

**Paper Presented to the
Texas Taxpayers and Research Association
October 29, 1996
*Updated 2007***

Tax Abatements (Tax Increment Financing) Work

- We should be talking about expanding, not reducing or limiting abatements for companies that create new wealth in the Texas economy.
- Since tax abatements have been used aggressively from the late 1980s to present, our state economy has become one of the strongest in the nation.
- The D/FW region has ranked first in corporate relocations over the past few years in national polls.
- Economist Dr. Ray Perryman, CEO of the Perryman Group, has said, “Giving firms temporary tax breaks often brings rich economic dividends.”
- In June of 1996, two Baylor professors, Dr. Thomas Kelly and Dr. James Henderson told state legislators that “local governments are using tax incentives wisely to keep growing companies in place and to attract new ones”.
- And, in August 1996 in a lead editorial, the Fort Worth Star Telegram said, “By all significant measures, tax abatements as a tool for economic development have served the community well (and) an overwhelming majority of Fort Worth residents surveyed on the 1996 Fort Worth Citizen Survey indicated they understand that.”
- In a 1998 random sample survey, 61% of Tyler/Smith County residents said they support the use of business tax abatements to retain and create jobs. (25% opposed and 13% had no opinion.)
- In Tyler, over the past 19 years we have done 34 abatements valued at \$365,990,000 that have created 4,072 new jobs and retained 5,919. (This includes the Target Distribution Center.)

- During that same period of time, the Tyler/Smith County economic growth indicators have been at all-time highs and targeted tax abatements have contributed to these results:

	<u>1990</u>	<u>2007</u>
✓ employment levels	70,883	93,595
✓ retail sales	\$1.28 bil.	\$2.87 bil.
✓ residential sales	1,019	2,370
✓ home values	\$70,551	\$171,119
✓ building permits	1,264	2,209
✓ expansion of the tax base	\$4.78 bil.	\$11.95 bil.

- Since 1990, the tax base has grown from \$4.7 billion to \$11.9 billion, while the overall tax rate has remained flat at the County and TJC, and has decreased at the City and Tyler ISD (as a result of the change in the state tax structure that allowed ISDs to lower the tax rates the past few years). Over 50% of the tax base growth has come from new improvements as opposed to increased valuations of existing property.
- Had we not achieved these outstanding numbers, those 25% opposed to abatements would have been the first to criticize. Even with those numbers, they were critical! Why? Because they do not believe abatements make a difference in corporate decision making, they also believe that abatements are unfair to small companies, that abatements pick winners and losers, take funds from our public schools, and shift the tax burden to others.

Let's examine that thought process:

- ◆ **Abatements do not make a difference. Tax rates are not important when companies make a site decision**

- Every corporate survey over the past five years has consistently shown cost of doing business, which includes tax rates, and available incentives are among the top five or ten factors when considering a local expansion or a satellite investment.
- Since Texas depends so heavily on ad valorem property taxes, abatements are an important consideration, especially for capital intensive firms.

¹ source – Smith County Appraisal District

◆ **Abatements pick winners and losers; we should not give special treatment to any sector of the economy**

- Ok, then let's eliminate the homestead credit, veterans credit, ag credits, and seniors (at age 65) tax freeze on school property taxes, and any other special interest group exemption.
- Unlike business tax abatements, these exemptions never come back on the rolls, and they do not stimulate any new investment in plant and equipment, nor do they save or create new jobs. As a matter of fact, since the ag exemption has been on the books, our state's ag industry has been on a consistent and steady decline.

◆ **Abatements help big companies and hurt small firms**

- First, most small companies are either suppliers to large companies or provide professional or retail services to the employees of larger companies.
- Secondly, one group that complains loudly about abatements is small retailers who are really the first to benefit with more customers and sales. In Tyler, they complain because they are not eligible for abatements. Our abatement policy is targeted to primary employers, i.e., those that bring new dollars into our local (Tyler/Smith County) economy. Retailers benefit from these new dollars, but do not generate them.

◆ **Abatements take taxes off the tax rolls and transfer taxes to others such as smaller firms and residences**

- Tax abatements cannot take existing taxes off the rolls. It is illegal under current state law. Abatements can only be used for new investment, i.e., value that does not currently exist.

- In Tyler, there has been no transfer to other taxpayers. As a matter of fact, our abatements have stimulated spin-off growth in the commercial and residential sectors (just like those who created the concept said it would) which has resulted in a growing tax base.
 - Since 1995, our City Council has lowered our property taxes by 61% from \$0.52 to \$0.204 \approx \$0.32. This reduction came as a result of a growing tax base and an additional ½-cent sales tax for city infrastructure.
 - It is true that many residential properties have increased in value and, therefore, their taxes have also increased. But that should happen in a strong economy. The alternative is the loss of value and, therefore, loss of equity in the most valuable asset many people will ever own.
- ◆ **Abatements provide incentives to new firms moving into a community and as a result, existing firms who have been providing payrolls, paying taxes, and contributing to the community are ignored**
- In Tyler, 32 of the 33 abatements approved have been for existing firms. Collectively, they have impacted over 9,200 jobs, i.e., 3,313 new jobs and 5,919 jobs retained. (These numbers do not include the Target Distribution Center.)
 - According to a 2005 summary by the Comptroller's office, 31% of abatements approved in Texas have been for existing companies, many of whom had options to expand in other states, but were encouraged, in part, by abatements to invest here instead of in some other state or country.
- ◆ **Some argue that abatements hurt our public schools**
- Economic developers will argue that without jobs, you will not have families who need schools.
 - In Tyler, our abatements have provided jobs for people who are unemployed. Their children were already in the schools. Now they have better paying jobs and can better afford to own property and pay school taxes.

- Furthermore, since abatements stimulate other investments in the commercial and residential sectors, there is an expanding tax base to support our vital public school system.
- And most importantly, unlike ag, veterans, senior homestead, and other permanent abatements, targeted industry abatements “phase” back on the tax rolls.
- Abatements only hurt public schools because the Texas Education Agency penalizes schools for participating in local abatements. This was done because the state incorrectly contends abatements take existing taxes off the rolls. (Again, this is illegal.)
- By restricting schools from doing abatements, the state has made it more difficult for poor school districts to compete for new investments and has discouraged new investments in other wealthier districts. If these richer districts had been able to attract more investment, they could have contributed more to the “Robin Hood” fund.

◆ **Finally, critics say companies would have done the project anyway**

- This may be true in some situations, but in most cases companies do have options.
- As long as other states like our neighbors offer tax credits and tax abatements, Texas would be at a real disadvantage if we did not have this option.
- For example, Target Stores, based in Minneapolis, Minnesota, in 1998 opened a 1.7 million square foot distribution center in Smith County between Tyler and Lindale that soon employed 1,000 people. Previously, they had served Texas from Arkansas and Colorado. Tax abatement and tax increment financing provided important incentives to encourage them to build their new \$73 million facility in Texas rather than stay where they were. These incentives played a vital role in Target’s decision-making process.

- The attached Exhibit A shows how the local taxing entities will benefit even as they wait for the ten-year Target tax abatement period to expire.
 - ✓ The 150-acre site paid \$240 in annual property taxes before Target moved to Texas.
 - ✓ During the ten-year abatement on the building and some equipment, the five affected taxing entities will collect \$15 million in other real and personal property taxes and inventory taxes not included in the abatement contract.
 - ✓ After the ten-year abatement, total annual taxes to the five jurisdictions will be approximately \$2.6 million.
 - ✓ The projected annual new retail sales tax revenue related to purchases by the Target Distribution Center is estimated to be \$30 million. That will generate approximately \$600,000 per year in local sales tax receipts (\$30 million x \$0.02 local sales tax rate).

Local elected officials understood that, before Target located in Smith County, local taxing entities were receiving none of these revenues. They also understood that 950 of the 1,000 employees would be local hires. Therefore, no new schools, streets, police or fire expenditures would be required because of Target. Those 950 local hires already lived in the area and were already receiving these public services.

Summary

Yes, abatements have worked extremely well and should not be restricted. As long as communities use abatements to stimulate investments by firms that export goods or services and bring “new” dollars into the local economy, the state should not interfere.

Also, abatements must be strictly enforced so that contracts signed with local firms are monitored and companies are penalized for non-compliance.

Abatements are a brilliant economic development tool because they require no up-front payments by the public sector, are performance-based, and when properly targeted, create new wealth in the economy, which supports workers, schools and small companies alike.

**TARGET DISTRIBUTION CENTER
TAX IMPACT
November 2007**

- 1.7 million sq. ft. building
- 1000 jobs - est. \$21 million annual payroll
- building value \$31.6 million
- equipment value 26.5 million
- inventory 34.6 million
- land 4.2 million (from \$236,000)
- incentive package 14.8 million over 10 years

TAX IMPACT

City of Lindale Property Tax Base – Tax Base has quadrupled+

- before Target 1997 \$74 million
- after Target 2007 338 million
- **gain of \$264 million**
- increase represents an average annual growth rate of 16.4%
- \$57 million still being abated until 2009
- Tax rate remained the same or decreased all but one year 1997-2006

City of Lindale Sales Tax Receipts (1.5¢) have quadrupled

- before Target 1997 \$436,000
- after Target 2007 1,806,040
- **gain of \$1,370,040**
- increase represents an average annual growth rate of 15.3%

Lindale ISD - Property Tax Base has tripled

- before Target 1997 \$333 million
- after Target 2007 1,056 million
- **gain of \$723 million**
- increase represents an average annual growth rate of 12.2%