

Why expiring tax cut in Texas could boost North Carolina's economic development push

Incentives program has attracted major anchors to Austin's economy, experts say



The Chapter 313 property tax abatements in Texas are slated to expire at the end of 2022. The program has been used to lure large-scale investments to Austin, Texas, such as Tesla Inc.'s \$1.1 billion gigafactory, pictured here. Arnold Wells/ABJ

By Lauren Ohnesorge and Kathryn Hardison – Triangle Business Journal – June 15, 2021

Could the pending expiration of a corporate tax cut program in Texas give North Carolina – and states like it – a competitive edge when it comes to economic development?

Some experts think so.

Texas' Chapter 313 property tax abatement program is set to expire – and without it, many experts think the Lone Star State will be less competitive for the likes of the mega projects it's been winning in recent years.

“No doubt, competitor states like North Carolina would reap significant benefits should Texas' Chapter 313 not be renewed next year,” site selection expert John Boyd of New Jersey told *TBJ*. “Relatively low property taxes throughout North Carolina are already a major calling card for the state, both in attracting new industry as well as people and families exiting high tax states like New York, New Jersey and Connecticut.”

The \$10 billion tax abatement program that has played a large role in Central Texas landing blockbuster investments, such as Tesla Inc.'s (Nasdaq: TSLA) \$1.1-billion gigafactory, is expected to expire at the end of next year.

In Texas, that's left many in economic development worried about Austin's ability to attract large-scale manufacturing projects in the future.

Traditionally, Austin has been a major competitor for the Triangle. Like the Triangle, it boasts of a top notch tech talent pool and a state that has been willing to throw major incentives at job creators.

The Chapter 313 property tax abatement program has been a differentiator. The program cuts the amount of property taxes paid to local school districts and has been a key tool for making it possible for companies to make high-dollar investments because of Texas' high property taxes in lieu of no income tax.

Boyd said those worries in Austin are not unfounded.

“Property taxes are one of the most pivotal – yet under the radar screen – site selection factors for projects with large investments in both land and new construction,” Boyd said. “Examples would be most large manufacturing plants, especially in industries like automotive, aerospace, food processing and data storage. It was the loss of a major Intel semiconductor plant that went to Arizona instead of Fort Worth back in the 1990s that prompted the enactment of Chapter 313.”

For Central Texas in particular, experts said the program's fate will likely speed up site selection decisions in the coming year and a half. Though the number of active Chapter 313 agreements in the Austin metro can be counted on one hand, sources said Austin will have trouble attracting massive manufacturing and energy projects in the long term – some of which have become staples of the local economy and spurred recent manufacturing growth – because of the massive property tax bills they'll incur.

In Texas, lawmakers recently had a chance to renew the program but that effort died in the final days of the session. Many legislators have questioned the program's effectiveness in its current

form, while others are opposed to corporate incentives all together. Lawmakers could bring this issue up in a special session, but sources said it's unlikely because of the many opinions surrounding the program.

Even with all that metro Austin has to offer – access to talent, a growing manufacturing sector and a business-friendly environment, to name a few – local economic experts said the Dec. 2022 expiration of Chapter 313 will be a major roadblock for large-scale projects.

“It will not put a damper on the overall momentum of the rise of Austin ... but it will make it much harder to get these big signature deals. No question about it,” said Jon Hockenyos, president of local economic analysis and public policy consulting firm TXP Inc.

Ed Latson, executive director of the Austin Regional Manufacturers Association, said lawmakers have essentially thrown away the greatest tool in the toolbox to recruit large manufacturing and energy companies. He said the end to the program is coming at an important time for the local manufacturing sector, which has seen more momentum in recent years. That's likely to continue in the short term as smaller companies move to the region to follow Tesla.

“You will not see another large deal like what we had with Tesla after 2022 if the Texas Legislature doesn't renew Chapter 313,” Latson said.

Chapter 313 was created to make Texas more competitive with other states because of the high property taxes, Jon Hockenyos, an economist and president of TXP Inc., an Austin economic-analysis and public-policy strategy firm, said. He noted that some people think the Chapter 313 incentives aren't advantageous because they think many companies plan to come to Texas, or the Austin area, regardless of a final incentive package.

“Having been in those rooms, having those conversations, a lot of times they're not coming anyway,” he said. “They have met their basic core requirements around labor force, access to suppliers, right price to get in on the land, access to markets — all the fundamentals — and they found acceptable answers on three or four sites. Now it comes down to the incentives... I feel pretty confident saying Tesla would not have picked Austin [without Chapter 313].”

The expiration could come at a pivotal time for North Carolina, which is having unprecedented economic development success. In the last few months, the Triangle region has won major projects, such as Apple's (Nasdaq: AAPL) 3,000-job East Coast hub. High profile project wins help keep the region fresh in the minds of decision makers at relocating and expanding companies.