success is based on building on strengths to develop the kind of business climate that companies find attractive.** There are other places with similar resources (such as California) that are unable to retain existing firms, much less expand. The Lone Star State's **success increased markedly when funding for economic development became available and incentives were implemented.** The economic development sales tax was the first major milestone in that process.

Texas Economic Performance

As noted, **Texas has been a growth leader for a number of years.** The strength of the state economy has been particularly notable since the recent national downturn. Growth has been occurring across all major industrial sectors, with overall job gains at a pace in the range of 400,000 per year. The unemployment rate is also significantly lower than the national average and even farther below many states.

Between January 1990 and January 2014, total nonfarm employment expanded by

- ✓ 26% in the United States,
- ✓ 22% in California, and
- ✓ **63% in Texas.**

Texas entered the recent recession later and emerged earlier, and has contributed more than a million new jobs since the depths of the downturn (while the nation only recouped its losses years later). Almost 15% of total national job gains over the first four years of the recovery from the recent national downturn (January 2010 to January 2014) were in Texas. The Lone Star State now accounts for about 9% of the national economy (as measured by real gross product or RGP).

One reason for this strong performance recently is the oil surge, with drilling and related activity spurring job gains in communities near historically active fields (such as the Permian Basin) as well as fields only recently economically viable to explore and produce (including the Eagle Ford and Cline Shale plays). However, the current Texas strength derives from many other sources in addition to energy and began decades before the recent upswing in the oil industry. In fact, oil prices were depressed during much of the time over the past 25 years, and the Texas economy nonetheless expanded at a healthy pace.

Business operations in a variety of industries continue to move to the state to take advantage of its workforce, regulatory, tax, and other competitive benefits. From chemicals companies to biosciences firms to technology manufacturers and more, firms have been attracted by the state's favorable business climate.

Not only is Texas outpacing the national rate of expansion, but also the pace in key competing states (such as California) which has natural resources, large workforces, and a presence in emerging industries. Local economic development efforts facilitated by the ED sales tax are an important reason for this success.

Study Parameters and Methods Used

The Perryman Group analyzed the **overall economic and fiscal effects of companies which have received assistance funded by the economic development sales tax**. A representative sample of economic development corporations was utilized to determine typical patterns of fund disbursements and projects undertaken. A 99% lower confidence bound of performance obtained over five years was then derived and used in the analysis, with appropriate adjustments for differing rules for smaller areas and for categories for which assistance is not typically provided. Thus, there is a very high probability that the actual gains from projects benefitting from the economic development sales tax are understated. Industrial allocation was based on growth in the sectors eligible for assistance over the past twenty-five years. Results were also adjusted to account for uses of funds for purposes other than direct economic development projects as well as unspent balances.

To account for the other potential uses of funds by individuals and corporations in the absence of the sales tax for economic development, offsetting effects were quantified to produce a net effect. Other adjustments were made to account for savings, other taxes, and leakages from the state expenditure stream.

It would not be appropriate to attribute all of this activity exclusively to the sales tax because myriad factors are involved in location, expansion, and retention decisions. Some firms receiving assistance would have likely located, expanded, or remained in Texas even in the absence of incentives. However, many assisted businesses would not have located to Texas or remained and expanded without the concerted economic development efforts funded by the sales tax for economic development.

Summary results are provided in the body of the report, with additional industry-level detail and methodology in the Appendices.

Summary of Methods Used

Any economic stimulus (such as a firm location/expansion) generates multiplier effects throughout the economy. The Perryman Group developed a dynamic input-output assessment model (the US Multi-Regional Impact Assessment System, which is described in further detail in the Appendices to this report) some 30 years ago to measure these multiplier effects in order to determine total economic benefits. The model has been consistently maintained and

updated and has been used in hundreds of analyses throughout the country for clients ranging from major corporations to government agencies.

The system uses a variety of data (from surveys, industry information, and other sources) to describe the various goods and services (known as resources or inputs) required to produce another good/service. This process allows for estimation of the total economic impact (including multiplier effects) of companies assisted.

The submodels used in the current analysis reflect the specific industrial composition and characteristics of the areas analyzed. Total economic benefits are quantified for key measures of business activity, which are different, common ways of looking at changes in the economy (such as in terms of total spending, output, income, or jobs). These measures are briefly described below and explained in further detail in the Appendices.

- **Total expenditures** (or total spending) measure the dollars changing hands as a result of the economic stimulus.
- **Gross product** (or output) is production of goods and services that will come about in each area as a result of the activity. This measure is parallel to the gross domestic product numbers commonly reported by various media outlets and is a subset of total expenditures.
- **Personal income** is dollars that end up in the hands of people in the area; the vast majority of this aggregate derives from the earnings of employees, but payments such as interest and rents are also included.
- **Job gains** are expressed as permanent jobs because they are ongoing effects that persist.

Monetary values were quantified on a constant basis (in 2014 dollars) to eliminate the effects of inflation. See the Appendices to this report for additional information regarding the methods used in this analysis.

Total Effect of Projects Facilitated by Economic Development Sales Tax Funds on Economic Activity and Tax Receipts

Since legislation was passed to enable sales tax collections for economic development, it is estimated that about **\$7 billion** has been collected. Currently, there are about **700** economic development corporations which have been created in communities across the state. In some cities, millions of dollars per year are available to invest in projects which improve opportunities for area residents and businesses.

Projects undertaken have included not only direct incentives to locating, expanding, or retaining firms, but also workforce training, higher education programs, sports venues, and various enhancements to local infrastructure or quality of life with the potential to result in economic development.

The Perryman Group estimates that the annual economic benefits stemming from projects funded using the sales tax for economic development include **\$98.2 billion** in gross product each year as well as **971,900** permanent jobs across the state. This overall impact represents **about 20.7% of net job growth** in Texas since the sales tax was implemented.

An **important outgrowth of this substantial additional business activity is an increase in tax receipts to taxing authorities**, both at the State and local levels. The Perryman Group estimates that the increase in tax receipts stemming from expansion, location, or retention projects aided through the economic development sales taxes include **\$5.1 billion** for the State each year and **\$4.2 billion** for local entities. When expressed net of the ED sales tax, the incremental amount to local taxing entities is estimated to be almost **\$3.5 billion** per year, with a net of **\$1.8 billion** in incremental taxes flowing to cities. These annual totals far exceed the sales taxes for economic development which are collected on a yearly basis. In fact, the tax funds invested in expansion, location, and retention projects are returned many times over. These rates of return are well above those of typical uses of city funds.

Every \$1 of sales tax for economic development currently collected each year is significantly exceeded by the ongoing cumulative benefits of the projects benefiting from the program, representing an annual impact of

- ✓ **\$277.67** in expenditures,
- ✓ **\$140.92** in gross product,
- ✓ **\$89.72** in personal income, and
- ✓ **\$3.57** in city tax revenue on a gross basis (**\$2.57** when net of ED sales taxes).

The Annual Economic and Fiscal Impact* of Companies Receiving Location, Expansion, or Retention Assistance funded by the Economic Development Sales Tax on Business Activity in Texas

| ECONOMIC BENEFITS | |
|--|------------------------|
| Total Expenditures | \$193.5 billion |
| Gross Product | \$98.2 billion |
| Personal Income | \$62.5 billion |
| Retail Sales | \$24.1 billion |
| Employment (Permanent Jobs) | 971,892 |
| FISCAL BENEFITS | |
| Local Taxing Entities | \$4.2 billion |
| State of Texas | \$5.1 billion |
| Local Net of ED Sales Tax | \$3.5 billion |
| City Net of ED Sales Tax | \$1.8 billion |
| <p>SOURCE: The Perryman Group *As of 2014. Monetary values in constant 2014 dollars. Note: Based on the 99% lower confidence bound of performance obtained from a representative sample of economic development corporations. Industrial allocation is based on growth in the sectors eligible for assistance over the past twenty-five years, with appropriate adjustments for differing rules for smaller areas and for categories for which assistance is not typically provided. Results are also fully adjusted to account for uses of funds for purposes other than direct economic development and for unspent balances. The findings also include the offsetting effects of the sales tax payments by individuals and corporations in Texas to fund the economic development sales tax, with adjustments for savings, other taxes, and leakages from the state expenditure stream.</p> | |

Case Studies: Example Projects Facilitated by Economic Development Sales Tax Funds

Projects of many types have been funded by sales tax for economic development collections, and businesses across a spectrum of industries have received location, expansion, or retention assistance. The Perryman Group looked specifically at four projects in order to illustrate the types of benefits they involve.

Baker Hughes Western Hemisphere Education Center in Tomball

In 2012, the Tomball Economic Development Corporation provided a grant to Baker Hughes to assist in the construction of its world-class training facility, the Baker Hughes Western Hemisphere Education Center. The training center, which opened in May 2014, consists of a 90,000-square-foot classroom building with 21 classrooms and six more being planned. The purpose of the facility is designed for cross-training Baker Hughes employees from all product lines and includes classroom learning, hands-on mechanical and electrical training in workshop labs, and field operations training on rigs and wells. The education center is capable of handling about 500 students and 100 training personnel at any given time, and employees from all over North and Latin America as well as other parts of the world are expected to train there. The center will involve permanent employees and operations spending in the local area, as well as a significant stimulus stemming from visitors.

The Perryman Group estimates the Baker Hughes Western Hemisphere Education Center contributes **\$56.8 million** in annual gross product and some **783** permanent jobs to the Tomball area economy. The fiscal effects include some **\$2.9 million** per year to local taxing authorities in Texas and almost **\$5.3 million** to the State.

| The Annual Economic and Fiscal Impact* of the Baker Hughes Western Hemisphere Education Center on the Tomball Area | |
|---|------------------------|
| Total Expenditures | \$103.0 million |
| Gross Product | \$56.8 million |
| Personal Income | \$36.0 million |
| Retail Sales | \$32.9 million |
| Employment (Permanent Jobs) | 783 |
| FISCAL BENEFITS | |
| Local Taxing Entities | \$2.9 million |
| State of Texas | \$5.3 million |
| SOURCE: The Perryman Group *As of 2014. Monetary values in constant 2014 dollars. | |

Target Distribution Center in Lindale

A joint effort between the Lindale Economic Development Corporation and Tyler Economic Development Council led to the successful recruitment of a Target distribution center to the area. (The Lindale and Tyler Economic Development Corporations won the 1997 Texas Economic Development Council’s Community Economic Development Award for the Target transaction.) Funds from the economic development sales tax played a role, along with other incentives, in Target locating the distribution center in Lindale, Texas that opened in June 1998. The Lindale Economic Development Corporation paid for reconstruction of a bridge and ramps near the Target distribution center location on Harvey Road just off of Interstate 20.

The distribution center is the leading employer in Lindale, providing over 725 direct jobs. The Perryman Group estimates that the impact of the Target distribution center on business activity in the Tyler-Lindale Area (including multiplier effects) totals **\$246.3 million** in gross product each year as well as **2,280** permanent jobs. Fiscal impacts include almost **\$10.2 million** annually to local taxing entities and **\$13.8 million** to the State.

| The Annual Economic and Fiscal Impact* of the Target Distribution Center on the Tyler-Lindale Area | |
|---|------------------------|
| Total Expenditures | \$433.3 million |
| Gross Product | \$246.3 million |
| Personal Income | \$146.7 million |
| Retail Sales | \$61.0 million |
| Employment (Permanent Jobs) | 2,281 |
| FISCAL BENEFITS | |
| Local Taxing Entities | \$10.2 million |
| State of Texas | \$13.8 million |
| SOURCE: The Perryman Group *As of 2014. Monetary values in constant 2014 dollars. | |

Constellation Field in Sugar Land

The Sugar Land 4B Corporation, with its focus on quality-of-life initiatives, used economic development sales tax revenues to fund a new minor league baseball stadium in Sugar Land in 2010. The stadium, known as Constellation Field, opened in April 2012 and is the home of the Sugar Land Skeeters, an Atlantic League of Professional Baseball independent minor league baseball team. The 7,500-seat ballpark is also used for special events including festivals, charity events, sports tournaments, company events, and corporate meetings. The attendance at the stadium has been higher than expected, with more than 478,000 for baseball and other events in 2013.

The Perryman Group estimates the impact on business activity of Constellation Field in the Sugar Land area to be over **\$16.6 million** in gross product each year as well as **222** permanent jobs. The tax impact for local taxing entities in Texas is **\$0.9 million** per year, with **\$1.8 million** to the State.

| The Annual Economic and Fiscal Impact* of Constellation Field on the Sugar Land Area | |
|---|-----------------------|
| Total Expenditures | \$30.4 million |
| Gross Product | \$16.6 million |
| Personal Income | \$10.1 million |
| Retail Sales | \$11.3 million |
| Employment (Permanent Jobs) | 222 |
| FISCAL BENEFITS | |
| Local Taxing Entities | \$0.9 million |
| State of Texas | \$1.8 million |
| SOURCE: The Perryman Group *As of 2014. Monetary values in constant 2014 dollars. | |

Hilmar Cheese in the Texas Panhandle

The Hilmar Cheese facility located in Dalhart, Texas illustrates the regional benefits which can be realized through economic development projects funded by ED sales tax collections. The Amarillo Economic Development Corporation provided incentives which led to the expansion of Hilmar Cheese from California to Dalhart in the northern Panhandle. Much of the economic stimulus associated with the plant flows to Amarillo, which is a center for business activity for the region. Construction was completed by an Amarillo contractor, for example, and the facility uses Amarillo vendors of goods and services needed for production. In addition, the Hilmar facility has already sparked further development in related industries including independent dairies and processing facilities.

The Perryman Group estimates that Hilmar Cheese operations lead to total gains in business activity in the Amarillo area of **\$106.5 million** in gross product each year as well as **1,189** jobs. For the Panhandle Region (including gains within the Amarillo area as well as spillover to other parts of the region), the total economic benefits were found to include **\$179.5 million** in gross product per year and **1,817** jobs.

| The Annual Economic and Fiscal Impact* of Hilmar Cheese Company | | |
|--|------------------------|-------------------------|
| | Amarillo Area | Panhandle Region |
| Total Expenditures | \$228.2 million | \$535.6 million |
| Gross Product | \$106.5 million | \$179.5 million |
| Personal Income | \$65.3 million | \$106.1 million |
| Retail Sales | \$39.0 million | \$39.0 million |
| Employment (Permanent Jobs) | 1,189 | 1,817 |
| FISCAL BENEFITS | | |
| Local Taxing Entities | | \$5.8 million |
| State of Texas | | \$7.9 million |
| SOURCE: The Perryman Group *As of 2014. Monetary values in constant 2014 dollars. | | |

Conclusion

The net annual impact of location, expansion, and retention projects funded by the sales tax for economic development includes an estimated **\$98.2 billion** in gross product each year and **971,900** permanent jobs across the state. This economic activity, in turn, generates some **\$5.1 billion** in tax revenue to the State and **\$4.2 billion** to local entities each year. The annual real rates of return on ED sales tax payments implied by these revenues are much higher than for most uses of resources.

While some of the companies involved likely would have invested in Texas without the incentives and it is not appropriate to attribute the entirety of these economic effects to the sales tax alone, it is nonetheless clear that such incentives play a definite role in many instances. The **current competitive environment for quality corporate locations and expansions demands that communities engage in economic development efforts**; without the assistance facilitated by the sales tax for economic development, many quality corporate locations and expansions over the past 25 years would have gone to other areas.

No incentive program can attract firms to an area that cannot meet their basic needs and provide a viable platform to thrive, earn profits, and expand. Texas offers notable advantages for many firms, and economic development assistance can spell the difference between making a “short list” and being selected.

The relative strength of the Texas economy is providing jobs for Texans, opportunities for the state’s businesses, and tax receipts to fund local and State priorities. Without a doubt, **part of the reason for this success is efforts by local economic development corporations in communities across the state**. Without the resources provided by ED sales tax collections, many of the projects undertaken would simply not have been possible.

Economic development projects are notably enhancing prosperity in the state. Assistance projects facilitated by the ED sales tax are also generating returns far in excess of what is collected. **The sales tax for economic development is a true success story providing local taxpayers in communities across the Lone Star State with an extraordinary return on their investment.**

The annual real net **rate of return** of the cumulative payments over the entire period in terms of fiscal revenues related to assisted projects is approximately **56.2% to the State, 38.3% to all local governments, and 19.7% to cities.**

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