



TEXAS
ASSOCIATION OF
MANUFACTURERS

2023 TOP 10 PRIORITIES

88TH LEGISLATIVE SESSION

1. Preserve Authority to Offer Limited, Temporary Property Tax Discounts

With Texas' most powerful economic development tool expiring on December 31, 2022, the Texas Legislature MUST create a program to allow school districts to offer limited, temporary property tax discounts for purposes of economic development. The post-pandemic restructuring of the global supply chain has given Texas communities a chance to bid for new capital-intensive industrial projects that bolster our national and economic security, supply chain stability, and energy independence. Competition for these projects is fierce. Although we enjoy many advantages for new investment, Texas is among the top five states in the nation with the highest industry property taxes; the fact that nearly all other states and countries offer similar economic development incentives only serves to underscore the importance of creating a program that can keep Texas competitive. As one Senator put it at a legislative committee hearing on tax incentives, "the 49 other states will love it when Texas abandons economic development."

Manufacturing projects act as magnets to attract additional vendors and suppliers, service companies, and other businesses that follow the host project. This "ripple" or "multiplier" effect creates still more quality jobs and property tax wealth for many Texas communities. In fact, every direct manufacturing job Texas creates provides an average of five jobs in other industries (Source: National Association of Manufacturers/IMPLAN).

2. Equality in Business Taxation

The Texas Legislature reformed the franchise tax over a decade ago to better reflect the modern sectors of the Texas economy, close tax loopholes, and to help finance a reduction in the school property tax. Legislative sentiment periodically favors a phase-out or repeal of the franchise tax. TAM opposes exempting favored businesses from the tax, leaving others to shoulder the burden. Moreover, TAM points out that because the franchise tax is low, broad, and is not imposed on employment or investment, reducing, or eliminating the

tax is not likely to produce significant economic gains to Texas. No franchise tax cut is a substitute for a competitive property tax environment. But if the state's policy goal is to reduce or eliminate the franchise tax, TAM insists that such relief be across-the-board so that all taxpayers are treated equally.

3. Business Personal Property Tax Reform

Some states have completely exempted business personal property from their property tax assessments to grow their economies; Texas is not one of them. Business personal property includes assets that can be moved – furniture, equipment, and inventories. Inventory includes raw materials, finished goods, and supplies or parts that manufacturers need to run their business. Most states have at least done away with taxing inventory – with all but seven, including Texas, still levying a tax on most business inventories.

The taxation of Texas business personal property and inventory significantly discourages capital investment and expansion here, given that approximately 90 percent of U.S. states levy a lower property tax on industry than Texas. And with our state's desire to attract more advanced manufacturing employers here, higher business personal property taxes are an even larger impediment, as these advanced industries require expensive high-tech equipment that depreciates quickly and must be replaced or updated, often within 3 to 5 years. High property taxes are the millstone of an already higher overall tax burden, where Texas business and industry now pay 59 percent of all state and local taxes. The national average is 44 percent.

The Texas business inventory tax also forces many manufacturing companies to warehouse certain materials, supplies, and parts they need outside of our state. While this creates an added logistics cost in the form of unnecessary transportation and time, it is less expensive than paying an approximate 2.5 percent annual property tax on certain high-value assets. TAM strongly believes that the Texas Legislature should consider exempting either equipment used directly in the manufacturing process, or alternatively, all business inventories. This would provide competitive tax relief for all kinds of businesses and industries, large and small, and would create a powerful stimulus for the Texas economy.

4. Transportation & Critical Infrastructure

Manufacturing plants are energy intensive operations and require well-orchestrated logistics to receive raw materials and supplies and then ship finished products to customers worldwide. These activities require an ever-expanding network of transportation infrastructure, including pipelines, utility rights-of-way, highway, and rail corridors, etc. that are the vital arteries necessary in sustaining these operations.

TAM supports policies that will facilitate the flow of both interstate and intrastate commerce and alleviate recent supply chain disruptions. Accordingly, delays in any permits to either build manufacturing plants or connect vital arteries to these operations already cost our economy millions of dollars each day. Delays to new construction jobs, plant payrolls, new local and state tax revenue, vendor purchases, and other ripple effects on our regional and state economies are real and substantial.

5. Maintain a Reliable, Cost-Effective, and Competitive Wholesale Electricity Market

Following Winter Storm Uri, incumbent generators have increasingly sought government-mandated, fixed payments from customers to compensate them for simply owning existing generation facilities. These proposals have caused substantial cost increases in electricity while failing to improve reliability across the country. Under Senate Bill 7, which deregulated the ERCOT market, a key goal was to move away from a regulated model where captive ratepayers fund generation development directly, and to shift the financial risk of generation investments from customers to private investors. Government capacity mandates would undermine the benefits of deregulation and competition for Texans.

ERCOT was designed strictly as a “pay-for-performance” market, where generators are only paid for selling energy, ancillary services, or real-time reserves. Texas has wisely chosen not to adopt a costly, bureaucratic capacity mandate like other areas of the country, and as a result, ERCOT has had better reliability in general at a lower cost to customers. Texas’s fundamental market design remains effective, but the increase in zero-cost generation from renewable resources has put retirement pressure on the thermal (coal & gas) generation fleet. To address this issue, TAM supports policies that will directly compensate dispatchable resources—including both generators and demand response providers—for supplying energy, ancillary services, or reserves when the system needs them. A costly, bureaucratic capacity mandate will increase payments to incumbent generators for “just existing”, shift risk to consumers, increase prices, and reduce performance incentives without increasing reliability for Texas consumers.

6. Ensure that Monopoly Utility Rates are Transparent and Fair to Customers

Electricity is a top three production cost for most manufacturers. Regulated monopoly utilities continuously ask for “rate riders” that let them increase rates quickly, with very limited review. These rate riders can disadvantage utility customers because they don’t provide a full picture of what a utility is earning before allowing another rate increase. In particular, riders tend to account only for increases in costs, while failing to account for offsetting cost reductions or increased revenues since the utility’s last full rate case. This can cause utilities to over-earn, forcing Texas businesses to pay more than they should for electricity. TAM’s priority is to protect the ratemaking process against ongoing utility efforts to reduce oversight and transparency.

7. Career and Workforce Readiness

TAM supports flexible yet rigorous pathways in K-12 public schools and higher education, recognizing there are many pathways to success. Texas’ education system must be aligned to prepare students to meet the diverse and evolving needs of employers. TAM supports strong career and technical education (CTE) in all Texas school districts, not only because CTE students graduate high school at higher rates, but because these programs play an integral role in introducing both careers and industries to students who might not be exposed to them otherwise. TAM supports a strong system of career, college, and military advising beginning in middle school, with a particular emphasis on “return on investment” and a recognition that many careers do not require a 4-year degree, which often is accompanied by crippling student loan debt. Students should receive college credit

whenever possible for workforce education classes, including most industry-based certification programs.

TAM supports a strong accountability system for both public schools and institutions of higher education, with outcomes being paramount. TAM supports the “returned value funding formula” adopted by Texas State Technical College (TSTC), which pays the institution based on their graduates’ incomes, not contact hours in the classroom. That funding system rewards quality technical training, employability, and placement in a job, which is mutually beneficial to students, employers, and the state’s economy. And while TAM also supports the “success points initiative,” which pays community/junior colleges bonus funding for certain measurable outcomes, employers are eager to work with the Commission on Community College Finance to find workable solutions for better results. Texas’ institutions of higher education must do more to work with students, high schools, and other colleges to transfer and accept legitimate course credits, especially in the core curriculum.

TAM supports high-quality workforce training programs and funding that provide exceptional rate of return for the Texas economy — programs administered by the Texas Workforce Commission and local workforce boards including: the Skills Development Fund (SDF), Jobs and Education for Texans (JET) Program, and learn-while-you-earn apprenticeships. Finally, TAM supports an education and workforce training system that encourages and enables local and regional employer engagement at every level of the pipeline — from middle school through college.

8. Continue TCEQ, Support Commonsense Regulations and Sufficient Funding for Operations

TAM supports the Texas Commission on Environmental Quality’s (TCEQ) continued operation following its 2023 Sunset Advisory Commission review. TAM also supports the diligent work by both TCEQ and the Sunset Advisory Commission and is generally supportive of needed improvements that will help ensure the protection of public health and our environment. We encourage the Legislature to let TCEQ continue to work on enhancing the availability of information to the public and the regulated community.

TAM supports the use of clear and consistent regulations that have a market driven and incentive-based foundation rather than heavy handed mandates or a one-size-fits-all approach. We support increased inspections at our facilities and the agency’s ability to hire additional inspectors. We believe inspections should be consistent from region to region across the state. TAM supports enhanced salaries and training opportunities for TCEQ staff to maintain a qualified and experienced workforce that can meet future challenges. Finally, TAM continues to support TCEQ’s funding of the Expedited Permitting Program. We believe all permits should be processed in a timely fashion to help promote economic development by providing more certainty and consistency in the permitting process.

9. School and Workplace Health

A healthy workforce results in a more productive workforce. Our global economy can be impacted quickly due to widespread illness, resulting in slowed manufacturing, the inability

to get goods to consumers, job losses, and lost tax revenue. Every year thousands of productive hours are lost due to sick time for students, employees, and families. TAM supports efforts to prevent infectious disease in the workplace and schools. In the words of Benjamin Franklin: “an ounce of prevention is worth a pound of cure.” TAM supports the assurance of a healthy and productive workforce by eliminating barriers and enhancing access to vaccinations for employees and communities. The ability for businesses to implement their own public health policies pertinent to a safer and healthier work environment should be encouraged and protected.

10. Tax Structures that Promote Economic Growth

TAM supports a competitive tax climate that will incentivize investment by new and existing businesses. Sometimes, the State of Texas must adjust how taxes are applied in order get the attention of capital-intensive projects. Simply said, strategically limiting tax liability on certain investments may generate a net gain in local and state revenue.

Encouraging growth of an industry by making the tax structure more competitive vis-a-vis neighboring states and countries can produce a net win for Texas governments and industries.

TAM supports a competitive Research & Development (R&D) Tax Exemption as it was originally designed by the Legislature. After decades of effort, the 2013 Texas Legislature passed a long-sought R&D incentive, which allows businesses to choose either a sales tax exemption or a franchise tax credit. This allows Texas to stay at the forefront of advanced manufacturing innovation – and attract this key element of business development to the State.

TAM supports an update to our tax laws regarding the sales and use tax for general aviation aircraft. Texas must align its aircraft sales tax exemption for maintenance, repair, and overhaul (MRO) of general aviation aircraft to be competitive with neighboring states.

Texas MRO operators estimate a revenue loss three to five times what they remit in sales taxes due to a lack of parity with exempted states. Additionally, Texas is losing economic activity on fuel, hospitality, manufacturing, and maintenance. Making Texas competitive with neighboring states will help Texas’ significant general aviation industry continue to flourish.

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