

Sapped by Subsidies

Section 313 deals hurt Texas cities

A section of the Texas tax code is set to expire this year. That doesn't excite you?

Let us rephrase it. A section of the Texas tax code that is used by local governments as lure to attract corporate relocations but that often ends up pitting city against city and school district against school district is set to expire.

Based on hearings last week, there will likely be calls to reinstate it in the next Legislature. That would be a mistake.

Chapter 313, passed into law as the Texas Economic Development Act, allows local taxing entities like independent school districts to offer tax incentives. Since it began in 2002, the program has grown so that now it accounts for almost \$1 billion in tax breaks, with hundreds more companies rushing to apply before the program ends. According to a June 30 report from the Texas Comptroller's office, there are 633 active Section 313 deals worth a potential \$17 billion.

The idea here is sound: Give school districts a tool for growing their tax base. But it isn't working. With no cap on them, tax abatements have become an arms race.

In 2015, Gov. Greg Abbott complained that each job created by this program cost taxpayers \$341,000. Using Abbott's calculation, the *Houston Chronicle* updated the numbers last year: now every job created by a 313 incentive costs \$1.1 million, the paper reported.

What's more, a 2018 study by the W.E. Upjohn Institute for Employment Research found that 313 incentives were the deciding factor in fewer than 25% of relocations, meaning three-quarters of the time, the relocation would have happened anyway. Taxing districts are leaving money on the table and cities are fighting cities in a game that actually hurts their residents and students.

Proponents of resurrecting 313 say Texas should do everything it can to attract jobs and corporations. In testimony before the House Ways and Means Committee last week, one lobbyist prophesied that the effects of losing 313 would be "devastating." But in many cases, the choice is not between attracting a company to Texas or failing to do so. The choice is between attracting a company to Taylor or Round Rock; Sherman or Plano.

That highlights another problem: 313 favors districts where it's easiest to acquire land and build facilities. In an analysis by Dallas Area Interfaith, the losers under 313 are large urban school districts like Dallas ISD.

In broad terms, 313 deals shift the statewide tax burden away from corporations and toward private property owners. That's troubling in a state that already ranks among the worst for taxing homeowners. According to a 2020 analysis by the Tax Foundation, the amount of property taxes paid as a percentage of owner-occupied housing value is 1.66% in Texas — the sixth highest in the nation.

This newspaper has trumpeted the "Texas Miracle" on many occasions, often calling for our state to protect the pro-growth environment that has led to prosperity for many Texans. We meet with business leaders regularly who tell us that Texas has something special, and that we should work hard to keep it going.

But 313 deals aren't what's selling Texas. They are only one piece of our low-tax, low-regulation environment and our great workforce that are drawing businesses here.

We need to let 313 fade away, so cities stop taking money from homeowners' pockets to lure companies that are coming here anyway.