

HOUSTON CHRONICLE

Houston's economy too strong to draw Tesla

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The Tahoe Reno Industrial Center, where Tesla plans to build its battery factory, is 15 miles east of Sparks. Nevada Assembly Speaker Marilyn Kirkpatrick says it's too early to say how incentives for Tesla will fare in a special session this week.

In 1928, the Chamber of Commerce in Marlin, Texas, wanted a modern hotel to serve the hundreds of people who bathed every week in the town's famed mineral waters, so they asked Conrad Hilton if he'd consider investing in their community.

Hilton replied with a proposal for a \$375,000 high-rise with the largest ballroom in Central Texas and a suite of elegant porcelain bathtubs, where guests could partake in the healing waters. But first, he wanted the city to come up with the first \$50,000 toward the nine-story structure, 150 miles northwest of Houston.

The chamber complied, and Hilton brought in decorators from France to create an elegant hotel in the middle of Texas cotton country.

We tend to think that economic incentives are a relatively new phenomenon, but successful companies have demanded them for centuries. When politicians' popularity depends on economic conditions, they will do all they can to create jobs, even if it means giving away taxpayer money.

Hilton's demand for a 13 percent down payment to build his ninth hotel makes Elon Musk's request for a minimum 10 percent contribution toward the construction of Tesla's \$5 billion "gigafactory" look reasonable.

Neither the Greater Houston Partnership nor Gov. Rick Perry's office will talk about whether Houston was ever considered for the giant lithium-ion battery plant, but it's probably for the best it went to Reno, Nev. Officials there won the auction for 6,500 jobs by offering \$1.3 billion in tax abatements and credits over 20 years to Tesla, covering 26 percent of the project's cost.

Houston, Harris County and Texas didn't need to spend that kind of money for the same reasons that Tesla likely overlooked Houston. Greater Houston's high land values, high energy costs, thriving economy and current shortage of skilled labor likely scared Musk off.

John Boyd, founder of the site-selection firm The Boyd Co., said those factors play critical roles in a company's decision-making.

"Houston's economic development is already operating on eight cylinders," he told me. Smart investors buy low and sell high.

The role of the governor in attracting global businesses cannot be underestimated, said Boyd, whose firm advises many Fortune 500 companies. Governors usually make a pitch for the one location within their state that has the best chance.

San Antonio was Texas' best bet for Tesla because of its inexpensive land, clean energy, low labor costs and the large workforce of veterans, whom Musk prefers to hire, Boyd said.

Boyd said Perry's cash closing fund also attracts companies to Texas, particularly when they will need to train workers or make capital investments. In Austin, state lawmakers are debating whether or not to leave the governor in control of the Texas Enterprise Fund after Perry leaves office next year, and Republican candidate Greg Abbott has criticized the program.

The bidding for Tesla has been unique because Musk took public a negotiation that usually goes on behind non-disclosure agreements. The Tesla CEO told officials in Texas, Nevada, California, Arizona and New Mexico that the minimum bid was 10 percent of the project's cost and that he expected even more from the winner. San Antonio's bid was \$800 million, according to the San Antonio Express-News.

Many consider the demands extortion and found the process demeaning to public officials and their constituencies.

"Recently our states have been pitted into a race to the bottom from which no real winner may emerge," said an open letter to state officials from six public interest groups, including Texans for Public Justice. "Overspending on Tesla - or any other company - could be a net-loss game in which fewer public resources are then available for investments in areas that benefit all employers, such as education and training, efficient infrastructure and public safety."

The group called on governors to negotiate as a bloc.

Boyd said despite the unseemly bidding war and the risk that a city like Houston could overheat its economy, politicians are unlikely to take their feet off the economic development pedal.

"Job development really is the issue of our time, and it's a bipartisan issue," he said. "They will relentlessly pursue industry, and you will see new competition emerge."

That will leave our elected officials in charge of deciding how much they are willing to pay to attract a business, and too often they get caught up in the competition rather than examining how the money could be better spent elsewhere.

The Hilton in Marlin opened its doors on May 27, 1930, and attracted the nation's favorite big bands, including Lawrence Welk. But the Great Depression took its toll, and Hilton sold it to keep his other hotels.

The development of penicillin in the 1940s ended the mineral water tourism business, since people no longer relied on hot sulfuric water to heal their infections. The hotel never lived up to its business plan and today sits empty, but is still the town's most prominent structure.

The building stands as a reminder that the best-laid economic development plans don't always work out.