



# INTERIM REPORT

## TO THE 88<sup>TH</sup> TEXAS LEGISLATURE

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HOUSE COMMITTEE ON  
INTERNATIONAL RELATIONS & ECONOMIC DEVELOPMENT  
NOVEMBER 2022



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**HOUSE COMMITTEE ON INTERNATIONAL RELATIONS  
AND ECONOMIC DEVELOPMENT**

**A REPORT TO THE  
HOUSE OF REPRESENTATIVES  
88TH TEXAS LEGISLATURE**

**ANGIE CHEN BUTTON  
CHAIRWOMAN**

**COMMITTEE CLERK  
VICTORIA A. SMITH**

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Committee on  
International Relations and Economic  
Development

November 28, 2022

Angie Chen Button  
Chairwoman

P.O. Box 2910  
Austin, Texas 78768-2910

The Honorable Dade Phelan  
Speaker, Texas House of Representatives  
Members of the Texas House of Representatives  
Texas State Capitol, Rm. 2W.13  
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on International Relations and Economic Development of the Eighty-seventh Legislature hereby submits its interim report including recommendations for consideration by the Eighty-eighth Legislature.

Respectfully submitted,

Handwritten signature of Angie Chen Button in black ink.

Angie Chen Button

Handwritten signature of Cecil Bell in black ink.

Cecil Bell

Handwritten signature of Todd Hunter in black ink.

Todd Hunter

Handwritten signature of Christina Morales in black ink.

Christina Morales

Handwritten signature of Terry Canales in black ink.

Terry Canales

Handwritten signature of Lyle Larson in black ink.

Lyle Larson

Handwritten signature of Michelle Beckley in black ink.

Michelle Beckley

Handwritten signature of Erin Gamez in black ink.

Erin Gamez

Handwritten signature of Claudia Ordaz in black ink.

Claudia Ordaz

Christina Morales  
Vice-Chairwoman

Members: Michelle Beckley, Cecil Bell, Terry Canales, Erin Gamez, Todd Hunter, Lyle Larson, Claudia Ordaz



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## INTRODUCTION

At the beginning of the 87th Legislative session, the Honorable Dade Phelan, Speaker of the Texas House of Representatives, appointed nine members to the House Committee on International Relations and Economic Development. The Committee membership included: Angie Chen Button, Chair, Christina Morales, Vice Chair, Michelle Beckley, Cecil Bell, Terry Canales, Todd Hunter, Lyle Larson, Claudia Ordaz, and later Erin Gamez.

The Committee was given jurisdiction over all matters pertaining to:

- (1) the relations between the State of Texas and other nations, including matters related to trade relations and international trade zones;
- (2) the relations between the State of Texas and the federal government other than matters involving defense, emergency preparedness, and veterans issues;
- (3) the relations between the State of Texas and other states of the United States;
- (4) commerce, trade, and manufacturing, including international commerce and trade and the regulation of persons participating in international commerce and trade;
- (5) cooperation between the state or a local governmental entity and the scientific and technological community, including private businesses, institutions of higher education, and federal governmental laboratories;
- (6) weights and measures;
- (7) workforce training;
- (8) economic and industrial development;
- (9) development and support of small businesses;
- (10) job creation and job-training programs;
- (11) hours, wages, collective bargaining, and the relationship between employers and employees;
- (12) international and border regions (as described in Sections 2056.002(e)(2) and (3), Government Code) economic development, public health and safety issues affecting the border, tourist development, and goodwill, and economic development, tourist development, and goodwill in other areas of the state that have experienced a significant increase in the percentage of the population that consists of immigrants from other nations, according to the last two federal decennial censuses or another reliable measure;
- (13) the provision of public services to persons residing in proximity to Texas' international border or in other areas of the state that have experienced a significant increase in the percentage of the population that consists of immigrants from other nations, according to the last two federal decennial censuses

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or another reliable measure; and  
(14) the following state agencies: the Office of State-Federal Relations, the Texas Economic Development and Tourism Office, the Texas Workforce Commission, and the Texas Workforce Investment Council.

The Committee would like to thank everyone who testified, attended the hearings, and contributed to this report including Amanda Willard, Dylan Matthews and all the hardworking staff in the Committee Coordinator's office. After three public hearings, a joint hearing, hours of testimony, and a field trip, the Committee on International Relations and Economic Development has adopted the following report.

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## INTERIM CHARGES

**CHARGE I:  
AGENCY  
OVERSIGHT**

Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 87th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure the intended legislative outcome of all legislation, including the following:

- HB 619, relating to developing a strategic plan to support the child-care workforce;
- HB 1792, relating to the evaluation of child-care providers participating in the Texas Rising Star Program;
- HB 2607, relating to the powers and duties of the Texas Workforce Commission and local workforce development boards regarding the provision of childcare and the subsidized childcare program;
- HB 3767, relating to measures to support the alignment of education and workforce development with state workforce needs, including the establishment of the Tri-Agency Workforce Initiative; and
- SB 1555, relating to establishing reimbursement rates for certain child-care providers participating in the subsidized childcare program.

**CHARGE II:  
TRADE WITH  
MEXICO**

Review the impact that trade across the Texas-Mexico border has on the Texas economy. Consider the impact of the recent increase in border migration on transnational trade, including its effects on the communities along the border, points of entry, and access by Texas businesses to supplies, labor, materials, and markets in Mexico. (Joint charge with Committee on Transportation)

**CHARGE III:  
ECONOMIC  
RECOVERY**

Monitor the state's economic recovery and identify obstacles impeding the state's economic recovery. Examine the economic impact of inflation on both employers and employees. Examine global supply chain disruptions on state commerce and the flow of trade at Texas ports. Explore opportunities to attract businesses to Texas that have outsourced elements of their supply chain to foreign countries.

**CHARGE IV:  
ECONOMIC  
DEVELOPMENT  
INCENTIVES**

Examine current economic development incentive programs and identify opportunities to enhance job creation in Texas. Make recommendations to promote transparency and enhance effectiveness of such programs.

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**CHARGE V:  
SEMICONDUCTOR  
INVESTMENT**

Evaluate Texas' current efforts to attract semiconductor investment to the state. Identify potential strengths and vulnerabilities that could impact the success of Texas' semiconductor industry and the ability to create and maintain a reliable semiconductor supply chain.

**CHARGE VI:  
WORKFORCE**

Evaluate labor shortages and Texas' unemployment numbers. Identify initiatives within the Texas Workforce Commission to expand job training and apprenticeship opportunities to help meet labor demands. Identify opportunities to increase outreach and information regarding career development.

**CHARGE VII:  
TRADE WITH  
RUSSIA**

Review the impact that trade with Russia has on the Texas economy, including Texas manufacturers. Consider the impact of Texas investment in businesses and funds owned or controlled by the Russian government or Russian nationals, and determine the need for investment restrictions. Consider the impacts of any proposed investment restrictions on access by Texas businesses and the Texas scientific and technological community to capital investment, global markets, and competitive knowledge.

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## **COMMITTEE FINDINGS AND OVERALL RECOMMENDATIONS**

Texas is the world's ninth largest economy because of the hardworking men and women of this great state along with a commitment to cultivate an environment of growth and opportunity. This success is no accident. In order to foster an economic environment that can weather and quickly recover from adverse events, we must continually and proactively work to maintain Texas' economic prosperity.

Economic development is a concerted effort of a responsible governing body through programs, policies, or activities that seek to create sustained economic growth to improve the economic well-being and quality of life for a community. With sustained economic growth comes sufficient incomes for the local work force, profitable business opportunities for employers, and tax revenue for maintaining an infrastructure that can support residents and growth. There are many initiatives and opportunities for state and local governing bodies to work with the private sector to attract investments where they are needed most in the community.

Along with pro-business policies, Texas offers economic development incentives and programs that directly and indirectly attract jobs to our state. These programs should be regularly examined and maintained in a manner that not only meet the needs of today but look to meet the demands of the future. It is vital that these programs operate in a transparent manner and that steps are regularly taken to ensure they are achieving desired outcomes. Information about available economic development tools should be readily available to current and potential employers wanting to retain or create jobs for Texans. Increased outreach efforts regarding the available tools, training, and assistance currently available to employers of all sizes will further the state's economic success.

An economy is only as strong as its workforce. A strong workforce is one in which workers have the skills, experience, and credentials employers require. Our economy is undergoing dramatic changes. The shift to an open talent economy applies to almost every industry sector. This shift is largely driven by trends such as technological innovations and demographic changes that are fundamentally changing the structure of talent and work. As a result of these shifts, Texans need improved, quicker, and more affordable pathways to employment, career advancement, and continuing education. To that end, Texas must prioritize the creation of clear pathways to available jobs.



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## CHARGE 1: AGENCY OVERSIGHT

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- *HB 619, relating to developing a strategic plan to support the child-care workforce;*
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- *HB 3767, relating to measures to support the alignment of education and workforce development with state workforce needs, including the establishment of the Tri-Agency Workforce Initiative; and*
- *SB 1555, relating to establishing reimbursement rates for certain child-care providers participating in the subsidized childcare program.*

The Committee on International Relations and Economic Development met in a public hearing on May 19, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Agency Oversight:

1. Bryan Daniel (Texas Workforce Commission)
2. Harrison Keller (Texas Higher Education Coordinating Board)
3. Katie Ferrier (Ready Nation, San Antonino Chamber of Commerce)
4. Kim Kofron (Children at Risk)
5. Kishani Mathiasz (KIDS Early Learning Centers)
6. LaTrice Jones (Open Door Preschool Austin)
7. Mike Morath (Texas Education Agency)
8. Mike Reeser (Texas State Technical College)
9. Reagan Miller (Texas Workforce Commission)

### *Childcare Legislation*

*HB 619 (87R)* requires a report on the plan to support to the childcare workforce due December of this year. TWC has contracted with the University of Texas Lyndon B. Johnson School of Public Affairs and they have partnered with the Prenatal-to-3 Policy Impact Center to conduct the study and produce the report. The required stakeholder work group has been formed and has met twice at the time of this hearing with two more scheduled later in the year. The required survey of childcare directors has been sent to 3,000 directors and were awaiting responses.

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*HB 1792 (87R)* directs TWC to procure a single entity to oversee all the staff that evaluate childcare programs for Texas Rising Star certification. This approach is intended to support better consistency and reliability in the evaluation. At the time of the hearing, TWC was in the procurement and rule-making process and gathering public comment. The new entity will be chosen at the beginning of Fiscal Year 2023.

*HB 2607 (87R)* mandates that all childcare providers participating in TWC childcare services program to attain Texas Rising Star certification. In doing so, TWC is required to create an entry level rating and limit how long a provider may remain at that level, as well as a temporary waiver period for providers with extenuating circumstances that need additional time. TWC rules have been published and at the time of this hearing were open for public input.

*SB 1555 (87R)* directs TWC to align age groups with Health and Human Services Commission ratios and group sizes and requires higher rates in the age groups with the lowest child-to-caregiver ratios which is infant and toddlers. The Commissioners also approved higher rate increases for infant and toddler care this fiscal year.

#### *Tri-Agency Workforce Initiative*

Created in March 2016 by Governor Greg Abbott, the Tri-Agency Workforce Initiative tasks the Texas Higher Education Coordinating Board, the Texas Education Agency, and the Texas Workforce Commission to work together to develop strong links between education and industry with the goal of helping Texas grow in economic prosperity.

*HB 3767 (87R)* passed last session and called for further coordination of information and other resources within the Tri-Agency Workforce Initiative to ensure that education and workforce funds are efficiently aligned to achieve the state's career education and workforce development goals. Among other provisions, the bill requires the following:

- the development and update of state workforce development goals and coordinated interagency strategies for achieving those goals, including an opportunity for comment on the proposed goals or strategies;
- development of a strategic plan for the unified repository for education and workforce data;
- the establishment of a publicly accessible web-based library of credentials; and
- the establishment of internet-based resources for the Initiative.

The Tri-Agency Workforce Initiative released their detailed Goals and Strategies in early 2022.

As of this hearing, the Tri-Agency is in the process of creating a “publicly accessible web-based library of credentials such as diplomas, certifications, licenses, or degrees.” The inventory will include credentials awarded by various entities including public colleges, proprietary career schools and colleges, registered apprenticeship programs, and industry. The Tri-Agency Master Data Sharing Agreement will work together to streamline data sharing among the agencies, while increasing data security and usability for the public and other stakeholders.



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There is consensus among stakeholders that taxpayer-funded education and training programs should ideally lead to self-sufficient wages. Additionally at the Tri-Agency, a self-sufficient wage tool is under development. A regionally adjusted self-sufficient wage will be determined for each county. Stakeholders will be invited to review the tool and provide feedback.

### *Recommendations*

There is a need to conduct robust employer engagement in state workforce planning. Embracing Texas employers as partners in developing workforce goals and strategies should be a focus for the Tri-Agency. Employers do not operate on the same timelines as state institutions. The time it takes a Texas student to earn a post-secondary credential is not always conducive to filling today's open jobs. Additionally, if the state's career pathways do not accommodate the rapidly changing demands of the labor market, Texans' education and training will not be aligned with future workforce needs. By regularly and organically engaging Texas employers, the Tri-Agency can focus education and workforce systems to better meet our state's regional and local workforce current and future needs.

In order for the Tri-Agency Workforce Initiative to best serve our diverse state, workforce goals should be disaggregated by demographic data.

Access to quality affordable childcare is essential for our workforce. Not only do caregivers need care for children while working, by increasing access to quality care, young Texans will be better equipped to begin their academic careers prepared with the foundation needed for success.

The cost of care and dearth of quality programs in some areas leave Texas parents and caregivers with little to no choice when they consider arrangements for their children. Strategies that empower parents with options and the ability to make informed choices on early education programs that work for them should be considered.

Childcare educators are paramount to ensuring quality childcare is available to families, yet centers struggle to maintain adequate staffing to meet demand. Without enough qualified providers, centers cannot operate at full capacity, further reducing an already limited childcare supply. To meet the growing demand for skilled workers in the industry, Texas should support legislative, regulatory, and funding efforts to attract and retain childcare educators and strengthen the childcare workforce ecosystem, including educational partnerships and partnerships with local industries.

By bolstering partnerships between public schools and high-quality childcare providers, the capacity for pre-k and childcare for working families can increase. The Legislature took steps to support a more integrated early learning system with the passage of HB 3 (86R). Additional work is needed to strengthen partnerships between school districts and quality childcare programs. Policies that better support the administration of partnerships, provide increased and improved technical assistance, and break down bureaucratic barriers to make these partnerships easier to set up and more effective should be considered. These steps will increase the number of children ready to succeed in school while offering solutions to districts that struggle to meet demand.



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## CHARGE II: TRADE WITH MEXICO

*Review the impact that trade across the Texas-Mexico border has on the Texas economy. Consider the impact of the recent increase in border migration on transnational trade, including its effects on the communities along the border, points of entry, and access by Texas businesses to supplies, labor, materials, and markets in Mexico. (Joint charge with Committee on Transportation)*

The Committee on International Relations and Economic Development met jointly with the Committee on Transportation in a public hearing on September 30, 2021 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Trade with Mexico:

1. Albert Zapanta (US-Mexico Chamber of Commerce)
2. Caroline Mays (Texas Department of Transportation)
3. Cindy Davidson-Ramos (El Paso Hispanic Chamber of Commerce)
4. Cynthia Garza-Reyes (Texas Border Coalition)
5. John Esparza (Texas Trucking Association)
6. Jon Barela (Borderplex Alliance)
7. Marc Williams (Texas Department of Transportation)
8. Pia Orrenius (Federal Reserve Bank of Dallas)

### *Trade*

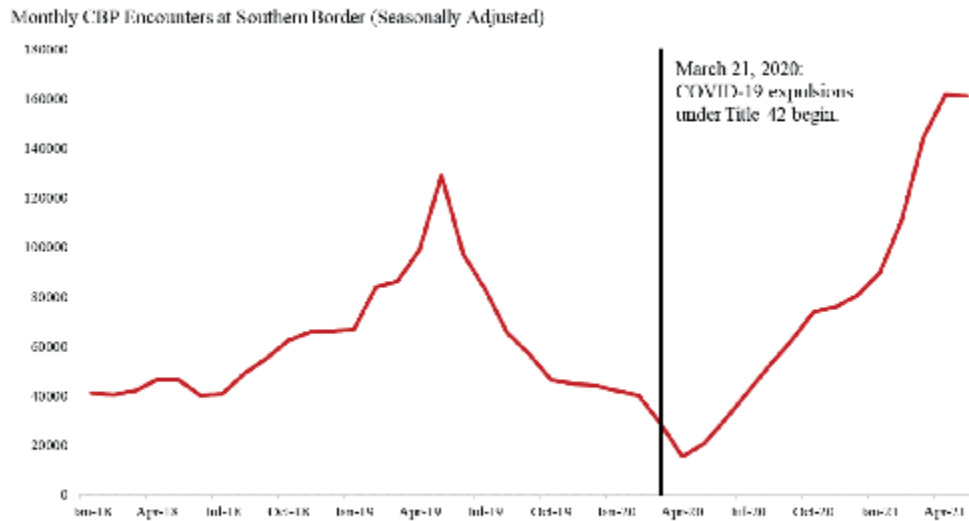
Texas is the top exporting state in the nation and Mexico is our top trading partner. Trade with Mexico is not just vital to Texas but the entire United States. About 75% of the United State's trade with Mexico is processed through the Texas-Mexico border.

The closure of the border to non-essential travel for almost 20 months due to the pandemic posed a great threat to the livelihood of border communities. While it was open to commercial drivers and students, it did not allow for relatives looking to visit family members or shoppers, for whom border retail and hospitality industries rely. Although according to the Federal Reserve Bank of Dallas, retail sales held steady in 2020 due in large part to the federal pandemic stimulus packages.

## Migration

Immigration from Mexico to Texas has trended down for the past decade however, US Customs and Border Protection encounters have surged beginning in late 2020. Although the number of Mexican immigrants to the U.S. is trending down, the amount of immigrants through the Texas-Mexico border from other countries and asylum seekers have increased.

### CBP encounters surged in late 2020, 2021



SOURCE: Customs and Border Protection, accurate as of June 3, 2021.


This increase in encounters can lead to increased border wait times for trucks, delays in processing, and in rare occasions closures, if resources are diverted from ports-of-entry to process migrants as seen in Del Rio.

### Case Study: Del Rio Closure

In September 2021, U.S. Customs and Border Protection closed the International Bridge port of entry in Del Rio, TX for a week due to a large influx of immigrants. Normal traffic was diverted 56 miles east to nearest port of entry in Eagle Pass, TX. The closure resulted in:

- ~\$50,000 per day in increased trucking costs
- ~\$455,000 per day in increased personal vehicle costs
- \$22,000 per day in lost bridge toll revenue

### Del Rio Bridge Closure Border Communities Impact



Trade Statistics	2020	YTD 2021
Value of U.S. – Mexico Trade Processed (Imports and Exports)	\$4.2 billion	\$2.3 billion
Number of Pedestrians (Northbound)	162,836	34,845
Number of Personal Vehicles (Northbound)	1,083,059	620,128
Number of Trucks (Northbound)	68,511	37,817

Source: Bureau of Transportation Statistics

- **YTD 2021**
  - Average Value of U.S. – Mexico Trade Processed ~ **\$12.5 million/day**
  - Average Number of Northbound Pedestrians ~ **190/day**
  - Average Number of Northbound Personal Vehicles ~ **3,388/day**
  - Average Number of Northbound Trucks ~ **206/day**

Texas Department of Transportation September 30, 2021 9

### Recommendations

The state should invest in infrastructure that supports this amount of trade. The Legislature should continue to work collaboratively with relevant agencies to stay updated on the effects migration has on international trade across the Texas-Mexico border while ensuring that fluctuating migration does not impede our international trade infrastructure.



## CHARGE III: ECONOMIC RECOVERY

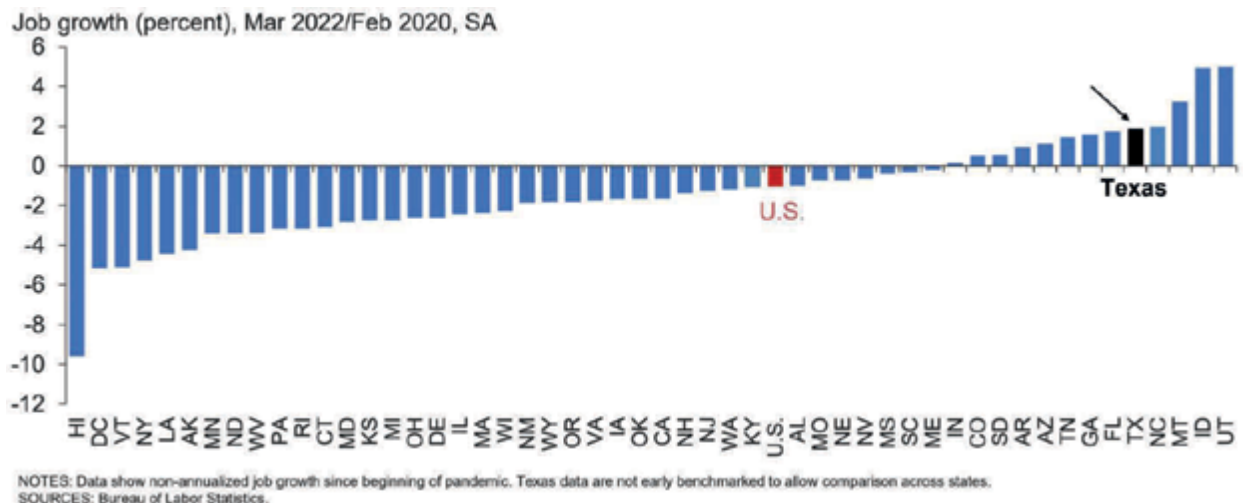
*Monitor the state’s economic recovery and identify obstacles impeding the state’s economic recovery. Examine the economic impact of inflation on both employers and employees. Examine global supply chain disruptions on state commerce and the flow of trade at Texas ports. Explore opportunities to attract businesses to Texas that have outsourced elements of their supply chain to foreign countries.*

The Committee on International Relations and Economic Development met in a public hearing on May 19, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Economic Recovery:

1. Brian Adamek (Texas Farm Bureau)
2. Jorge Barro (Rice University Baker Institute for Public Policy)
3. Pia Orrenius (Federal Reserve Bank of Dallas) testimony on April 20, 2022
4. Tony Bennett (Texas Association of Manufacturers)

### *Pandemic Recovery*

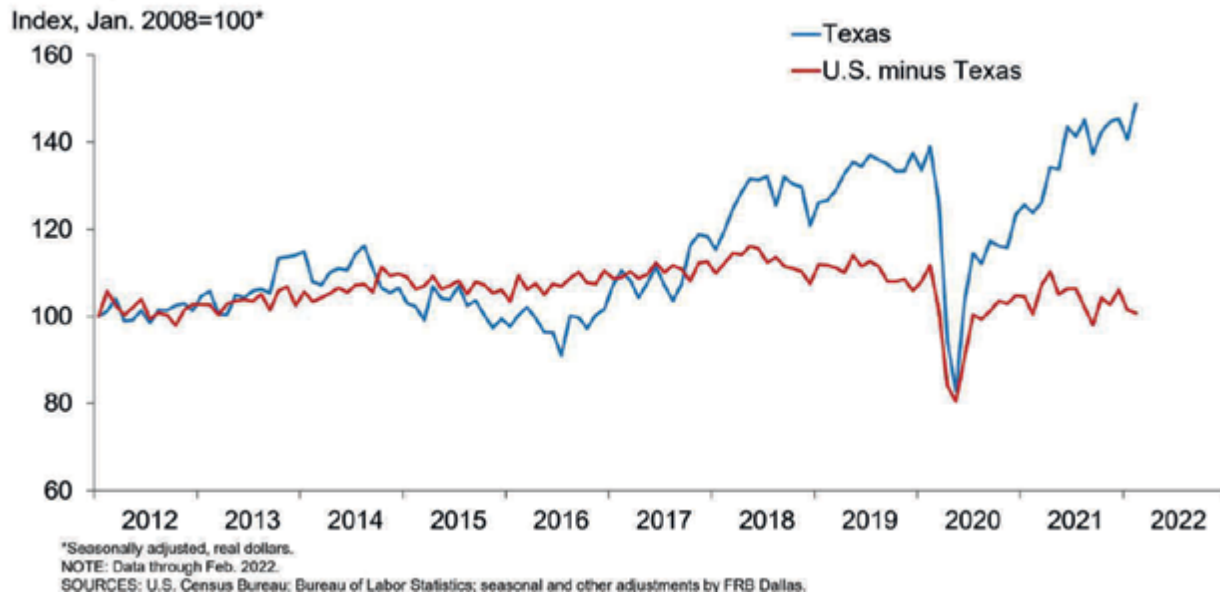
Despite significant impacts of COVID-19 on public health and labor supply, Texas growth has outperformed the nation in the pandemic and through 2022. Texas was able to recover quickly compared to other states from the pandemic. We were the fourth state, and at the time of this hearing, one of only thirteen states to recover jobs back to their pre-pandemic levels. Texas' job growth is strong and consistently above the national rate.



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Texas exports, which this Committee took a deep dive into with Russia and Mexico, rebounded outpacing the rest of the nation and reached a record high in February 2022.

### Exports Texas compared to United States



The Dallas Federal Reserve Bank's economic outlook suggests Texas will continue to outperform the nation again in 2022 but risks to the outlook could include continued supply chain constraints, tight labor markets, and inflation.

#### *Effects on Employers*

Texas manufacturers experienced serious supply disruptions out of Mexico, our state's number one trading partner. As COVID-19 spread, Mexican states completely shuttered most maquiladora industries. Texas aviation, electronics, and automotive plants were hard hit, with some forced to curtail production.

Be it a scarcity of workers, a lack of shipping containers and railcars, or a truck driver shortage, there are plenty of pandemic disruption to go around. The unprecedented backlog at California seaports means Texas' ports should be better positioned to increase shipments through expansion of both our container capacity and port-connected transportation corridors. Continuous supplier disruptions endanger manufacturing operations that for decades have depended on "just-in-time" production, where components arrive for final assembly in precisely staged deliveries.

Supply chain security is a top reason companies reshore back to the U.S. Texas must remain a competitive prospect, particularly during this time of historic changes in global logistics. A recent Forbes article notes that company executives are increasingly concerned with risk management and ensuring supply chain resilience.

Texas Farm Bureau, the state's largest farming and ranching organization, elaborated on the



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impact on the agriculture industry. Inflation is higher in rural agricultural areas due to increased travel and freight costs, particularly fuel costs. Agriculture producers rely heavily on fuel. Diesel, which has seen prices rise 115% from 2021, is necessary for not only transport of goods but for almost every step in the production of crops. Fertilizer is another key component in agriculture. Nitrogen fertilizer is produced using natural gas. The price of natural gas has risen 220% over the past year.

Farmers have also had difficulty receiving necessary parts and machinery in a timely manner. Agriculture is a labor-intensive industry and, like other industries, experiencing a shortage of labor. The rising price of foods in the grocery stores is reflective of all these greater costs but farmers and ranchers are not seeing that profit. Although some commodities prices have risen, it is not enough to keep up with the rate of inflation to cover their additional production costs.

### *Recommendations*

Texas should take steps to make more products to strengthen our national security and better insulate our economy from supply interruptions. Now is the time to use our economic development expertise and move critical industries back to Texas with an immediate focus on industry jobs and sensitive technologies that currently leave us vulnerable to global unrest.

Strategic investments are already planned for numerous projects involving carbon capture, aerospace defense, space exploration, electric vehicles, semiconductors, and other critical sectors. Texas should lead the nation for these investments.

Today, there are two primary sources for manufacturing investment wanting to locate or relocate to the U.S. First, companies are reshoring their production back to the U.S. These are industries that took production offshore decades ago to secure lower labor and material costs. Second, new Foreign Direct Investment (FDI) includes companies coming to the U.S., the world's largest economy. Further efforts should be made to draw these investments to Texas.

Returning manufacturing to the United States, improves trade and budget deficits, boosts employment, and can lower production costs. Reshoring also allows more secure and efficient research & development and intellectual product innovation. In order for Texas to recruit industries that may be considering other states and nations, we must continue to fund our current economic development programs while exploring ways to encourage these vital sectors to consider Texas.



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## CHARGE IV: ECONOMIC DEVELOPMENT INCENTIVES

*Examine current economic development incentive programs and identify opportunities to enhance job creation in Texas. Make recommendations to promote transparency and enhance effectiveness of such programs.*

The Committee on International Relations and Economic Development met in a public hearing on April 20, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Economic Development Incentives:

1. Adrian Cannady (Temple Economic Development Corporation)
2. Adriana Cruz (Texas Economic Development & Tourism, Office of the Governor)
3. Angelou Angelos (Angelou Economics)
4. Carlton Schwab (Texas Economic Development Council)
5. Greg Sims (Greenville Economic Development Council)
6. Iain Vasey (Corpus Christi Regional Economic Development Council)
7. Kent Sharp (Sherman Economic Development Council)

### *Local Incentives*

This Committee has heard that "In Texas, economic development is done at the local level." Since 1979, cities have been able to adopt a sales tax to fund their Economic Development Corporations (EDCs) with the goal of financing new and expanded business in their community. The economic development sales tax has been the workhorse for business retention and expansion and creation of numerous primary jobs for these communities.

Chapter 380 and 381 agreements are another local tool. Chapter 380 allows for loans and grants of city funds or services to promote state and local economic development and to stimulate business and commercial activity. Chapter 381 does the same but for counties. These allow for cities and counties to negotiate directly with developers and businesses. To further transparency of these agreements, the 87th Legislature passed HB 2404 (87R), requiring the Comptroller of Public Accounts to create and make a publicly accessible online database for local governments to report their economic development agreements authorized by Chapters 380 and 381.

In Texas, property taxes have been identified as placing a burden on the development of capital-intensive projects that often provide higher-than-average paying jobs. Chapter 312 allows for taxing entities, such as cities, counties, and special districts to enter into tax abatement agreements for a period up to 10 years. These agreements exempt all or part of the increase in the value of the real property. This is used to attract new industry and commercial enterprises and to encourage the retention and development of existing businesses. Under Chapter 312, school districts cannot enter into tax abatement agreements.

Chapter 313 agreements, also known as the Texas Economic Development Act, were designed to attract new businesses by offering them a 10-year limitation on their appraised property value for a portion of the school district property tax in exchange for the business agreeing to build or

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install new property and create jobs in the school district. School taxes make up approximately 54% of local property tax collections. The Texas Economic Development Act was not renewed by the most recent Legislature and will expire at the end of 2022.

The pandemic global supply chain issues highlighted the urgent need for microchips or semiconductors in almost every facet of our life including cars, computers, and phones. The vast majority of these semiconductor chips are manufactured overseas. In 2021, Texas Instruments chose Sherman, TX, a city with a population of 50,00 in North Texas, as the location for their \$30 billion 300-millimeter semiconductor wafer fabrication plant. This project, which broke ground in May 2022, is estimated to create over 3,200 direct jobs with a predicted \$274 million in direct wages. These numbers do not include the indirect impact a project of this magnitude has on the surrounding communities. The overall economic impact of this project is estimated at over \$600 million annually.

Sherman's main competition for this project was not another state, but the nation of Singapore. The City of Sherman used all four of the economic development tools mentioned above:

- Chapter 312 for City of Sherman, Grayson County, and Grayson College tax abatement
- Chapter 380 for City to extend the timeline of the abatement
- Chapter 381 for County to extend the timeline of the abatement
- Chapter 313 for Sherman ISD property tax valuation limitation

According to the Sherman Economic Development Council, all these tools were important for Texas to compete, however the Chapter 313 agreement with Sherman ISD was the most critical piece in the overall incentive offer. Without this program, they claim, it is highly likely that this facility would be in Singapore.

### *State Incentives*

The Office of the Governor's Economic Development & Tourism Office oversees the majority of incentives offered at the state level. The Texas Enterprise Fund (TEF) is the largest "deal-closing" fund of its kind in the nation. The Fund provides grants to businesses considering a new project in Texas that is in competition with other out-of-state sites. The Fund serves as a performance-based financial incentive for those companies whose projects would contribute significant capital investment and new job opportunities to the state's economy. Award dollar amounts are determined using an analytical model applied uniformly to each TEF applicant. This model assures that the state will see a full return on its investment.

The Event Trust Funds consists of three separate funds: Events Trust Fund (ETF), Major Events Reimbursement Program (MERP), and the Motor Sports Racing Trust Fund (MSRTF). The program helps Texas communities with costs related to preparing and conducting an event. Monies are not appropriated by the Legislature but instead use projected gains in various local and state taxes to fund the program. Funds are disbursed once allowable expenses have been verified. Some notable events utilizing these funds in the last year include the 2022 NASCAR All-Star Race in Fort Worth, the 2022 Red Bull Grand Prix of the Americas in Austin, and the 2021 Big 12 Football Conference Championship in Arlington.

The Texas Enterprise Zone Program (EZP) is a state sales and use tax refund program designed to encourage private investment and job creation in economically distressed areas of the state. Texas communities must nominate companies in their jurisdiction to receive an Enterprise Zone designation and to be eligible to receive state sales and use tax refunds on qualified expenditures. Eligible businesses may receive a refund of state sales and use taxes paid up to \$7,500 per job created and/or retained during the five-year designation period up to a maximum of \$3.75 million.

The Texas Moving Image Industry Incentive Program (TMIIP) is an incentive to help attract film, TV, commercial, animation, visual effects, video game, extended reality, and other moving image productions to Texas. TMIIP provides qualifying projects with a grant based on a percentage of a project's eligible Texas expenditures. Grants vary by budgets levels and type of productions and are issued upon completion of a review of the project's qualified expenditures.

## EDT INCENTIVES

Program	Recipient/Beneficiary	Type	Appropriation	Appropriation Amount (FY22-23 Biennium)	Current Balance
<b>Highly Utilized</b>					
Texas Enterprise Fund (TEF)	Companies	Grant	Y	\$ 190,000,000	\$ 200,731,048* \$ 96,528,547
Event Trust Funds (ETF/MERP/MSRTF)	Event Organizing Committee	Tax Rebate	N	NA	NA
Texas Enterprise Zone	Companies	Tax Rebate	N	NA	NA
Spaceport Trust Fund	Spaceport Development Corporations	Grant	Y	\$ 10,000,000	\$ 10,000,000
In-State Tuition Waiver	Company employees	Tuition Incentive	NA	NA	NA
Texas Moving Image Industry Incentive Program (TMIIP)	Film, Video Game, Commercial Production Companies	Grant/Rebate	Y	\$ 45,000,000	\$ 11,855,268
<b>Regularly Utilized</b>					
Governor's University Research Initiative (GURI)	Texas Universities	Grant	Y	\$ 40,000,000	\$ 56,000,000
Border Economic Development Grant (Rider 30)	Economic Development Organization	Grant	Y	\$ 200,000	\$ 200,000
Product Development and Small Business Incubator	Companies (Small Businesses)	Loan	Y	\$ 45,000,000	\$ 43,000,000
Industrial Revenue Bond	Industrial Development Corporation apply for private entities	Loan	N		\$ -
Media Production Development Zone	Developer of Media Facilities	Sales Tax Exemption	N	NA	NA

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### *Recommendations*

Texas should continue to take the initiative to invest in its future by offering competitive incentives to companies who are creating jobs and driving innovation in Texas. For economic development programs to be successful, they must operate in a transparent and efficient manner that ensures tax-payer dollars are used appropriately and that the public confidence in the operation of these programs is maintained. To that end, the Economic Incentive Oversight Board was established by HB 26 (84R) by the 84th Legislature and tasked with examining the effectiveness and efficiency of programs and funds. The development of a performance matrix that establishes the economic performance indicators, measures, and metrics that will guide the Board's evaluations of those programs and funds, and with the development of a schedule for the periodic review of each state incentive program or fund that meets the statutory requirement for review by the Board. The Legislature should ensure the Board is operating as intended and continue to look to the reports issued by the Board and work towards addressing any issues identified on an ongoing basis.

The expiration of the widely used Chapter 313 will leave a void in the tools local governments have to engage in economic development activities. The Legislature should consider possible programs that will empower local communities to play an active role in bringing jobs and desired industries to their communities.

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## CHARGE V: SEMICONDUCTOR INVESTMENT

*Evaluate Texas' current efforts to attract semiconductor investment to the state. Identify potential strengths and vulnerabilities that could impact the success of Texas' semiconductor industry and the ability to create and maintain a reliable semiconductor supply chain.*

The Committee on International Relations and Economic Development met in a public hearing on April 20, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Semiconductor Investment:

1. Joseph Pasetti (SEMI)
2. Peter Esser (FABSS Coalition, NXP Semiconductors USA)

After the hearing, the Committee members and staff were invited, along with members of the IT Caucus, to tour and take part in a briefing at the Samsung Austin Semiconductor facilities in North Austin.

### *Federal CHIPS Act*

As mentioned earlier in this report, only 12% of chips are currently manufactured domestically, compared to 37% in the 1990s. Many foreign competitors, including China, are investing heavily to dominate the industry, with 75% of global production now occurring in East Asia. Foreign government subsidies drive as much as 70% of the cost difference for producing semiconductors overseas. Combined with other factors, the result is a 25 to 40% cost advantage for overseas semiconductor production, as compared to the United States.

The bipartisan federal Creating Helpful Incentives to Produce Semiconductors (CHIPS) Act was signed into law in August 2022. The bill includes nearly \$53 billion in federal funding to promote domestic semiconductor production. A key aspect of the Act, to incentivize domestic production, is the creation of a 25% tax credit for investments in semiconductor manufacturing.

Foreign governments provide generous incentives to attract and develop semiconductor manufacturing capabilities, including direct grants, free land, equity investments, infrastructure support, reduced utility rates, tax holidays or credits, and hiring credits.

### SEMICONDUCTOR MANUFACTURING INCENTIVES BY COUNTRY

	CHINA	S.KOREA	SINGAPORE	JAPAN	TAIWAN	EUROPE	ISRAEL	U.S.
Share of 300 nm Manufacturing Capacity (2019)	12%	26.7%	6.5%	16.3%	22.9%	2.8%	0.8%	12%
Manufacturing Grants/Subsidies (2006-2020) <sup>1,2</sup>	~\$50B	\$7-10B+	\$5B+	\$5-7B+	\$0.5B+	\$2.5B+	\$2.5B+	\$0
Federal Tax Incentives (2006-2020) <sup>3,4</sup>	5-yr tax holiday Reduced tax rate Tax credits VAT refunds	5-yr tax holiday Reduced tax rate Tax credits	Reduced tax rate (0-13%)	Tax credits	5-yr tax holiday Tax credits	Tax credits	Reduced tax rate (0-12%) Tax credits	None
Other Federal Manufacturing Incentives	Free/discounted land Infrastructure support Equipment leasing Preferential loans Localization policies	Infrastructure support Equipment Incentives Workforce training	Equipment Incentives Hiring Credits	Preferential loans	Free/discounted land Infrastructure support Preferential loans Workforce training Hiring credits	Preferential loans	Free or discounted land	None
Compound Annual Growth Rate (CAGR) of 300 nm Capacity (2013-2020) <sup>5</sup>	15.7%	11.3%	10%	7.4%	6.5%	*	*	2.2%

<sup>1</sup>Incentives have been focused on maintaining capacity  
<sup>2</sup>Estimates based on \$A in subject of national-level direct funding to companies  
<sup>3</sup>Industry-specific tax incentives  
<sup>4</sup>Incentives have been focused on maintaining capacity  
<sup>5</sup>Estimates based on \$A in subject of national-level direct funding to companies

Sources: E. Insights, Inc. - Strategic Reviews Feb. Duration: 3M and 1st 7 analysis; OECD Semiconductor Report (2019)

Semiconductor Industry Association <https://www.semiconductors.org/resources/us-needs-greater-manufacturing-incentives/>

\*This data was collected before the passage of the federal CHIPS Act



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## *State Level Incentives*

State level incentives to attract investments are needed for Texas to be competitive. The semiconductor industry is a capital-intensive industry, requiring billions of dollars to be spent before deriving any revenue. Incentives such as grants intended to quickly offset these capital costs are generally considered the most effective and have been successfully employed in big states like Texas and New York. State tax holidays can provide longer term certainty and have been used in Oregon and other states.

While incentives are a central component of creating a competitive semiconductor ecosystem that will attract significant investments in this critical and strategic industry, they are not the only component. A business-friendly regulatory environment, strong educational institutions, skilled and qualified workers for the variety of roles and educational levels needed in this industry, strong workforce development policies to strengthen and grow that workforce, and adequate infrastructure are other key factors in determining the competitiveness of a location. Texas is well positioned in all these areas but must work to maintain these strengths. A critique when considering Texas that other states were quick to capitalize on are reliable utilities, both available water supply and a stable energy grid.

With the passing of the CHIPS Act, the race among states to leverage these funds is on. The recently passed State of New York's Green CHIPS Act includes an investment tax credit (up to 5% of project capital expenditures), research & development tax credit (up to 8% of R&D expenditures), salaries and wages tax credit (up to 7.5% of salaries and wages expenditures for first \$200,000 per net new job), real property tax credits (over 10 years), and discounted utility service delivery rates. In October 2022, Micron announced an \$100 billion investment to build a “megafab” in Central New York, which will be the largest in the nation. Oregon, which prides itself as being home to the "Silicon Forest," is considering expanding research and development incentives and workforce programs to attract semiconductor investment. NXP Semiconductors who has a presence in both Texas and Arizona cites Arizona's Commerce Authority as an easy "one-stop shop" for all incentives in the state reflecting a more streamlined coordination between the local governments and state government.

## *Recommendations*

As a result of rising overall demand for semiconductors and their ever-increasing importance to the global economy along with the vital role the industry plays in the supply chain and the paramount importance domestic chip manufacturing is to our national security, Texas should work to reinforce its position by fostering legislative, regulatory, and targeted incentives to make semiconductor supply chains more resilient.

The time is now for Texas to capitalize on its existing semiconductor ecosystem, strengthening the economy and facilitating job creation, by hardening and improving infrastructure, including access to stable power, natural gas, and water supplies to retain and grow the industry.

The U.S. semiconductor industry is vital to the U.S. and Texas economy, significantly contributing to U.S. GDP, encouraging innovation, and paying good wages to workers. The

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industry continues to grow and modernize; however, companies are faced with many challenges to growing its workforce with skilled technicians and engineers. To meet the growing demand for skilled workers for the industry, Texas should support legislative, regulatory, and funding efforts to attract skilled talent and strengthen the domestic semiconductor workforce ecosystem, including educational partnerships and curriculum developments.

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## CHARGE VI: WORKFORCE

*Evaluate labor shortages and Texas' unemployment numbers. Identify initiatives within the Texas Workforce Commission to expand job training and apprenticeship opportunities to help meet labor demands. Identify opportunities to increase outreach and information regarding career development.*

The Committee on International Relations and Economic Development met in a public hearing on May 19, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Workforce:

1. Bryan Daniel, Texas Workforce Commission
2. Jorge Barro (Rice University Baker Institute for Public Policy)
3. Michael Reeser (Texas State Technical College)
4. Richard Froeschle (Texas State Technical College)

### *Employment Data*

By most metrics, the Texas economy rebounded relatively quickly following the pandemic. Texas' labor force growth also rebounded rapidly. This was due in part to domestic migration. Texas' population was already increasing over the past decade and with a shift to more remote work options, it saw a spike during the pandemic. This increase in population also means an increase in workers. While labor force, those that are able to work, looks strong, employment, those that are currently working, has seen a lag. Employment growth has not been as fast as labor force growth which has led to an elevated unemployment rate in Texas as compared to the nation. According to Rice University economist Jorge Barro, this speaks more to Texas' healthy availability of workers rather than a lack of jobs.

Both general labor and specific skill shortages are inevitable. Many of the same occupation and skill shortages that existed prior to the pandemic have and will return as the economy recovers. As you can see below, the top fifteen most needed occupations are the same only slightly out of order. The same industries that were driving demand pre-COVID 19 are doing the same today.

### Texas Job Postings from February 2020 compared to April 2022

Occupation	2020	Occupation	2022
<b>Total Across All Occupations</b>	<b>833,500</b>	<b>Total Across All Occupations</b>	<b>1,210,819</b>
Registered Nurses	38,196	Registered Nurses	57,835
Software Developers	33,488	Software Developers	40,899
Non-tech Sales Rep, WH & Man	30,302	Non-tech Sales Reps, WH & Man	31,641
Retail Salespersons	25,196	Retail Salespersons	30,356
Customer Service Reps.	20,192	Customer Service Reps.	30,245
Supervisor, Retail Sales Workers	17,039	Fast Food & Counter Workers	24,586
Computer Occupations, Misc.	14,253	Personal Service/Project Mgrs.	20,875
Personal Service/Project Mgrs.	12,932	Supervisors, Retail Sales Workers	20,385
Heavy Truck Drivers	12,826	Heavy Truck Drivers	20,113
Fast Food & Counter Workers	10,889	Computer Occupations, Misc.	19,071
Maintenance & Repair Workers	9,885	Manual Laborers/Freight Movers	17,584
Accountants and Auditors	9,780	Maintenance & Repair Workers	15,189
Medical Dosimetrists, E-HIT	9,731	Waiters and Waitresses	15,103
Sales Managers	9,713	Food Service Managers	14,166
Secretaries & Admin Assistants	9,669	Medical & Health Services Mgrs.	14,000

Source: Economic Modeling Inc.

The pandemic produced a new labor trend referred to as the "Great Resignation." There are innumerable factors that contribute to an individual leaving the workforce. These factors may include government incentives (expanded unemployment benefits, rent postponement etc.), shifts of parents to in-home schooling or childcare, changing demographics, fewer work visas issued, concerns for workplace health and safety, changing cultural values of work-life balance, or skills mismatch. Inflation has been detrimental to labor markets with workers seeking higher wages.

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### *TWC and Workforce Development*

The Texas Workforce Commission (TWC) estimates that unemployment benefit claimants in the last two weeks of May are down 38% when compared to February 2020. February 2020 is used as a benchmark as it marks the last full month before the pandemic.

At the time of this hearing, TWC notes Texas has about 600,000-700,000 available jobs. TWC notes a narrow skills gap in the states' workforce. The most obvious is with middle-skills jobs. These are jobs that require some training after high school but not necessarily a college degree. Even though these are classified as "middle-skills" jobs they often have high wages. TWC continues to use the popular Skills Development Fund, the Jobs & Education for Texans (JET) program, apprenticeship programs, and some other federally funded programs to address these needs.

Texas State Technical College (TSTC) is a public technical college with a narrow focus of workforce training with economic development as a goal. TSTC analyzes the labor and workforce trends and their relationships with employers to constantly curate their programs and curriculum to meet actual job and skills demand. When there is no longer a need from employers for a particular program or certification, those classes are removed. This responsiveness separates TSTC from other community colleges and plays an important role in the state's workforce development.

### *Recommendations*

Texans continue to benefit from the Texas Workforce Commission's Skills Development Fund, the Jobs & Education for Texans (JET) program, and apprenticeship programs. Efforts should be made to continue and where appropriate, expand these programs.

Workforce challenges can be further met with the expansion of community colleges' quality dual credit offerings that meet local workforce needs and reduce cost barriers to students.

Texas should continue to expand broadband availability to better facilitate remote work and learning.



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## CHARGE VII: TRADE WITH RUSSIA

*Review the impact that trade with Russia has on the Texas economy, including Texas manufacturers. Consider the impact of Texas investment in businesses and funds owned or controlled by the Russian government or Russian nationals, and determine the need for investment restrictions. Consider the impacts of any proposed investment restrictions on access by Texas businesses and the Texas scientific and technological community to capital investment, global markets, and competitive knowledge.*

The Committee on International Relations and Economic Development met in a public hearing on April 20, 2022 at the State Capitol in Austin to hear testimony from the following witnesses regarding the charge of Trade with Russia:

1. Mike Reissig (Texas Safekeeping Trust Company)
2. Ray Perryman (The Perryman Group)
3. Tom Currah (Texas Comptroller of Public Accounts)

### *Trade*

Russia comprises less than 1% of Texas total import and export volume and a tiny percentage of overall business activity in the state. Moreover, there are neither substantive Texas exports to Russia for which other sources of demand are not readily available, nor imports for which other suppliers are difficult to obtain. According to estimates prepared by The Perryman Group, exports, imports, and all related multiplier effects comprise only an estimated 0.38% of gross state product, 0.35% of earnings, and 0.63% of employment.

Summary of 2021 Volume and Importance of Texas-Russia Trade			
	Texas Trade with Russia (Millions of 2021 Dollars)	World Total Texas Trade (Millions of 2021 Dollars)	Russia as a Percentage of Total World Trade
<b>Exports</b>	\$657.399	\$375,323.631	0.18%
<b>Imports</b>	\$5,351.621	\$312,683.117	1.71%
<b>TOTAL</b>	\$6,009.020	\$688,006.748	0.87%

Note: 2021 import and export levels. Components may not sum to totals due to rounding.  
Source: US Bureau of the Census USA Trade Online, The Perryman Group

Petroleum products and oil and gas comprise over 90% of Texas imports from Russia. The oil imports likely stem from the fact that refineries are designed to take specific types of crude and Russian products are used to meet those needs. However, the types of oil used will likely change in the future as refineries adapt to the higher levels of US production. Moreover, the refined products obtained from Russia, which alone reflect over 76% of total imports, could easily be supplied by producers within the state using Texas' natural resources.

<b>Largest Export/Import Categories for Texas-Russia Trade</b>			
<b>Texas Exports to Russia</b>		<b>Texas Imports from Russia</b>	
<b>Commodity</b>	<b>Volume (Millions of 2021 Dollars)</b>	<b>Commodity</b>	<b>Volume (Millions of 2021 Dollars)</b>
<b>All Commodities</b>	<b>\$657.399</b>	<b>All Commodities</b>	<b>\$5,351.621</b>
Machinery, Except Electrical	\$167.012	Petroleum & Coal Products	\$4,093.698
Transportation Equipment	\$125.045	Oil & Gas	\$759.892
Computer & Electronic Products	\$115.796	Primary Metal Manufacturing	\$230.138
Chemicals	\$91.855	Chemicals	\$72.974
Fabricated Metal Products not otherwise classified	\$39.073	Wood Products	\$68.342
Electrical Equipment, Appliances & Components	\$34.244	Fabricated Metal Products not otherwise classified	\$35.139
Miscellaneous Manufactured Commodities	\$25.933	Fish, Fresh/chilled/frozen & Other Marine Products	\$13.521
Other Special Classification Provisions	\$13.980	Electrical Equipment, Appliances & Components	\$12.185

Source: US Bureau of the Census; USA Trade Online

### *State Impact and Investments*

The prominent exception to the minimal impact on Texas economy resulting from the invasion of Ukraine is the state revenue from oil and natural gas production taxes. These taxes are directly tied to the market value. Oil and gas prices were already on the rise before the Ukraine invasion by Russia but certainly spiked afterward as a result. If prices remain elevated, it could also spur greater production that would further increase revenue.



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After our hearing, in July 2022, the Comptroller revised the Certified Revenue Estimate upward by nearly \$14 billion from the November 2021 projected balance. In the press release, the Comptroller's office noted: "Severance taxes performed extremely well due to elevated oil and gas prices caused by energy market volatility. This is due in part to a strong global economic recovery coupled with the war in Ukraine and a period of limited investment in fossil fuel production and refining capacity."

Russia also appears to be a minimal source of capital and accounts for only small amounts of Texas public sector investments. The Texas Safekeeping Trust Company invests, manages, and oversees approximately \$65 billion in assets. Investments include cash-equivalent funds such as the Texas Treasury Pool and separately managed portfolios for various Texas state agencies. As of December 31st, 2021, the Trust Company reported that the State had no direct investment in Russia. However, there was a total of \$18.6 million found in indirect investment through things like mutual funds or exchange traded funds. The Trust Company directed their managers to reduce such investments. After six weeks, the number was lowered to \$1.2 million.

### *Recommendations*

While allowing markets to determine where goods are produced and purchased and which assets are acquired, there are circumstances where compelling public or humanitarian interests override normal optimal patterns. If the Legislature determines that curtailing trade and investment activities with Russia is one of these circumstances, the Committee finds that potential effects on the Texas economy would be minimal.





