Chapter 313: Looking at the Facts

Texas' most important economic tool is about to expire!

Chapter 313 of the Tax Code allows school districts to offer a temporary exemption (partial discount) for certain new investment projects against school taxes for maintenance and operations (M&O portion of tax rate). It must be renewed by the 87th Legislature or the program will expire.

Economic incentives are essential to attract manufacturing industries to Texas. Here's why:

- Absent a personal income tax, Texas relies heavily on property taxes to finance our schools and local governments.
- For a manufacturing plant, Texas' property taxes are 65% higher than the national average, third highest in the nation (Lincoln Institute of Land Policy).
- Companies have many choices about where to build new facilities and will almost always go where the cost of operations is lowest. Texas' high property taxes are a huge part of on-going costs, Absent incentives, Texas cannot compete for new projects.

The FACTS About Chapter 313 and School Finance

✓ **School districts do not "lose" money under a Chapter 313 agreement!**

During the partial exemption period, the district collects more in property taxes for maintenance and operations (M&O) because a portion of the project's value goes onto the tax rolls (where there was no prior tax value). Further, school districts can cut their debt service (I&S) tax rates, as the new value the project adds to the local tax base is <u>not</u> <u>exempt</u> from the debt portion of the tax rate under Chapter 313.

✓ **Chapter 313 agreements don't cost the state anything. They actually <u>save</u> the State money!**

An applicant must demonstrate that the partial exemption was a determining factor in the decision to invest—no exemption, no project. Further, the state Comptroller must determine that the project will generate more new taxes for the state than the benefit the taxpayer receives.

The state actually saves money from 313 projects, as it reduces state aid to the district by the amount of additional property taxes the project pays. For example, if a school district collects $1 million in new M&O taxes during the partial exemption period of a 313 project, the state cuts aid to the district by $1 million to preserve equity.

✓ **Win-Win!**

The industry taxpayer wins by paying a property tax bill that is initially competitive with that of other states, and Texas wins by attracting new jobs and tax wealth it would not have gained otherwise!

(See reverse side for how Chapter 313 works)

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How Chapter 313 Works to Benefit Schools and the State

Under a Chapter 313 agreement, a school district temporarily (no more than 10 years) limits the taxable value of a new project, up to a maximum limit of $100 million. The limit does not apply to debt service taxes—only to taxes for maintenance and operations (M&O). Though it is up to the school district to grant the 313 limitation, the Comptroller must first find: 1) the limitation is a determining factor in the company's decision to invest in Texas, and 2) the amount of new taxes the project brings to Texas is greater than the amount of property taxes the project saves.

Here's a simplified example of how the program works:

XYZ Manufacturing gets approval from Tejas Independent School District (ISD) for a $100 million, 10-year value limitation for a new $1 billion plant it wants to build. Once built, the school district applies its M&O tax rate to the $100 million on its tax roll and collects an additional $1 million in new property taxes. State formulas see the district as "wealthier" in terms of property value and reduces state aid to Tejas ISD by that same $1 million. Far from losing money from the 313 agreement, the state saves $1 million!

After 10 years, the limitation expires, and the project goes onto the M&O tax rolls at full value. At this point, XYZ pays $10 million annually in school M&O taxes, and the state reduces formula aid to Tejas ISD by that same $10 million.

Critics claim that had the limitation not been in effect, XYZ would have paid $10 million annually in M&O taxes and the state could have cut aid to Tejas ISD by that amount in each of the first 10 years of the project. However, XYZ would not have built the plant in Texas without the limitation—a fact it had to prove to the Comptroller.

Texas essentially had two alternatives: 1) offer XYZ a temporary discount on its property taxes and save $1 million annually for a limited period of time, or 2) allow no discount, and watch the XYZ build in another state.

Even during the tax abatement period, XYZ will be one of the largest taxpayers in the school district. The community benefits from: 1) the new jobs at the plant, as well as job ripple effects of a multiplied job base, and 2) an immediate increase in tax wealth—not just from the XYZ plant, but also from the new, non-exempted suppliers and support facilities that provide materials and services to the XYZ plant. According to the U.S. Department of Commerce, every job in manufacturing creates an additional three to four jobs—not just company contractors, but additional construction, service and supplier jobs within the community.

Further, local taxpayers saved money from XYZ locating in their school district. The limitation does not apply to debt service taxes. Thanks to the value XYZ added to the tax rolls, Tejas ISD was able to cut its debt service tax rate immediately while still meeting its full debt service obligations.