



Texas Top-Ranked State for Firm Relocations

By Anil Kumar and Alexander T. Abraham

ABSTRACT: Texas is the leading destination for companies relocating from other states. The economic benefits of the moves may be best measured in terms of the ancillary activity generated rather than the benefits directly attributable to the relocations.

Relocations of firms and corporate offices generate interest among policymakers and the public who view them as generators of jobs and positive economic spillovers. Apple's plans for a \$1 billion corporate campus in Austin and the intense national competition to land Amazon's HQ2 are striking examples of the importance placed on landing the big prize.

Texas, with its hospitable business climate, is a leading contender for firms looking to cross state borders.¹ Anecdotal reports have long highlighted the state's ability to attract businesses from high-tax and heavy-regulation places, such as California and New York, though exact counts of businesses that relocate to Texas and their contribution to overall job growth are hard to come by.

Analysis of National Establishment Time Series (NETS) data confirms the popular view that Texas is the top destination for firm relocations. Counting all moves of businesses in or out of Texas from 2000 to 2013, more than 25,000 establishments came to Texas from other states, bringing more than 300,000 jobs.

At the same time, close to 18,000 establishments left the state, costing about 200,000 jobs. Nevertheless, with a net migration of 100,000 jobs from 2000 to 2013, Texas led all states. California emerged as the largest net exporter to the rest of the U.S. during the period. California accounted for about one in three of the net migration jobs landing in Texas. (For more information about NETS, see "National Establishment Time Series Database Tracks Firm Mobility," page 8.)

Trends in Business Relocations

The number of establishments moving into Texas has consistently exceeded the number leaving since 1992 (*Chart 1*). In-migration and out-migration picked up after 2000, and both largely moved in tandem, except between 2004 and 2007 when in-migration was little changed and out-migration declined. Both in-migration and out-migration picked up during the Great Recession, before slowing during the recovery.

Nonetheless, the number of establishments relocating to or from the state remains a small share of all establishments in the NETS database. Those relocating to Texas accounted for about 0.09 percent of the nearly 2.3 million establishments in the state in 2013, and those leaving totaled 0.07 percent, for a net in-migration rate of slightly more than 0.02 percent of Texas' establishments.

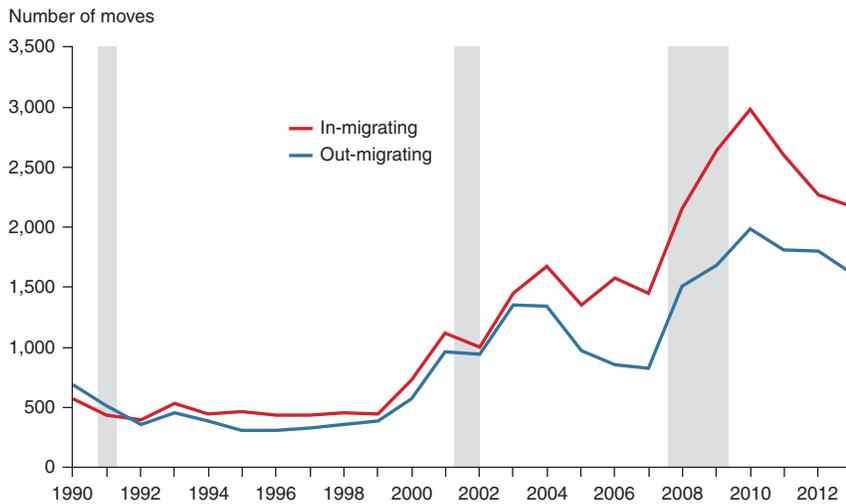
Persistent Net Inflow of Jobs

A key indicator in the competition for business relocations is the number of jobs that potential movers would bring. Looking at trends from 1990 to 2013, job gains from in-migrating establishments generally exceeded losses from departing businesses—except in 2004 and 2012—making Texas generally a net jobs importer.

The net migration rate of employment—net migration of jobs as a share of total employment—remained generally positive in Texas (*Chart 2*). Job gains due to in-migration averaged around 0.2 percent of Texas' total employment, exceeding the average out-migration rate of 0.1 percent.

**CHART
1**

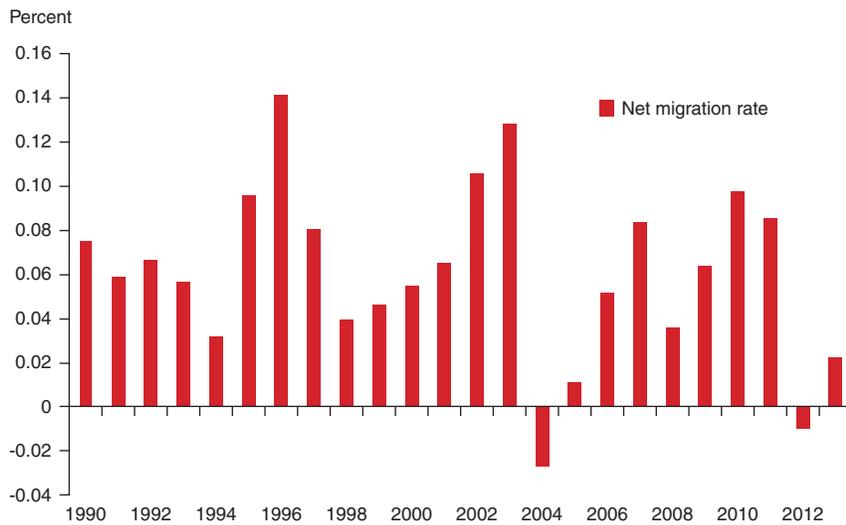
Establishment Relocations to Texas Pick Up After 2000



NOTE: Shaded areas indicate U.S. recessions.
SOURCES: National Establishment Time Series database; authors' calculations.

**CHART
2**

Texas' Net Migration of Jobs as Percent of Total Employment Mostly Positive



SOURCES: National Establishment Time Series database; authors' calculations.

Job Migration Leader

Small numbers notwithstanding, Texas was the top destination in terms of net jobs gained from business relocations from 2000 to 2013. Georgia, Florida, Virginia and Arizona followed (Chart 3).

California and New York have been the largest net job exporters, with the District of Columbia, Washington and Massachusetts rounding out the top

five areas. The net migration of jobs appears correlated with a state's business environment, particularly for the bottom-ranked areas; California, New York and the District of Columbia rank at the low end of indexes measuring the tax climate for businesses.²

Notably, comparing states based on total number of jobs can be misleading as it does not adjust for size; larger

states will gain or lose more jobs simply due to their higher populations.

The overall story changes slightly when examining states' 2000–13 average annual net job migration attributable to business relocation as a share of overall employment. Texas remains high but slips to seventh nationally, trailing Nevada, Delaware, Arizona, Georgia, Connecticut and Kansas. California ranks sixth from the bottom, with the District of Columbia exporting the most jobs as a share of overall employment, followed by Alabama, Washington, Alaska and Iowa.

Businesses relocating to Texas are mostly going to large metropolitan statistical areas (MSAs). Dallas and Houston have been favored destinations, accounting for two-thirds of all jobs moving from other states (Chart 4). Businesses' choice of large MSAs such as Dallas and Houston is driven not only by relative size but also by population density, availability of an educated workforce, diversity of industries and adequate infrastructure.

Dallas, Austin and Houston emerge as the top three in terms of the net migration rate of jobs due to interstate business relocation.

California a Top Job Exporter

Anecdotal reports have long indicated that Texas is a favored destination of businesses departing California because of the high cost of doing business attributable to labor expense, taxes and regulatory burden. NETS data confirm that perception. Between 2000 and 2013, California was the source of more than 51,000 jobs—about one-fifth of all jobs moving to Texas.

Meanwhile, Texas sent 18,000 jobs to California—creating a net migration of 33,000 jobs to Texas. South Carolina, Oklahoma, Louisiana and New Jersey rounded out the top five states with net migration to Texas (Chart 5). Relatively high firm migration from Oklahoma and Louisiana indicates that in addition to differences in economic conditions and business climates, proximity also plays an important role in business relocation-based employment change.

Distance matters because businesses may relocate, in part, to minimize costs, and moving expenses can be substantial. Not surprisingly, the number of interstate moves pales in comparison to intrastate moves—the 25,000 businesses relocating to Texas from other states between 2000 and 2013 represented less than 10 percent of the number of establishments that changed addresses within Texas over the same period.

Office Jobs, Small Businesses

Among major sectors, professional and business services accounted for more than 25 percent of employment from in-migration of establishments, followed by manufacturing (21 percent) and trade, transportation and utilities (18 percent). The three sectors also accounted for the bulk of jobs moving from Texas between 2000 and 2013 (Table 1). Almost all supersectors saw positive net migration from business relocation, with professional and business services and manufacturing responsible for close to 60 percent of moves.

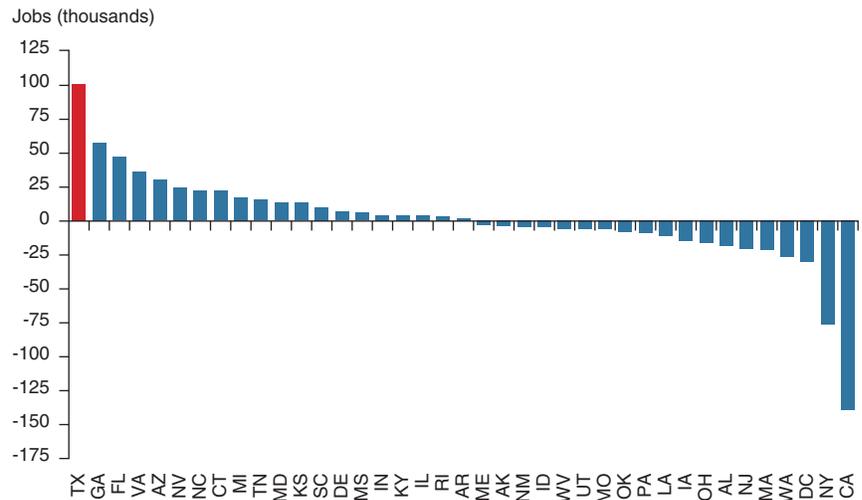
On average, 90 percent of businesses moving into or out of Texas were stand-alone, single-establishment firms. They accounted for about half of net job migration. The share of multi-establishment firms relocating their headquarters to Texas was relatively small but represented about 40 percent of employment moves. Thus, multi-establishment businesses moving their headquarters are mainly large firms.

Not surprisingly, small businesses tend to be more mobile. Establishments with fewer than five workers constitute about 80 percent of all businesses moving to Texas but account for less than 12 percent of all jobs (Chart 6).

On the other hand, large establishments—ones with 1,000 or more workers—account for very few moves but almost a quarter of all jobs relocating to Texas. Overall, relatively smaller businesses—ones with fewer than 500 workers—account for about two-thirds of jobs coming to Texas. The average establishment size of all in-migrating businesses is about two workers.

CHART 3

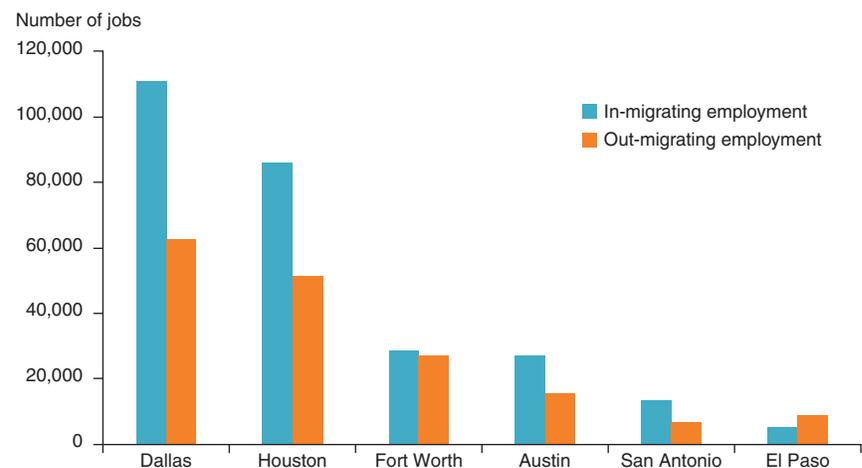
Texas Is Top Net Importer of Jobs from Rest of U.S. from 2000 to 2013



NOTE: States with near-zero activity were omitted.
SOURCES: National Establishment Time Series database; authors' calculations.

CHART 4

Most Out-of-State Jobs Go to Dallas, Houston



NOTE: Data shown are migration totals from 2000 to 2013.
SOURCE: National Establishment Time Series database.

Small establishments moving to Texas also often exhibit stronger growth if they can succeed. Small businesses tend to be younger and contribute more to net job creation over time than their large counterparts.³

Relocation Costs, Benefits

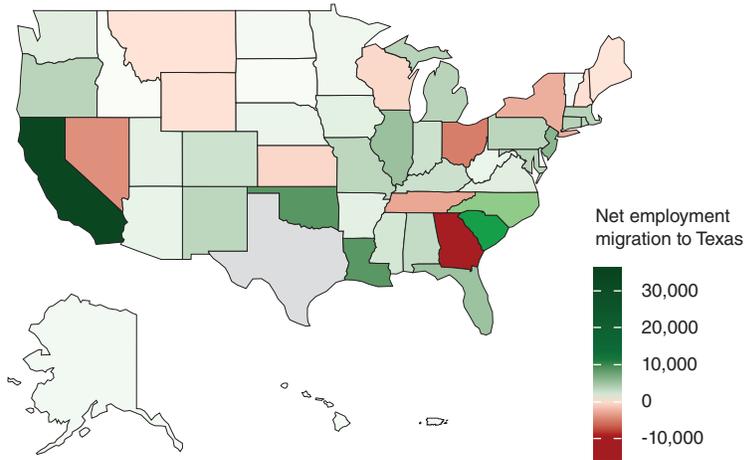
When new enterprises move in, local residents benefit not only because of new business investment and greater employment opportunities, but also

because of increased property values, reflecting net gains in economic welfare.⁴ Furthermore, a new firm could have significant positive spillovers for existing firms and, through agglomeration economics, increase overall productivity.

While the majority of business moves involve relatively smaller entities with few employees, interstate relocations of large firms who bring many employees can come with larger benefits but also at a substantial cost to state and

CHART
5

California Leads in Net Export of Jobs to Texas



NOTE: The period 2000–13 is depicted.
SOURCE: National Establishment Time Series database.

TABLE
1

In-migration of Establishments and Employment, 2000–13

Supersector	In-migration		Out-migration	
	Estblshmnts	Employment	Estblshmnts	Employment
Professional and business services	9,904	77,475	7,256	43,012
Manufacturing	1,489	64,470	1,076	39,816
Trade, transportation and utilities	4,481	59,562	3,474	46,179
Finance	1,828	25,223	19,509	19,509
Leisure and hospitality	1,079	18,883	701	14,493
Educational and health services	1,620	14,402	1,217	9,007
Information	777	13,321	630	14,556
Construction	1,784	10,825	1,155	11,046
Mining, oil and gas	282	7,762	204	3,971
Other services	1,424	7,040	1,012	5,748
Agriculture	464	1,589	282	1,738
Total movement	25,183	301,097	18,239	200,402

NOTE: Supersectors shown represent a subset of total Texas mover population, so columns do not sum to entries in "Total movement" row.
SOURCE: National Establishment Time Series database.

local governments. These high-profile moves often include government-backed incentive packages. The costs of providing assistance for relatively few establishments may affect tax revenue through multiple tax breaks and additional expenditures on infrastructure and public services.

Texas' Incentive Pitch

Nationally, spending on business relocation incentives exceeds \$80 billion each year across all states and local governments, with Texas leading at \$19 billion annually, according to a database compiled by the *New York Times*. In per capita terms, state and

local governments in Texas spend \$759 annually, ranking fourth among states. A separate analysis of state business incentives that calculates the value of the programs as a percentage of value added ranks Texas 17th of 33 states.⁵

Within Texas, there are about two dozen programs to attract businesses from other states.⁶ Key among them is the Texas Enterprise Fund (TEF)—one of the largest "deal-closing" funds in the nation—that provides cash grants to mostly larger companies that choose Texas over another state and create at least 75 jobs in urban areas (25 jobs in rural areas) with average wages above the county average. The TEF funded 146 projects from its inception in 2004 through 2016, paying out about \$610 million.⁷ In a recent example, Toyota received \$40 million from the fund to move its North American headquarters from Torrance, California, to Plano, Texas, and create 4,000 jobs.⁸

Another widely used program falls under Chapter 313 of the Texas Tax Code. It allows school districts to provide property tax breaks by capping a new firm's appraised property value for 10 years in return for businesses committing to create at least 25 jobs in nonrural school districts (10 in rural districts). The state makes up the foregone school tax revenue.⁹ In the first 10 years of this program, which began in 2001, a total of 128 awards worth \$2.4 billion were made.¹⁰ Still other property tax abatements offered by cities and counties—under Chapter 312 of the Texas Tax Code—don't involve state funding but are used to attract new industries and retain existing ones.¹¹

Are Tax Incentives Worthwhile?

Whether tax incentives' benefits outweigh their costs has long been a subject of intense economic research. While there is some evidence that such programs may benefit local economies, for the nation as a whole, they are mostly a zero-sum game—one state's gain is another state's loss.¹²

Business relocation incentives may also distort optimal location decisions. An optimal location choice based purely on economic grounds of cost

minimization and profit maximization might have been different. Therefore, one state attempting to outbid another with corporate tax breaks can encourage a “race to the bottom,” leading to lower levels of public services or higher taxes on existing firms or households than would otherwise be the case.

Still, under certain conditions, economic development subsidies may not be a zero-sum game at the local level if there are enough agglomeration spillovers. This is particularly the case if the new firm acts as a magnet for more firms to move to the area and motivates existing firms to expand. Indeed, if these conditions are met, tax incentives may even improve location efficiency.¹³

Small Job Growth Impact

Although jobs from business relocations remain an important focus of state and local policymakers, they are just a minor component of the overall churn in the labor market. Other elements include job creation from the birth of new firms and growth among existing establishments countered by job destruction from business closures and job losses in contracting businesses.

The Texas economy created about 1.4 million jobs and destroyed 1.3 million jobs per year between 2000 and 2013, for a net job creation per year of about 180,000 jobs, Business Dynamic Statistics data indicate.¹⁴

Thus, 22,000 jobs gained annually from businesses coming to Texas from 2000 to 2013 accounted for just 1.5 percent of all job creation each year. In other words, more than 98 percent of new jobs came from either creation of new businesses or growth among expanding ones. Analogously, 14,000 jobs lost per year due to business moving out of Texas represented just 1.1 percent of all jobs destroyed. Therefore, net migration of 8,000 jobs per year from other states to Texas accounts for just about 4 percent of annual net job creation in the state.

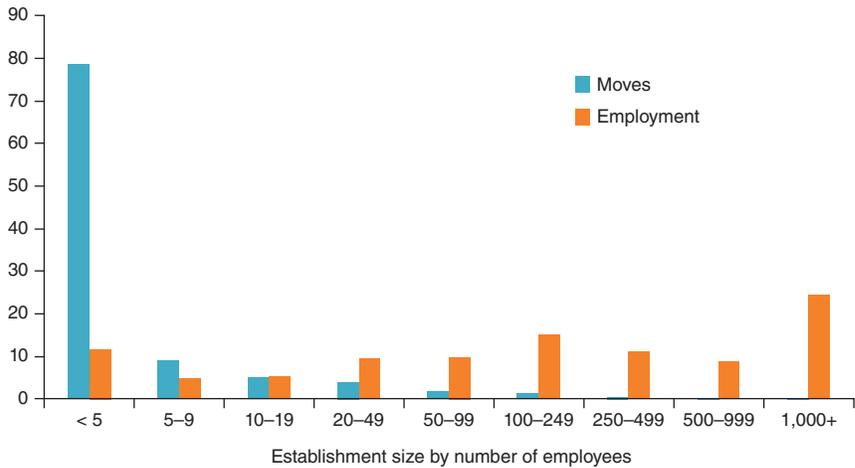
Incentives Play Small Role

A variety of factors makes Texas a favored destination for businesses looking to relocate. Some relate simply

CHART 6

Small Establishments Account for Most Moves but Fewer Jobs

Percent share of Texas in-migration, 2000–13



SOURCE: National Establishment Time Series database.

to the state’s traditional advantages—favorable business climate, central location, large size, accessibility to ports, diverse industrial structure and abundant energy resources.¹⁵ Other characteristics also work to Texas’ advantage: an ample supply of educated workers relative to many other states, a lower cost of living, less union activity and adherence to the federal minimum wage of \$7.25 an hour. Other large states, such as California and New York, enforce above-federal standards, with some local governments pushing pay floors even higher.¹⁶

Texas’ attractiveness in terms of lower tax burden is more of a mixed bag—the state imposes less onerous income and unemployment insurance taxes than most other states but relatively more burdensome sales and property taxes.¹⁷

Although some tax breaks may be unavoidable when competing for interstate relocations, evidence suggests that subsidies at best play a small role in affecting location choices, with few firms receiving subsidies.^{18, 19} Thus, the influence of Texas’ traditional growth advantages on relocation appears to predominate.²⁰

Moreover, job gains from startups and expansions of existing firms far outnumber those from interstate business relocations. Therefore, pro-growth

policies that improve a state’s business climate and encourage new business formation can be more economically efficient than programs designed to lure businesses from other jurisdictions.

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Notes

¹ “America’s Top States for Business 2018,”

CNBC, July 2018, accessed Dec. 14, 2018, www.cnbc.com/2018/07/10/americas-top-states-for-business-2018.html.

² For example, see “2019 State Business Tax Climate Index,” by Jared Walczak, Scott Drenkard and Joseph Bishop-Henchman, Tax Foundation, 2018, <https://taxfoundation.org/state-business-tax-climate-index-2018/>.

³ See “Who Creates Jobs? Small Versus Large Versus Young,” by John Haltiwanger, Ron S. Jarmin and Javier Miranda, *Review of Economics and Statistics*, vol. 95, no. 2, 2013, pp. 347–61.

⁴ A rise in property values is a sufficient condition for net welfare benefits to local residents. See “Bidding for Industrial Plants: Does Winning a ‘Million Dollar Plant’ Increase Welfare?” by Michael Greenstone and Enrico Moretti, National Bureau of Economic Research, NBER Working Paper no. 9844, July 2003.

⁵ See “Explore the Data” infographic, *New York Times*, <http://archive.nytimes.com/www.nytimes.com/interactive/2012/12/01/us/government-incentives.html>.

National Establishment Time Series Database Tracks Firm Mobility

The National Establishment Time Series (NETS) database, constructed by Walls & Associates and Dun & Bradstreet, tracks the characteristics and movement of about 60 million U.S. establishments from 1990 through 2014. Data showing firm movements are complete through 2013. Available establishment characteristics include location, employment, sales, industry, headquarters, and first and last years of operation.¹ Establishment characteristics are updated annually.

When an establishment relocates, NETS provides a move event record that changes its street address and ZIP code. A move event record includes location details pre- and post-move.

The NETS database covered 2.3 million Texas establishments, accounting for 15.2 million employees, in 2013. By comparison, the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) covered about 600,000 Texas establishments, involving 11 million employees in 2013.

The two counts differ in scope. QCEW captures jobs specifically covered by the unemployment insurance program; NETS captures a broader range of jobs. Establishments with relatively few years in business and/or low employee counts are more likely to be included in NETS.² NETS contains a collection of observed and imputed employment data.

Previous research has shown that NETS data are best suited for longer-term analyses, with a recommended horizon of at least three years.³ NETS annual employment numbers tend to lag official data. This is primarily because the NETS sample for a particular year reflects numbers as of January of that year. For instance, employment numbers in any month between February and December 2012 would count toward NETS employment for 2013.⁴

Notes

¹ For a detailed description of the NETS database, see "Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series," by David Neumark, Junfu Zhang and Brandon Wall, *Research in Labor Economics*, Emerald Group Publishing Ltd., 2007, pp. 39–83.

² See "Business Establishment Employment Data: NETS Versus ES-202," by Gary Kunkle, Business Dynamics Research Consortium, University of Wisconsin System, June 2011, <http://exceptionalgrowth.org/insights/NETSvsES-202.pdf>.

³ See note 1.

⁴ See "An Assessment of the National Establishment Time Series (NETS) Database," by Keith Barnatchez, Leland D. Crane and Ryan A. Decker, Opportunity & Inclusive Growth Institute, Federal Reserve Bank of Minneapolis, December 2017, www.minneapolisfed.org/institute/working-papers/wp17-29.pdf.

Also see "As Companies Seek Tax Deals, Governments Pay High Price," by Louise Story, *New York Times*, Dec. 1, 2012. For analysis of states' business incentives as a percent of value added, see "A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States," by Timothy J. Bartik, Upjohn Institute, February 2017.

⁶ See "Texas Business Incentives and Programs," Office of the Governor, Economic Development & Tourism, 2018, <https://gov.texas.gov/uploads/files/business/incentivessummary.pdf>.

⁷ "Texas Enterprise Fund, 2017 Legislative Report," Office of the Governor, January 2015–December 2016, https://gov.texas.gov/uploads/files/business/tef_legislative_report_.pdf.

⁸ See "Texas to Pay \$10,000 for Each Toyota Job," by Mike Ramsey and Joseph B. White, *Wall Street Journal*, April 28, 2014, www.wsj.com/articles/toyota-to-consolidate-u-s-operations-in-texas-hub-1398699006.

⁹ See "Fiscal Notes, Chapter 313: Attracting Jobs and Investment," by Olga Garza and Annet Nalukwago, Texas Comptroller of Public Accounts, April 2016, <https://comptroller.texas.gov/economy/fiscal-notes/2016/april/%20chap313.php>.

¹⁰ See "Update to Texas Economic Development Incentive, Comprehensive Summary Tables," Texas Comptroller of Public Accounts, 2014, <https://comptroller.texas.gov/%20transparency/local/docs/96-1453-update.pdf>.

¹¹ For some examples of companies getting the tax break, see "Incentives Draw Firms, but at What Cost?" by Michael Weiss, Federal Reserve Bank of Dallas, *Southwest Economy*, First Quarter, 2015.

¹² For empirical evidence, see "State Investment Tax Incentives: A Zero-Sum Game?" by Bob Chrinko and Daniel Wilson, *Journal of Public Economics*, vol. 92, no. 12, 2008, pp. 2,362–84.

¹³ For a summary of theoretical explanations for economic development subsidies, see "The Economics of Location-Based Tax Incentives," by Edward L. Glaeser, Harvard Institute of Economic Research Working Papers, no. 1932, 2001.

¹⁴ Data from Business Dynamics Statistics, Census Bureau, www.census.gov/ces/dataproducts/bds/, accessed Nov. 9, 2018.

¹⁵ "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes and Other Characteristics of States," by Timothy J. Bartik, *Journal of Business & Economic Statistics*, vol. 3, no. 1, 1985, pp. 14–22.

¹⁶ For more on state and local-level minimum wage laws, see "Minimum Wage Tracker," Economic Policy Institute, accessed Nov. 13, 2018, www.epi.org/minimum-wage-tracker/#/min_wage.

¹⁷ The Tax Foundation ranked Texas 15th in its 2019 State Business Tax Climate Index, <https://taxfoundation.org/publications/state-business-tax-climate-index/>.

¹⁸ See "Taxes and the Location of Production: Evidence from a Panel of U.S. Multinationals," by Michael P. Devereux and Rachel Griffith, *Journal of Public Economics*, vol. 68, no. 3, 1998, pp. 335–67.

¹⁹ Between 2007 and 2013, about 1,878 firms locating within Texas received a subsidy. The total includes all firms, not just those relocating from other states, <https://www.goodjobsfirst.org/>.

²⁰ For major drivers of faster economic growth in Texas relative to the nation, see "Why Texas Grows Faster: The Role of Smaller Government" by Jason Saving, in *Ten-Gallon Economy: Sizing Up Economic Growth in Texas*, ed. Pia Orrenius, Jesus Cañas and Michael Weiss, New York: Palgrave Macmillan, 2015.