

# Incentive package to lure Samsung to Taylor is biggest in Texas history

December 31 2021, by Bob Sechler, Austin American-Statesman

---



Credit: Unsplash/CC0 Public Domain

Samsung's plan to build a \$17 billion next-generation semiconductor factory in Taylor is being called the largest direct foreign investment in Texas history.

The amount of publicly funded incentives that sealed the deal for the small town northeast of Austin is of similar historic significance.

South Korea-based Samsung is set to receive property tax breaks from the city of Taylor, the Taylor school district and Williamson County totaling \$954 million over the life of the agreements, according to an American-Statesman analysis.

Combined with a \$27 million grant from a state incentive fund, the package adds up to \$981 million and easily ranks No. 1 in a database compiled by the public-interest group Good Jobs First of the biggest such corporate incentive deals in Texas history.

It's the most expensive deal even without including about \$260 million in infrastructure improvements near the future site of the Samsung factory—such as new roads and water lines—nearly all of which will be funded by Williamson County, the city of Taylor or the state.

Officials said the roads were on long-range plans to be built eventually anyway—with some work started before the Samsung deal—and the company will pay back the cost of extending water and sewer service through its user fees.

Still, the landmark size of the Samsung tax breaks has provided fresh kindling to the debate over so-called corporate welfare and whether economic development that requires extensive taxpayer subsidies is worth it.

## **'A real, bottom-line benefit'**

Supporters of the project say the positive side of the ledger—which includes about 2,000 direct Samsung jobs, the strategic benefit of retaining a top chip manufacturer in Texas and a transformational

development for a small town that has remained something of an afterthought amid the region's economic boom—makes the answer a resounding yes in this case.

"In terms of the incentive package from the city of Taylor, we spent countless hours undertaking an economic impact analysis and turning this deal every which way," Taylor Mayor Brandt Rydell said in a recent interview.

"Whether we would end up on some list and wind up being criticized for the project, that is not something we were concerned about," he said, referring to the Good Jobs First ranking of the combined value of the incentives being provided to Samsung.

The company picked the Taylor site over a property it already owned adjacent to its semiconductor plant in Austin—its only U.S. manufacturing facility—and competing sites in Arizona and New York.

The new fabrication plant is expected to be the most advanced for Samsung, which is among the world's largest makers of memory chips and smartphones. The plant will expand Samsung's ability to compete with other chipmakers—including Taiwan Semiconductor Manufacturing Co., which makes chips for Apple's iPhones—and it could play a key role in production of even more advanced chips as the innovation race continues.

Rydell said he's confident the project will be a boon to Taylor, a city of about 17,000 known for its barbecue and small-town feel that has yet to achieve the prominence of some of Austin's better-known suburbs, such as Round Rock and Pflugerville.

In addition to bringing high-paying jobs to the community and a global employer in a cutting-edge industry, Taylor officials have calculated that

the Samsung project will net the city about \$52.2 million in new property tax revenue over the 30-year life of the incentive deal—compared with a nominal amount of property tax revenue if the 1,200-acre tract where the factory will be built had remained undeveloped over that time.

"That was at the forefront—the city needed to realize a real, bottom-line benefit from Samsung locating here, and we do that," Rydell said.

"Landing Samsung would have been cold comfort if we were digging ourselves into a hole."

But the amount of property taxes that Taylor stands to net from Samsung is only a fraction of what the company would pay if it went ahead with the project at the location without the city's tax break.

Under Taylor's incentive deal with Samsung, the company will be rebated 92.5% of its city property taxes during the initial decade of the project, 90% in the second decade and 85% in the third.

The city has estimated the combined value of those rebates at \$467.8 million, based on an assumption that there will be no change to its property tax rate over the 30-year life of the agreement.

Taylor also will extend water and sewer service to the site of the development, at an estimated cost of \$18 million. It plans to issue a revenue bond next year to pay for the work, saying the funds will be recouped over time through Samsung's utility charges.

Other incentives being provided to Samsung are:

—\$172.1 million in property tax rebates from Williamson County over 20 years, assuming no change in the property tax rate. The county's agreement calls for a 90% property tax rebate for Samsung during the

first 10 years of the project, with an extension for another 10 years at 85% if the company is in compliance with the terms. The American-Statesman calculated the total value of the county tax rebates based on the same development schedule for the project used by the city of Taylor. The county also will foot the bill for about \$120 million in roadwork near the site, such as improvements to County Roads 401 and 404, and portions of the planned Southeast Loop to connect Texas 130 to U.S. 79. Those projects were already in the long-range transportation plan, county officials said, although they'll be accelerated in certain cases.

—A \$314 million, 10-year property tax break from the Taylor Independent School District. Samsung will still pay all of its school taxes that go to fund school district debt, but it will pay just a fraction of the portion earmarked for maintenance and operations over the duration of the deal. The tax break is being granted under the state's Chapter 313 incentive program, which will expire Dec. 31, 2022, because it wasn't renewed during the recent session of the state Legislature. The expiration won't affect deals put in place before then.

—\$27 million from the Texas Enterprise Fund, a deal-closing tool used by the governor's office as a final carrot to sway corporate decisions in competitive situations. In addition, the Texas Department of Transportation will pay \$80 million of the cost for section 3 of the Southeast Loop. Funding for about \$40 million of construction costs for section 2 of the loop has yet to be identified, Williamson County officials said.

## **'A dubious distinction'**

Greg LeRoy, executive director of Good Jobs First, said the combined \$954 million value of the city, county and school district tax breaks for Samsung is probably a minimum figure because "everybody knows that

tax rates are bound to go up over time," which would increase the value of the tax breaks.

Even so, the incentive package already ranks at the top of the list of Texas "megadeals" compiled by LeRoy's Washington-based organization—supplanting an \$802 million deal in 2011 that brought Berkshire Hathaway-owned Nebraska Furniture Mart to The Colony north of Dallas.

It also will rank No. 20 nationwide, according to the Good Jobs First database.

"It's a dubious distinction—I think Taylor is going to be thought of as the tax-giveaway capital of Texas now," said LeRoy, whose group is critical of most big taxpayer-funded incentive deals to corporations, including the one for Samsung.

Another recent incentive deal in the state has the potential to leapfrog Taylor for the top status, however. Texas Instruments will receive large tax breaks from local governments and the school district in Sherman, north of Dallas, to build up to four chip fabrication plants at a total cost of \$30 billion, although an estimated dollar amount for the incentives the company stands to receive hasn't been calculated yet.

Regardless, LeRoy said such huge incentive agreements seldom pay off for local governments, in terms of generating enough new tax revenue to offset costs associated with the increased demand for services that the projects create.

"If Samsung is going to be the most valuable property in the city and is going to induce a lot of growth, everybody else is going to get stuck with higher property tax bills and higher property tax rates to cover that growth" if the company isn't paying its fair share, he said. "There is no

such thing as free growth."

But Williamson County Judge Bill Gravell said it's unrealistic to think Samsung would have picked a location for the chip factory that didn't provide significant public incentives.

Comments to the contrary "are clearly made by people who are not involved in decision-making by county or state government" and haven't had to engage in high-stakes [economic development](#) competitions, Gravell said.

He said he expects the project to spark a lot of ancillary development and benefits for the region and the Taylor school district that will make the incentives well worth it—partly because he doesn't expect Samsung to stop at a single chip plant. Gravell said Samsung officials have indicated as much to him without actually committing to more.

"The play here by Williamson County from my perspective was never for one (fabrication) facility," he said.

"My expectation is that they they will build one (fabrication) facility, and if the relationship is strong and positive you will see them build a second and a third and a fourth," he said, describing the estimated 1,200-acre tract as more than needed for just a single factory.

"Personally, I think you will see construction on that site for the next 20 years."

Gravell also said the project is a strategic coup for the state and the nation overall amid a global shortage of semiconductors, which are used in everyday devices ranging from laptops and cellphones to automobiles and refrigerators.

The U.S. government has been looking for ways to encourage more



domestic semiconductor production, and Samsung is eventually expected to receive federal incentives for the Taylor facility on top of its local and state help.

"To incentivize something that involves national security didn't seem like a complicated decision," Gravell said. "I didn't want this built in China."

China doesn't appear to have been in the running for the Samsung plant because the company didn't publicly list it as such in its applications for tax breaks.

But the potential site in Austin, which is only about 25 miles away from Taylor's winning location and within the same metropolitan area, was considered the frontrunner through much of this year.

In its opening salvo in negotiations for incentives at the Austin site, Samsung had sought tax breaks from the city of Austin, Travis County and the Manor school district valued at about \$1.8 billion combined. But those negotiations never advanced to even a tentative agreement with any of them that progressed to the point of a public hearing, so the size of a final package that the company might have accepted is unclear.

Nathan Jensen, a University of Texas professor who studies taxpayer-funded incentives, said Samsung probably just played one community off against another for the best deal it could get to expand in a region where it intended to do so anyway—which is among his criticisms of such taxpayer-funded agreements.

"The biggest benefit of Samsung for the local community is the taxes" it would generate, Jensen said. "But Taylor's strategy to attract Samsung is to give away these benefits."

©2021 Gannett Co., Inc. Distributed by Tribune Content Agency, LLC.



Citation: Incentive package to lure Samsung to Taylor is biggest in Texas history (2021, December 31) retrieved 5 May 2024 from <https://techxplore.com/news/2021-12-incentive-package-lure-samsung-taylor.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.