CHAPTER 313 SCHOOL TAX ABATEMENT – FACT vs. MYTH

Texas' Most Important Economic Development Tool Expires in 2022!

Chapter 313 of the Tax Code allows school districts to attract new major industrial development projects by offering a <u>temporary and partial</u> tax exemption against a portion of their school property tax bill. Given Texas' high property taxes, Chapter 313 is the state's most important economic development tool to <u>attract new investment, grow local tax bases, and create new jobs!</u>

Misconceptions about Chapter 313 abound. Here are the major myths commonly shared about the program with the corresponding facts:

<u>MYTH:</u> "These companies are coming here regardless, so Texas doesn't need to offer any incentives."

<u>FACT:</u> There are many reasons for businesses to invest in Texas: available land at reasonable cost, rational regulatory and judicial environments, central location, right-to-work protections, and affordable energy resources, among others; however, Texas is a high tax state for industrial businesses. Our property taxes are the third highest of any state and are 65% higher than the 50-state average. Still, 313 awards are not automatic. Chapter 313 requires the Comptroller to verify that the partial exemption is a <u>determining factor</u> in bringing the industrial project to Texas—no 313, no project. <u>Absent a 313, these projects and the dollars they bring will go elsewhere!</u>

<u>MYTH:</u> "Chapter 313 agreements cost the State money."

<u>FACT:</u> On the contrary, Chapter 313 projects actually make money for the state! As stated above, a project must demonstrate that it won't invest in Texas without a 313 limitation. Even then, 313 only allows a *partial* discount against school maintenance and operations taxes on the facility. Companies still pay a sizeable property tax bill (adding in taxes on inventories and <u>all</u> school debt service taxes). Plus, projects pay 100% of all sales, franchise and other taxes—taxes the state would not have collected absent the limitation. New projects are also economic magnets, attracting support facilities that are not eligible for a 313. **For every $1.00 spent in manufacturing, another $2.74 is added to the economy. That is the highest multiplier effect of any economic sector. In addition, for every one worker in manufacturing, there are another five employees hired elsewhere.** (Source: Nat'l Association of Manufacturers 2018 IMPLAN data). A new project makes the school district "wealthier," allowing the state to reduce its aid payments to the district.

<u>MYTH:</u> "School districts lose money under Chapter 313."

<u>FACT</u>: Even during the partial exemption period, <u>school tax revenue starts growing immediately</u> because of new tax value from the investment project. School tax rates consist of two parts – Maintenance & Operation (M&O) and Debt Service (I&S). The I&S rate is used to finance construction of school buildings and other long-term debt and CANNOT BE EXEMPTED under Chapter 313. That new tax revenue is immediately available to the school district (ISD). Plus, many projects provide additional funding to local schools through supplemental and revenue protection payments.