



## THE AUTOMOBILE INDUSTRY IN TEXAS

### Overview

Officials and policymakers in Texas were extremely pleased in early February 2003, when Toyota Motor Corporation, the world's third largest automaker, announced plans to construct an assembly plant to manufacture full-size pickup trucks. (This plant is expected to be operational by 2006.) Texas had been in heated competition with several other Southern states—Alabama, Arkansas, Mississippi and Tennessee—to secure this manufacturing facility for several months prior to this February 2003 announcement. Until that time, the only automobile manufacturing facility in the state of Texas was

the General Motors plant in Arlington, which had opened some five decades previously, in 1951. Hence, Toyota's decision was considered very promising by state officials during a time when the state, like practically every other in the country, continued to face vexing fiscal problems.

Another important consequence of the addition of the Toyota production plant to the Texas economy will be its impact on the state's budget. According to a January 2003 news report, motor vehicle sales and rental taxes that helped keep the state budget afloat in the prior fiscal year were down nearly 10 percent during the first three months of fiscal year 2003.<sup>180</sup> In fact, the drop in car sales during this three-month period amounted to about \$70 million in state taxes. Hence, the addition of the Toyota pickup truck plant and anticipated economic ripple effects could boost the state's economic performance.

### State Facts

Percent of Total Workforce	3.4
Direct Employment	62,900
Auto-Related Employment	85,800
Auto-Dependent Employment	318,900
Wages	\$11.5 Billion
New Vehicle Dealerships	1,342
Dealership Annual Sales	\$60.5 Billion
*Production Facilities	1*
Vehicles Produced	203,153
New Registrations	1,475,117
Registered Vehicles	14,070,096
Publicly-Owned Vehicles	558,087
Licensed Drivers	13,462,000
Total Miles Driven	220 Billion

Source: 2002 Ward's Motor Vehicle Facts & Figures

\* After the publication of this report, Texas secured another assembly plant, Toyota.

### Texas' Automobile Production Facilities

According to the Texas Governor's Office of Economic Development & Tourism, the state

has two automobile manufacturing plants with the second plant, the Toyota plant, scheduled to be functional by 2006.<sup>181</sup> The other plant, a General Motors facility, produces the Chevrolet Tahoe, Chevrolet Suburban, GMC Yukon and Cadillac Escalade sport-utility vehicles. The proposed Toyota plant will manufacture the Toyota Tundra pickup truck. While the General Motors plant is located in Arlington (Tarrant County), the proposed Toyota plant will be in San Antonio (Bexar County).

Table 37 describes the incentive packages extended by the different levels of government in the state of Texas to the two automobile manufacturing plants in the past decade or so.

Incentive Packages Offered to Texas' Automobile Assembly Plants			
Manufacturer	Year	Incentive Package	Level of Government
General Motors	1989	\$50 million (Tax Abatement)	City and County
	1992	\$33 million	City, County and State
	1993	\$50 million (Tax Abatement)	City and County
	1994	\$64 million (Tax Abatement)	City and County
	1996	\$198 million	City and County
Toyota	2003	\$15 million	State
	2003	\$118 million	City and County

Source: Texas Governor's Office of Economic Development & Tourism

As indicated, during the past 14 years or so, the different levels of government in Texas have provided General Motors a total of \$395 million in incentives, while the Toyota incentive package totaled \$133 million in 2003. While the initial investment made by General Motors back in 1951 was not available, in 1998, the company made a \$555 million expansion investment (750,000 square foot addition) at its Arlington location. Production capacity at this plant increased from 32 vehicles per hour to 52 vehicles per hour and 600 new jobs were created.<sup>182</sup> It is also estimated that Toyota's investment will amount to \$800 million when the plant is operational next year.

In terms of the General Motors plant's specifications, it is reported that the 3 million square foot plant employs 2,418 hourly employees and 199 salaried employees. For calendar year 2001 and 2002, the plant's production levels included the following number of vehicles.

Production Capacities at GM's Arlington Plant		
Model	Number	
	2001	2002
Chevrolet Tahoe	125,794	134,805
GMC Yukon	40,702	40,563
Cadillac Escalade	36,657	40,377
GMC Yukon XL	-	1,829
Chevrolet Suburban	-	2,916

Source: [www.gm.com](http://www.gm.com)

### The South's Latest Automobile Assembly Plant: Toyota in Texas

As indicated at the outset, Toyota's decision to build its sixth assembly plant in North America in San Antonio was greeted with great enthusiasm across Texas.<sup>196</sup> Toyota intends to deploy its newest assembly plant to help it secure at least 10 percent of the U.S. market for full-size pickup trucks, more than twice the company's current share. The company intends to build its Tundra truck (now built in Princeton, Indiana) in Texas, closer to the market where one of every 10 light truck sales in the United States is in Texas, and for full-sized pickup trucks, the Texas share is one in five.<sup>184</sup> In 2002, sales of the Tundra fell by almost 9 percent to just under 100,000 vehicles, less than 5 percent of the 2.16 million-unit large pickup truck market in the country. Upon completion in 2006, Toyota will build 150,000 Tundras annually at its plant in San Antonio. The San Antonio plant will manufacture several new models including a larger, heavy-duty version of the current model and a four-door "crew-cab" model.

In order to attract the company to locate to Texas, a team of state, county and city officials offered Toyota an incentive package that totaled \$133.2 million. According to information provided by the Texas Governor's Office of Economic Development & Tourism, the following is a summary of state and local (county and city) direct incentives provided to Toyota.

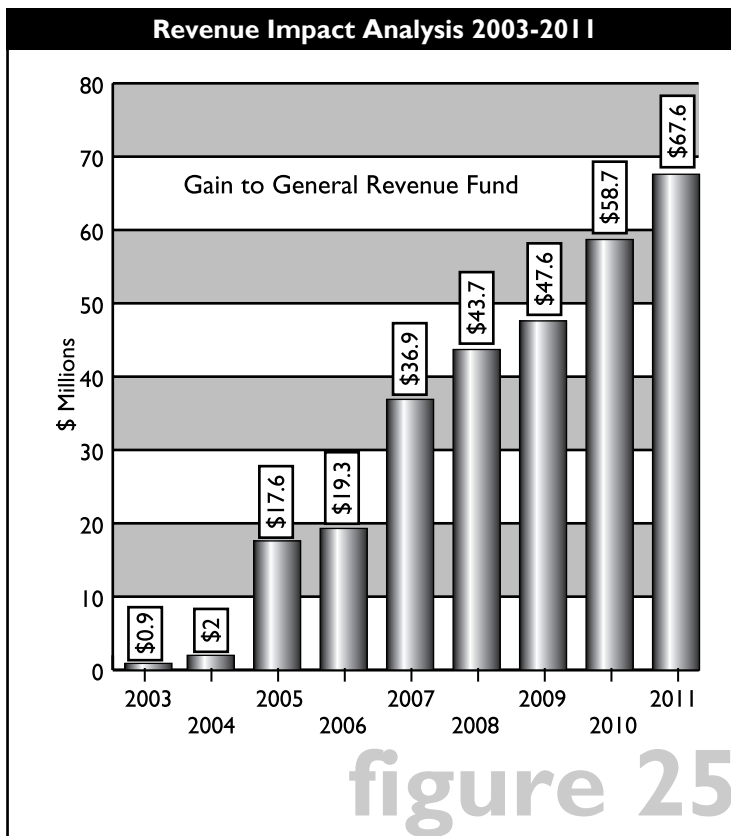
Summary of State and Local Direct Incentives to Toyota		
Type of Incentives	Source	Estimated Value
<b>Economic Incentives</b>		
» Site purchase	City	\$14,000,000
» Site preparation assistance	City	\$10,000,000
» Utility infrastructure	Utility	\$15,600,000
» Job training and recruiting	State	\$27,250,000
» Rail district	State	\$15,000,000
» Training center	City	\$3,000,000
» Temporary office space	City/KellyUSA	\$800,000
Total		\$85,650,000
<b>Partial Tax Phase-In &amp; Fee Waivers</b>		
» Fee waivers	City/Utility	\$3,600,000
» 10 year tax phase-in commitment		\$78,000,000
» Less voluntary payment to school district		\$(34,000,000)
Total		\$47,600,000
<b>Total State and Local Incentives</b>		<b>\$133,250,000</b>

Source: Texas Governor's Office of Economic Development & Tourism

As indicated in table 39, the state share of the total direct incentive package amounts to \$42.25 million with the remaining \$91 million flowing mostly from county and city funds. In terms of the overall package, analysts point out that the amount offered by Texas was the lowest offered of all the states competing for the project and several non-incentive factors played a larger role in Toyota deciding on the San Antonio location. In addition to the fact that Texas is home to one in five full-size pickup trucks sold in the United States, and that Toyota can now aggressively market the Tundra trucks to Texans as manufactured in Texas, several other reasons played a more dominant role. For instance, the agreement by the state to set aside \$15 million to construct an 8-mile rail spur to the Toyota site was, Toyota officials conceded, a critical factor in their location decision, as they sought a site with access to two rail carriers. The state money would pay for most of the eight miles of track needed to connect Burlington Northern's east-west line near the proposed plant; an additional \$5 million needed for the rail project would flow from revenue bonds issued by the newly-created Bexar County Rural Rail Transportation District.<sup>185</sup> Also, the \$27.25 million offered by Texas toward job training and recruiting was important.

The plant, which will amount to an investment of \$800 million by Toyota, will employ about 2,000 workers with a payroll of nearly \$80 million annually and an estimated \$4 billion over 25 years.<sup>186</sup> Once employees are trained, their wages will exceed \$20 an hour. According to the San Antonio Economic Development Foundation, the economic ripple effects of the plant will extend beyond the city of San Antonio and amount to \$1 billion in the next five years and \$1.4 billion in the next decade.

The Texas Comptroller of Public Accounts carried out an economic impact study of the plant in October 2002, and this report indicated that Texas would gain more than 16,000 jobs and gain nearly \$1 billion in personal income.<sup>187</sup> This report also specified that the proposed new Toyota plant would generate an additional \$1.8 billion in new investment in the state while providing more than \$36 million in new state tax revenue. While a two-phase impact model was utilized to carry out these estimates (the initial construction phase and the subsequent hiring and production phases), the following set of statistics demonstrates the dynamic revenue and economic impacts expected between 2003 and 2011.



Source: Texas Comptroller of Public Accounts

Year	Increase/(Decrease) in Texas Personal Income	Increase/(Decrease) in Texas Investment	Increase/(Decrease) in Texas Employment
2003	\$60,970,000	\$179,591,000	1,400
2004	\$65,490,000	\$276,655,000	1,300
2005	\$508,400,000	\$1,030,283,000	10,000
2006	\$456,400,000	\$1,029,469,000	7,800
2007	\$961,900,000	\$1,755,068,000	16,400
2008	\$893,200,000	\$1,642,584,000	13,500
2009	\$920,600,000	\$1,607,080,000	13,000
2010	\$934,100,000	\$1,567,112,000	12,500
2011	\$945,700,000	\$1,529,819,000	12,000

Source: Texas Comptroller of Public Accounts

As presented in figure 25 and table 40, the potential economic impact of the San Antonio Toyota plant remains tremendous with these positive effects percolating across the state. Citing some of these key estimates ably illustrate the net effect of the project. For instance, in 2011, it is estimated that the plant would generate \$67.6 million in additional funds to the state's general revenue fund. (It should be noted that these general revenue fund gains exclude the effect, if any, from state expenditures for possible inducements and incentives.) Similarly, in 2007, it is forecasted that there would be a net increase of \$961.9 million in the state's personal income, the highest level forecasted in the nine-year period 2003 through 2011. In terms of investment in Texas as a result of the Toyota plant, it is estimated that in 2007, the state

would see a net increase of \$1.8 billion; once again, this year, 2007, was the highest for the nine years forecasted. Finally, on the employment front, in 2007, it is forecasted that as a result of the Toyota plant, Texas would see a net increase of 16,400 jobs. All these trends suggest the very positive economic developments forecasted by the Texas comptroller with the addition of the Toyota plant to the Texas economy.

### Automotive Parts Suppliers in Texas

According to the Governor's Office of Economic Development & Tourism, the top 20 automotive suppliers, ranked by employment numbers as of October 23, 2003, are presented in table 41.

**Top 20 Automotive Suppliers in Texas**

Company Name	City	Product
» General Motors (Truck Group)	Arlington	Truck assembly
» Peterbilt Motors	Denton	Heavy-duty trucks
» Yazaki El Paso	El Paso	Automotive injection molding
» Sanden International, Inc.	Wylie	Automotive air conditioning compressors
» Systems L. P.	Sealy	Trucks
» Pollak	El Paso	Semi-truck instrument panels
» S C S/Frigette	Fort Worth	Speed controls and remote security systems
» Lear Corporation	Arlington	Automotive seating
» Hilite International	Carrollton	Automotive fans, pulleys and machined products
» Autotronic Controls Corporation	El Paso	Automotive electronic parts
» A E R Mfg., Inc.	Carrollton	Rebuilt automotive parts
» Stemco, Inc.	Longview	Truck wheel sealing systems
» Four Seasons (Division of Standard Motor Products, Inc.)	Lewisville	Automobile parts
» Lebus Mfg. Co.	Longview	Materials handling and lifting, forged fittings, wire rope and chain
» T R W Automotive Products	Mcallen	Rebuilt automotive parts
» International Muffler Co., Inc.	Schulenburg	Exhaust mufflers and tubing
» Ennis Automotive, Inc.	Ennis	Electrical automotive parts
» Atco Products, Inc.	Ferris	Assemblies and crimping components
» Sure Start, Inc.	Cooper	Rebuilt alternators, generators and starters
» R K I, Inc.	Houston	Motor vehicle bodies

Source: 2003 Texas Manufacturing Register

In addition to using the suppliers in Texas, there have been reports that Toyota might utilize the well-developed automotive supplier base just across the border in Mexico.<sup>188</sup> With the introduction of the North American Free Trade Agreement in 1994, Mexico has become an automotive supplier powerhouse churning out such components as engines, brakes, truck beds and wire harnesses.