

**A Study to Describe the Opinions and Attitudes on  
Tax Abatements from County Judges in Texas**

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# **A Study to Describe the Attitudes and Opinions on Tax Abatements from Texas County Judges in Texas**

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One primary goal of economic development programs is to help communities attract or retain **businesses** considered vital for economic stability. Many state and local governments offer tax abatements as a major form of economic development policy. Tax abatements exempt taxpayers **from** taxes for a designated time period and can include the entire amount or a partial amount owed.

Offering **tax** abatements is logical since property returned to tax rolls generates income for local taxing entities. Because local government officials are hesitant to raise taxes or cut **services**, they frequently examine ways to expand their taxing jurisdiction's tax bases by recruiting new businesses.

Professional literature assesses current economic development programs, such as economic incentives and tax abatements. **Unlike** the careful analyses performed on whether tax abatements enhance economic development, few studies have chronicled and analyzed attitudes and opinions of officials making decisions.

The purpose of this research project is to: (1) examine economic development policies, but more specifically property **tax** abatements and (2) to describe **Texas** county judges' attitudes and opinions about tax abatement decisions. Texas county judges are a crucial component of the process since they decide tax abatement issues.

This report is designed to close some gaps in the literature of state and local government officials opinions on tax abatements. A self-administered questionnaire was

used to survey Texas county judges. **Sixty** judges were selected **from** 254 Texas counties based up the population of the jurisdictions in which they serve. The represent counties with the largest populations and were selected non-randomly because larger counties are more likely to offer **tax** abatements than smaller counties.

Simple descriptive statistical analyses were used to quantify the survey responses. The **frequency**, percentage, and mode of each question was calculated. The mode determined the respondents' overall perception for each statement.

Most scholarly literature on economic development policies includes three main areas: economic factors, political factors, and locational factors. Economic factors address with the **financial** reasons abatements are offered. Political factors include local government's decisions on whether to offer tax abatements, to whom abatements should be offered, and what amounts are abated. Political factors also deal with the public's approval of those elected officials deciding whether or not to **offer** abatements. Finally, locational factors deal with local government's struggles to maintain, expand, or recruit new business.

This survey of Texas county judges indicates that officials in positions to offer abatements are aware of ramifications brought by such decisions. Most opinions expressed by the judges are corroborated in **current** literature. **Officials** feel compelled to offer incentives to expand tax bases, and do so in **large** part, because of political and economic advantages. Officials agree abatements do not erode tax bases; however, they also understand that more effective and less costly economic development tools are available.

**This research project is not conclusive; however, it does provide insight into some of the economic, political, and locational factors affecting Texas county judges opinions on tax abatement issues.**

**Keywords: Tax abatements, economic development, Texas county judges opinions**

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## Chapter 1: Introduction

Many state and local governments offer incentives to attract and retain business within their jurisdictions. There is a veritable alphabet soup of economic development programs available. Those Programs include tax increment finance districts (**TIFs**), tax abatement programs (**TAPs**), historic preservation sites (**HPs**), empowerment zones (**EZs**), enterprise communities (**ECs**), enhanced enterprise communities (**EECs**), reinvestment zones (**RZs**), and environmental opportunity zones (**EOZs**).<sup>1</sup> Each of these different economic development programs have slight variations in the rules and procedures used to apply them, but the purpose of **all** of them is to stimulate economic growth and development.

State and local budget dollars are stretched tighter than ever. Local officials have the option of using many **different** tools that will lower business cost, in turn, spurring economic growth (Bowman, 1996:1). Some past development strategies that were used include establishing economic development agencies, advisory boards, and councils; and forming partnerships with universities and the private sector (**Burnier, 1991:171**).

The primary goal of economic development programs is to help communities attract or retain businesses that are vital for economic stability. Businesses that are recruited through these programs provide employment opportunities to the community as well as increase the tax base. This increased tax base helps pay for local infrastructure, which **includes** services like **fire** and police protection, building and maintaining roads and bridges, and paying for public education.

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<sup>1</sup> For a definition and explanation of the above projects see the attached *glossary*.



A major form of economic development is tax abatements. The Texas Research League (1994:7) describes abatements as "controversial." From where does this controversy stem? "The high **visibility** and political expediency of select tax **abatement** projects help explain the incentive's popularity among local policy makers." But the question remains, are they effective and equitable?

Economists and community development experts continue to debate the extent to which tax abatements and other incentives influence business relocation or expansion decisions, while some taxpayers are concerned about unfair **shifts** in tax burdens and their possible negative **impact** on public **service**.<sup>3</sup>

According to David Swenson and **Liesl Eathington** (1998:4), the **impact** of abatements continues to create much discussion in the field of economic development. When assessing the impact of abatement programs, it is important to examine **all** aspects of abatement **programs**. It is also important to remember that abatement agreements apply not just to city taxing authorities but also to other taxing units within a jurisdiction. These jurisdictions include, but are not limited to, taxing authorities for counties, schools, and community colleges.

During the last two Texas legislative sessions, over **127<sup>4</sup>** bills have passed that are directly related to property tax laws in Texas. This has been in part due to Governor George W. Bush's **promises** for property **tax** relief; tax relief demanded by taxpayers. If **asked**, however, most taxpayers' paying property taxes claim they have seen little or no tax relief.

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<sup>2</sup> The Texas Research league was a taxpayer public policy group who targeted economic and fiscal policy issues to improve the business climate of the state. On January 1, 1996, the Texas Research League became part of the Texas Taxpayers and Research Association (TTARA). TTARA focuses on economic, fiscal, and public policy issues. They investigate and analyze the use of public resources, and educate their membership, the general public, and public officials on the results of their investigations (The Texas Research League, pg. 7).

<sup>3</sup> The Texas Research League, pg. 8.

<sup>4</sup> Information supplied by the Texas State Comptroller of Public Accounts-Property Tax Division.

Perhaps more immediate than legislation, abatements on property taxes have an impact on local governments and the taxpayers within these taxing jurisdictions. When property taxes are abated for any reason, all other taxpayers within the jurisdiction end up paying taxes on any abated amounts.

## **Purpose**

State and local governments continue to offer a wide range of often-costly incentives in order to retain and attract business. **Lynn Bachelor (1997:704)**, reports that existing evidence shows incentives have little influence upon the location of economic activity.

Why, despite criticism and evidence of the **ineffectiveness** of local economic development incentives, do public officials continue to offer subsidies and other **forms** of assistance to encourage business **investment**?<sup>5</sup>

Incentives are offered to attract or retain new business. Both the scope and range of incentives offered continues to grow. **Larry Ledebur** and Douglas **Woodward (1990:221)** state that with the escalation of incentive awards, state and local government officials are voicing major concerns about **expanding** state and local economic development policies.

Current professional literature provides assessments of economic development programs and other economic incentives, such as tax abatements, that are offered. Unlike the **careful** analysis **performed** on whether tax abatements enhance economic development, few **studies** have chronicled and analyzed the attitudes and opinions of local **officials** who make these decisions. Delysa **Burnier (1992:14)** offers it is possible that government officials feel forced to offer economic development incentives to stay competitive in the economic

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<sup>5</sup> Lynn Bachelor, "Regime Maintenance, Solution Sets, and Urban Economic Development" June 1994, pg. 5%.

development field. Burnier (1992:15) continues, economic incentives are not the only factors considered when **firms** make decisions about where to locate. Political, economic, and **locational** factors are often more important.

This can be seen as the product of three factors: (1) the uncertainty and insufficient information that characterize economic development **policymaking**; (2) the presence of 'policystreams' in which solutions become attached to problems through the actions of political entrepreneurs ...; [and] (3) the maintenance needs of a governing coalition that promote the institutionalization of a policy that serves the interests of regime **members**.<sup>6</sup>

Burnier acknowledges, however, when **all** other factors are equal, economic development policies and incentives can have an effect on businesses' location decisions.

There is a gap in the tax abatement literature. This gap exists because there is very little systemic information about the attitudes and opinions of public official's economic development policy. Kevin **McKethan's** study of city officials concerning their opinions on tax abatements is a notable exception. This study builds **on** earlier work of McKethan because it describes the opinions and attitudes of 60 Texas County Judges on the granting of property **tax** abatements.

The purpose of this research project is to: **(1)** examine economic development policies, but more specifically property tax abatements and **(2)** to describe the attitudes and opinions of Texas county judges about tax abatement decisions. McKethan (1997) noted, there are surveys reflecting corporate executive's opinions on tax abatements, but there is a gap in the literature of state and local government official's opinions on **tax** abatements.

This study is a follow-up to one performed by Kevin McKethan in **1997**. McKethan administered his questionnaire to city leaders in Texas. This study extends the findings to

local county judges, another key set of Texas policy makers who are responsible for making tax abatement decisions.

## Chapter Summaries

Chapter 2, the Settings Chapter, **furnishes** a history of abatements on a national level and Texas in specific. A Literature Review in Chapter 3 summarizes the available professional literature surrounding tax abatements specifically and their place in economic development theories in general.

Chapter 4 details the projects conceptual **framework** and how the survey instrument is **connected** to the literature dealing with tax abatements. This also includes the strengths and weaknesses of a survey as a research methodology. Chapter 5 describes the survey results. Chapter 6 concludes the paper with an **overview** of study findings and suggests possible research.

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<sup>6</sup> Lynn Bachelor, "Regime Maintenance, Solution Sets, and Urban Economic Development." June 1994, pg. 5%.

## Chapter 2: Settings Chapter

### Purpose

The purpose of this chapter is to furnish a history of abatements on a national level and in Texas. Abatements are the outgrowth of economic development policies that had their origin traced back to the state of Mississippi in the late 1930s. These policies continued successfully until the Post World War II period.

At the beginning of the 1980s, there was a decline in the national economy, which in turn affected state and local governments. At the same time, Texas was beginning to experience its own budget problems because of falling oil prices.

### Growth of Economic Development

What can truly be termed the beginning of state economic development programs was the Mississippi Balance Agriculture With **Industry** Program (**BAWI**) of 1936 (*Forces of Change: Shaping the Future of Texas*, 1994:134). The strategic development of this program was to entice manufacturing plants from Northern states with both high land and labor costs to Mississippi. The program marketed the low costs of land, labor, living, and government in Mississippi. "The state augmented already advantageous production costs with government subsidies in the **form** of direct financing or grants raised through the issuance of tax-free bonds, tax abatements, or customized training."

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<sup>7</sup> Texas State Comptroller. "Forces of Change. Shaping the Future of Texas" 1994, pg. 134.

Replication of this recruitment strategy throughout the South in the **post-**World War II period was quite successful in attracting some industries. In particular, cost-sensitive industries with standardized product practices were susceptible to this era of smokestack chasing that lasted into the early 1970s. At this time, two events merged which began a process of change in the way economic development should be done.<sup>8</sup>

First, Northern states began to enter the bidding war for relocation. Second, the book *Job Generation Process* by David Birch **redefined** how economic growth occurs and how economic development could improve this process. Birch saw growth as the result of six processes paralleling demographic change: birth of new firms, death of existing firms, on-site expansion of existing firms, contraction of existing firms, and out and in-migration of firms from an area. "Specifically, over the long term, state economic development policy needs to focus on promoting business births and expansions, and mitigating deaths and contractions, while placing much less emphasis on attracting new firms from outside the **state**."<sup>9</sup> Birch's book could be seen as **instrumental** in how the government and business communities looked at economic growth, and how this in turn could aid in the economic development process.

National-state relations changed during the 1980s. According to Burnier (1991:174), the national government was stepping away from its traditional role **as** lead policy **maker** in economic development initiatives. States were forced to assume the role of policy **maker** and they began to scramble for economic growth. This scramble for economic growth was seen as a zero-sum game, and **many** local government officials thought federal legislation was needed to intervene on policies that pitted state against state,

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<sup>8</sup> Texas State Comptroller. "Forces of Change, Shaping the Future of Texas." 1994, pg. 134.

<sup>9</sup> Texas State Comptroller. "Forces of Change," Volume II, Part 1, 1994, pg. 135,

## Overview of Economic Development Policy on the National Level

A nation wide local **property** tax revolt began in California in the late 1970s with Proposition 13, organized to reform property tax policy. At that time, property values rose with **inflation**. Incomes of homeowners *grew* slower. Many citizens viewed the **inflation** windfall of local government as unfair. **Citizens** throughout the country organized to reform state and local **property** tax policy. One common change included placing limits on the growth of municipal **spending** and taxation. Ann Preston and Casey Ichniowski (1991:134), address growth limits, especially limits placed on the growth in property tax levies. Hence, state and local governments were forced to reduce the role property taxes played in their budgets. Helen Ladd (1991:477) reported that during the early to mid 1980s the federal **government eliminated**, cut, or consolidated federal aid into block grants. **Programs** previously **funded** under categorical grants lost a secure **funding** source. This aid was for many of the intergovernmental programs that were introduced in the early 1960s and expanded during the 1970s. **As** a result, state budgets were squeezed because there were cuts at both the federal and local levels. In order to expand shrinking budgets many local government officials looked to expand their tax bases by **recruiting** new business into their areas.

Economic instability led state and local governments to step up their **competition** for economic development by attracting new business to their location.

Aside, from increasing direct public spending on **infrastructure** development, governments have increasingly turned to tax subsidies, abatements and credits to spur economic growth. This practice, in turn, has led to the creations of economic development 'zones' across the U. S.<sup>10</sup>

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<sup>10</sup> Texas State Comptroller. "**Fiscal Notes**," January/February 1998:6.

During the 1980s economic development "zones" were a federal intergovernmental tool to combat sluggish local economies. State and local **governments realized** that it would be necessary to establish policy priorities for local governments because of the downturn in the economy.

**Burnier (1998:385)** cites various reasons for increased economic development, ranging from chronic local economic distress, a national recession, increased capital mobility, corporate downsizing, and reductions in federal urban aid. In response to this economic downturn on the national level, many local **governments** turned to economic development, especially the growth approach, as a means to generate both new jobs and revenue. The growth approach brings private investment into a community. It was thought private investment would **affect** the whole community and ultimately benefit **all** residents. To help **ease** straining state and local budgets, the federal government began to take steps to help distressed communities.

Congress updated the federal version of enterprise zones in 1993 (Fiscal Notes, **1998:6**). The legislation was designed to provide **economically** distressed communities with tools and incentives to foster economic growth and revitalization. In addition, programs were intended to encourage economic opportunity for small businesses, ~~sustain~~ economic planning, encourage public-private partnerships, and promote strategic planning.

According to Haron Battle **(1998)<sup>11</sup>**, along with the federally mandated changes to enterprise zones, there was also authorization for empowerment **zone/enterprise** programs. Initially, there were three rural **empowerment** zone designations along with 30 rural enterprise

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<sup>11</sup> **Haron N. Battle, "NACo Wants More Rural Enterprise Areas."** National Association of Counties. **County News Online** Homepage, July, 1998:<<http://www.naco.org/pubs/cnews/98-07-06/rural.htm>>. Haron N. Battle is the associate legislative director for the National Association of Counties.



communities (**See Glossary**) and this included an unspecified number of urban areas. Jared **Hazelton** (1996:1) reported that ad valorem property tax abatements were used; with the goal of attracting new industry and encouraging expansion of existing businesses. By 1993, 41 states offered tax exemptions or moratoriums for investment in equipment and machinery, while 36 states offered these incentives for land and capital improvements.

"In 1994, the federal government designated 71 urban areas and 33 rural areas as empowerment zones or enterprise communities, and another six cities as supplemental empowerment zones or enhanced enterprise communities."<sup>12</sup> Congress instituted a 10-year program that would provide these areas with \$1.3 billion in grants and make them eligible for various tax credits and incentives. This included credits on wages paid to enterprise zone residents, the zones became eligible to issue tax-exempt bonds and were allowed increased deductions for depreciation in the zones. All measures designed to stimulate economic development.

The next major piece of legislation that was passed was the federal Taxpayer Relief Act of 1997 (Battle: 1998).<sup>13</sup> This made changes to the empowerment **zone/enterprise** program and authorized a second round of the program. This time the program was limited to 15 urban areas, five rural empowerment **zones**, and no new rural enterprise communities were authorized. These decreases were because of the reduction in the amount of aid allowed. These expansions and changes in federal legislation **filtered** down to the state level. It is important to **see** how local communities, in states such as Texas, parallel the federal experience.

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<sup>12</sup> Texas State Comptroller, "Fiscal Notes," January/February 1998, pg. 6.

<sup>13</sup> Haron N. Battle. "NACo Wants More Rural Enterprise Areas." County News Online Homepage, July, 1998: <<http://www.naco.org/pubs/cnews/98-07-06/rural.htm>>.

## Texas History of Economic Development and **Tax** Abatements

In the state of Texas, there are no state property taxes, although the Texas Constitution authorizes local governments to levy property taxes. These taxes are levied by counties, cities, school districts, and special districts such as junior colleges, hospitals, rural fire districts, and flood control districts. School property taxes represent almost 60 percent of all property taxes levied. If a **business** or an individual receives an abatement of their school property taxes, this constitutes a 60 percent reduction in property taxes. In Texas, the majority of property taxes go to subsidize education through the form of property taxes paid to school districts, **making** school tax abatements even more valuable.

Tax abatements are popular but at the same time are controversial and the rules that govern them have changed considerably over the **years**.<sup>14</sup> The amount of local property taxes levied are important to the state because this determines how much state aid is needed to support public **education**.<sup>15</sup> If one taxing jurisdiction grants large property tax abatements this **affects** the distribution of state aid. If disparities in abatements are great, this could cause taxpayers in one jurisdiction to pay for abatements granted in another jurisdiction. Changes in school **funding** formulas would need adjusting, however, other changes were also occurring.

Even before the federal government took action to **ease** straining state budgets in general by looking at economic development programs, Texas was already having financial problems due to declining oil **prices**. Due to declining revenues for state and local governments, the property tax system was overhauled in the **late 1970s**.<sup>16</sup> The economic atmosphere was changing in Texas. The state economy, which had previously been dependent

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<sup>14</sup> "**Interim Report on Economic Development Incentives**," July 1996, pg. 31.

<sup>15</sup> Texas State Comptroller, Windows on State Government website,  
<http://www.window.state.tx.us/taxinfo/incidence/proptax.html>.

on oil revenues, could no longer function solely on oil revenues. New sources to pay for state **and** local government service would have to be found.

## Continuing Economic Changes

Billy Hamilton, Chief Deputy Comptroller of Public Accounts of Texas (*Fiscal Notes*, 1995:17)<sup>17</sup>, reported that the Texas economy took a downturn in **1982** because of falling oil prices which undermined the **stability** of the state tax system. Falling oil prices, which was the primary source of state revenue, produced a decade-long struggle with state finances. Texas had gone for **13** years without a major tax bill and Hamilton reported that changes to the tax base needed to be made. In Texas, on the local level, the over-reliance on property taxes has led to a heavy burden on both businesses and homeowners, with property taxes being the main tax levied against businesses.

Generally, in Texas, state and local tax burdens fall more heavily on low- and moderate-income citizens. According to Hamilton, in **1992** Texas' **overall** tax burden ranked Texas **31<sup>st</sup>** among the **50** states. The per capita property tax burden of **\$731** ranked Texas as **17<sup>th</sup>**.<sup>18</sup> Since the July **1994** issue of *Fiscal Notes*, The **Texas** State Comptroller's office has annually published, Texas: Where We *Stand*, which reported a steadily increasing per-capita state and local property tax revenue burden rising **from \$750 in 1993, to \$753 in 1994, to \$758 in 1995.**

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<sup>16</sup> Billy Hamilton, "Fiscal Notes," August 1995, pg. 17.

<sup>17</sup> Billy Hamilton has served in that capacity since 1991, with a brief venture into public service from February 1998 to January 1999. Hamilton is responsible for the day-to-day management of the Comptroller's office. The Comptroller is Texas' chief fiscal officer responsible for state tax administration, statewide financial management, and state treasury operations.

<sup>18</sup> Billy Hamilton, "Fiscal Notes," August 1995, pg. 17.

## The Texas Property Redevelopment and Tax Abatement Act

**With** the changing economic atmosphere in the state, changes were made in assessing and collecting property taxes. Following is a chronicle of the Property Redevelopment and Tax Abatement Act with **highlights** of the legislative changes **from** 1981 to the present.

### The Act

Dropping oil prices in Texas and the state's overreliance on oil revenues, found Texas **needing** to stimulate a lagging economy. In 1981, Texas voters approved a constitutional amendment know as the Property Redevelopment and Tax Abatement Act (the **Act**)<sup>19</sup> (Chapter 312 of the Texas Tax Code, V.A.T.C.). This legislation included simultaneous approval of a constitutional amendment that enabled the use of tax abatements as a development tool (Article 8, section I-G, Texas **Constitution**).<sup>20</sup> **Hazelton (1996:1)** reports that new abatement provisions provided local governments with the **ability** to grant abatements for either new facilities or structures, or for the expansion or modernization of existing **facilities** and structures. Other key components included limiting abatements to blighted areas, **authorized** abatement periods for up to 15 years, authorized abatements for real property only, authorized abatements of existing values, and required county, school, and special district participation in municipal tax abatements. ''

The **Act** also authorized implementation of reinvestment zones. **All** of these measures were intended to stimulate local economies by attracting new **businesses** and encouraging the growth of existing ones. In Texas an enterprise zone designation is eligible for a wider variety

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<sup>19</sup> "Interim Report on Economic Development Incentives." Jdy 1996, Appendix Six.

<sup>20</sup> "Interim Report on Economic Development Incentives." Jdy 1996, pg. 29.

<sup>21</sup> "Interim Report on Economic Development Incentives." July 1996, Appendix Six,

of state and local incentives and is obtained through a state-administered application and approval process. A reinvestment zone is done through a local ordinance or resolution. When an area is designated as an enterprise zone this automatically constitutes the area as a reinvestment zone. There are no other actions or procedures required, per Section 312.2011 [Texas Tax Code], provided the **taxing** unit has adopted the required guidelines and **criteria**.<sup>22</sup>

### **68<sup>th</sup>** Legislative Session—Changes in 1983

The initial legislation that authorized the Act was passed during the **67<sup>th</sup>** legislative session. From the **68<sup>th</sup>** legislative session forward changes in tax abatement agreements and subsequently school funding formulas would begin a process where the requirements and conditions of abatement agreements would change with almost every legislative session.

Prior to **1983**, school **districts** were required to **grant** abatement agreements that were identical to the taxing jurisdictions **in** which they were located. The Texas Association of School Boards had lobbied against mandatory participation provisions, but failed in their initial efforts. In **1983**, the law **was** amended to allow school **districts** the option of granting identical abatement agreements. However, if a school district did not **grant** the same tax abatement agreement the **taxing** jurisdiction granted, the school **district** could then be required to grant an abatement agreement it had already declined. Not only could the school district be **required** to grant the abatement agreement that matched the **taxing** unit's agreement, now it would be granted for twice as **long**.<sup>23</sup> The result was that school districts were required to **grant** abatement agreements that were declined. Then the districts were penalized for failing

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<sup>22</sup> Texas Department of Commerce. "Reinvestment Zones & Tax Abatements: An Overview of Texas Data and Trends through 1995." March 1997, pg. viii.

<sup>23</sup> "Interim Report on Economic Development Incentives." July 1996, pg. 31.

to accept the initial abatement agreement **offers** by having to offer abatements with terms that extended the time periods for the agreements to remain in effect.

## **70<sup>th</sup> Legislative Session—Changes in 1987**

Between 1987 and 1993 there was a high level of **school** district participation in abatement agreements. School districts received state aid based on their *wealth per student level (WADA)*, which is "the taxable value of a district's property divided by the number of students in weighted average daily **attendance**."<sup>24</sup> Under **Texas** Government Code, Section 403.302, in order to compute the fair market value of a district's property, **specific** exemptions are subtracted from the taxable value of a property. This formula, which included abatement agreements as an exemption, was in use until **1993**. The State would offset any local revenue loss from abatement agreements with additional state aid. This provided very little incentive for school districts to *not* participate in tax abatement agreements."

Some of the **key** changes to the Act included:

- "eliminating the requirement that reinvestment zones be located in blighted areas;
- authorizing school districts to opt out of municipal or county tax abatements without penalty;
- restricting abatements to new value (**i.e.** improvements); and
- requiring local government to adopt written guidelines and **criteria**."<sup>25</sup>

## **71<sup>st</sup> Legislative Session—Changes in 1989**

**Tax** abatements had **generally** been granted for up to 15 years. Policy changes **from** this session changed the **maximum** to **10-year** tax abatement agreements. Special districts (such as hospital districts, **etc.**) could opt in or out of municipal or **county** abatement

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<sup>24</sup> "Interim Report on Economic Development Incentives." July 1996, pg. 32.

<sup>25</sup> "Interim Report on Economic Development Incentives." July 1996, pg. 32.

agreements. Abatements were specifically **allowed** for plant expansions or modernization.

Another change authorized tax abatements for tangible personal property.

To compile information on available and ongoing abatement agreements, a reinvestment zone and tax abatement agreement central registry was created. One of the final changes included sunseting tax abatements in 1995.<sup>27</sup> Sunseting provisions allow for state agencies and programs to be evaluated by the Sunset Commission. The Sunset Commission overviews' state government operations and if an agency or program is no longer considered viable, the agency or program is expended.

### **73" Legislative Session—Changes in 1993**

Senate Bill 7 was passed on May 31, 1993. S.B. 7 was an emergency bill that went **into** effect immediately. This legislation met the court-imposed deadline for establishing a constitutional finance system for Texas schools, or what is known as the "Robin Hood" plan. One reason this bill was important was because it began 'a major policy shift in the realm of economic development and **tax abatement**."<sup>28</sup>

Senate Bill 7 was also designed to protect the state's equalization measures for school districts. The optimal wealth per student level was set at **\$280,000**. If a school district's wealth per student **exceeded \$280,000**, the "surplus" of local revenues had to be sent to the State for redistribution. This process, known as recapture, sent surplus **funds** to poorer school districts. These provisions were designed to prevent wealthy school district from

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<sup>26</sup> "Interim Report on Economic Development Incentives." July 1996, Appendix Six.

<sup>27</sup> "Interim Report on Economic Development Incentives." July, 1996: Appendix Six.

<sup>28</sup> Texas Research League. "Tax Abatement Policy in Texas." December 1994, pg. 37.

granting excessive abatements to lower their wealth per student level thus avoiding state recapture, and to hold down state education **costs**.<sup>29</sup>

Senate **Bill 7** gave wealthy schools five options to reduce their wealth. The options included: voluntary consolidation; voluntary property detachment; tax base consolidation; the option to contract to educate students in another school district; and the option to purchase attendance credits **from** the state. The last three options required voter approval. State law allowed a school district to enter into a tax abatement agreement with a property owner. However, the Texas Education Agency would consider the value abated as part of the districts' taxable value when determining the districts' taxable wealth for school funding purposes. In addition, the school district would have to consider the abated value as taxable value when calculating its current tax rate. Both meant a loss of revenue for school **districts**.<sup>30</sup>

The Texas Education Agency (TEA) was responsible for implementing the Chapter 41 provisions of the so-called "Robin Hood" plan. School districts have always had the option to decide whether or not to participate in abatement agreements. Prior to 1993, if a school district entered into an abatement agreement, the value of that exemption was excluded **from** the district's total property value as certified by the State Comptroller's office. **As** a result, the property values that TEA used in the finding formulas were less **than** they would have been had no abatement been **granted**. By using the reduced property value in the **funding** formulas, the school district received more state aid **than** it would have otherwise. That additional state aid, in most cases, **offset** the loss of local taxes the district incurred by not collecting taxes on exempted property. The state, in **effect**, was paying for the abatements by **flowing** additional dollars to the districts **so** they did not lose **any** revenue.

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<sup>29</sup> "Interim Report on Economic Development Incentives." July 1996, pg. 32.



The Texas Legislature changed the law and directed the Texas State Comptroller's office **not** to exclude the value of any abatement granted **after** May 1993. The effect was that no additional state dollars would go to school districts, since the district's total property value is no longer reduced by the value of the abated property. School districts still lose local revenue by not taxing abated property, but the loss is no longer offset by additional state dollars. Now, generally, school boards do not grant abatements because of the loss of state **funds** and, local property tax **revenues**.<sup>31</sup>

#### **74<sup>th</sup> Legislative Session—Changes in 1995**

Two bills affecting tax abatements—House Bill 2065 and Senate Bill 345—which re-adopted and made changes to Chapter 312 of the Texas Tax Code were **implemented** during this session. These changes went into effect **September 1, 1995, and** made significant changes for tax abatement agreements that were granted for reinvestment zones that are also **state-**designated enterprise zones (Texas Department of Commerce, March **1997:viii**).

Under the legislative change the State Comptroller's office took over maintenance of a central registry, previously compiled by the Texas Department of Commerce. It was believed this change would increase compliance for required **reporting**.<sup>32</sup> Since previous **compliance** had **been** incomplete, it was hard to ascertain how many tax abatement agreements were in

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<sup>30</sup> Information provided the Texas State Comptroller's Property Tax Division.

<sup>31</sup> Information provided by the Texas Education Agency.

<sup>32</sup> There was a general assumption in the Legislature that reporting of abatement agreements had become lax and the Comptroller's office would garner better compliance, due to the reputation for compliance that Comptroller's agency enjoyed at that time.

effect, what the abated amounts were, and when the agreements would end. *All* of the above information is needed for budget and statistical **purposes**.<sup>33</sup>

Taxing units were notified that in order to designate a reinvestment zone or execute an abatement agreement they had to **notify** the State Comptroller's office (Fiscal Notes, 1998:2). Taxing units must describe the size of the zone, the duration of the agreements, the types of property in the zone, and the guidelines and criteria as stipulated under the tax code.

A **specific** provision of Senate Bill 345 included increasing the number of provisions that must be contained in a **tax** abatement **agreement**. While House **Bill** 2065 authorized taxing jurisdictions to grant non-identical abatement terms in enterprise **zones**.<sup>34</sup>

### **75th Legislative Session—Changes in 1997**

During this session, House Bill 1239 and Senate Bill 15% allowed municipalities to grant tax abatements for voluntary cleanup agreements for contamination sites designated by the Texas Natural Resource Conservation Commission. These abatement could last up to four years and would **allow** a 100 percent value exemption the first **year**, declining to 25 percent the fourth year. School districts, however, were restricted **from** entering into abatement agreements relating to property subject to **voluntary** cleanup **agreements**.<sup>35</sup>

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<sup>33</sup> Texas Research League. "Tax Abatement Policy in Texas." December 1994, pg. 53. The Texas Research League suggested that there be a **non-compliance** penalty clause inserted in the Property Redevelopment & Tax Abatement Act requiring **taxing** units to report annual **economic** activity in designated **reinvestment** zones **and/or** where they have executed tax abatement **agreements**. Local taxing jurisdictions were not sending the **required** annual report forms and they recommended **penalties** be imposed for **non-compliance**.

<sup>34</sup> "Interim Report on Economic Development Incentives." July 1996, Appendix Six.

<sup>35</sup> "**Statement**." August 1997, pg. 14.

## **76<sup>th</sup> Legislative Session-Changes in 1999**

The most recent changes to the Act included House Bill 3034 which amends tax abatement agreements so that counties can enter abatement agreements containing different terms than the agreements entered into by a **city**.<sup>36</sup>

### **Texas Trends**

The Texas Department of Commerce (March, **1997:viii**), reported that since the 1980s there has been a steady rise in the number of abatement agreements executed, including an increase in abatements for residential properties. Abatement agreements are covering shorter time periods, with most new agreements lasting for five years or less. When abatements were initially granted, they generally abated 100 percent of improvements for the entire term of the agreement. Currently many **tax** abatement agreements vary or decline over the **term of the** agreement.

Economic development policies and tax abatement agreements have changed over the last 20 years. There **are** many reasons for the changes. State and local government officials continue to offer abatements, although they have questionable results. **Since** abatements are still being offered, it is beneficial to look at **factors** that **affect** abatement decisions.

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<sup>36</sup> "Statement." August 1999, pg. 15.

## Chapter 3: Literature Review

### Purpose

In order to assess Texas abatement policies, it is beneficial to examine local government official's attitudes about abatements. Before doing that, it is important to conduct a literature review to determine what prevailing attitudes exist towards abatements. Most scholarly literature on economic development policy covers three main areas of concern: economic factors, political **factors**, and **locational** factors.

Economic factors usually deal with the financial reasons' abatements are offered. Political factors include local government's decisions on whether to offer tax abatements, who to offer abatements to, and are substantial in **determining** the abated amounts. Political factors also deal with the public's approval of elected officials for their decisions to offer abatements or not. Finally, location factors deal with **local** government's struggles to maintain, expand, or recruit new business into communities.

Some of the scholarly literature on economic development policies maintain that these policies are surrounded by controversy. Then why do governments continue to **rely** upon what some call costly incentives? There are varied reasons for offering economic development programs. The remainder of the chapter examines the available literature dealing with economic development programs, and property tax abatements in specific.

## Definition of Tax Abatement and Reasons for Offering

Tax abatements are "a total or partial tax exemption for a designated time **period**."<sup>37</sup>

The Texas Research **League** (1994:58) describes tax abatements as a legal and popular economic development tool.

While relocation and expansion decisions are influenced in large part by traditional economic factors (such as the availability and quality of the labor force and access to markets and transportation), business incentives like **tax** abatements do play a tantalizing role in relocation or expansion decision. The degree to which tax abatement influences such decisions is a subject of continuing debate among both economists and public policy practitioners. Nonetheless, **tax** abatements are an important component in state and local economic development **efforts**.<sup>38</sup>

One aspect of economic development programs virtually impossible to quantify, but one with untold **worth**, is the symbolic and political value of keeping businesses already established in the community **from** relocating. Another consideration is attracting new business into a community. While these aspects may not be measurable, they are, nevertheless, very important.

According to Bachelor (1997:705), there are difficulties associated with assessing the return on an investment for economic development programs. Government officials **frequently** have insufficient data available to determine **when** and in what form and amount incentives should be **offered**. Since government agencies operate in the public eye, private corporations gain **an** advantage when bargaining for economic development incentives. Since opinions vary on incentive policies, examining general opinions on **tax** abatements will be beneficial.

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<sup>37</sup> "Interim Report on Economic Development Incentives." July 1996, pg. 4.

<sup>38</sup> Texas Research League. "Tax Abatement Policy in Texas." December 1994, pg. 58.

## Examining Opinions on Economic Development Programs

Objections exist for **using** economic development programs, and there are hundreds of reasons for soundly rejecting these programs. Economic development projects can stimulate the economy, aid in new development, advance renovation efforts, or **further** the expansion and **modernization** of areas that were probably already neglected. While objections do exist, economic development programs are also advantageous.

## Brownfield Redevelopment Projects

There are current trends to initiate **Brownfield** redevelopment projects, which takes old and neglected property and converts the property into **useful** development sites. In a **Land Lines** article, **Thomas Wright** and **Ann Davlin (1998)**<sup>39</sup> discuss **Brownfield** redevelopment projects, breaking them down into three distinct categories. First, are sites that contain some contamination issues but are still viable for economic development. Second, some sites are attractive but are less marketable because they have higher contamination risks. Sites in this class require some type of incentives for redevelopment. Finally, there are sites with high environmental risks, that even when **cleaned**, would still be unusable because of poor location, lack of access, or some other feature making it **unmarketable**. These sites would probably not be cleaned up without the help of abatements and incentives.

Wright and **Davlin (1998)**, examine the Newark, New **Jersey** Ironbound neighborhood where a \$4.5 million compressed gas-packaging facility was opened on an old **Brownfield** site. This examination of a **successful** redevelopment project highlights the problems of **Brownfield** and vacant lot redevelopment. Many of these sites have become public property, some

through involuntary tax foreclosures. Once they become public property, they are no longer on the tax rolls resulting in a monetary loss for taxing entities. Offering economic incentives makes sense because once the development is complete the property goes back on the tax **rolls** and again generates income for local taxing entities. Many of these sites are located in lower-income communities and pose significant health risks. In cases of contamination or where sites present public health problems public policy must concentrate on redevelopment and **remediation** of these sites. While this is **a** case of necessity, there are **many** more examples where incentives are not a necessity and can be seen as corporate charity at best.

### **Economic Development Seen as Corporate Charity**

Peter Downs (1997:9) writing for the **St. Louis Journalism Review** discusses the remarks made by Melvin **Burstein** and Arthur **Rolnick**, two vice-presidents of the Federal Reserve Bank of Minneapolis. **Burstein** and Rolnick expressed disdain at the amount of public subsidies expended on the St. Louis Rams' professional football team. They "cited the public subsidies St. Louis and Missouri showered on the owners of the **Rams**,"<sup>40</sup> even going so far as to characterize this as a national calamity. This appears that a professional football team's decision on where to locate a **new** stadium is based on **the** amount of public assistance granted. Granting these types of abatements to private enterprise comes at the expense of other taxpayers. Prudent fiscal management for local governments is not to shift the **tax** burden **from** one group of taxpayers to another, rather to apply tax assessment evenly.

Downs (1991 :9) cites another example, where the city of St. Louis was being pressured to subsidize **Unigroup** (a large local corporation) to move their corporate

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<sup>39</sup> <<http://www.lincolnst.edu/main.html>>

headquarters to the city. St. Louis's economic development network applied pressure to and pushed metropolitan St. Louis officials to offer and grant economic incentives. Unigroup received the incentives and moved to the site in St. Louis. Unigroup had already planned to move to this location, even before any incentives were granted.

Apparently not wanting to appear foolish, the president and CEO of the St. Louis Regional Commerce and Growth Association made the argument that these deals would bring jobs into the region, jobs that would have gone elsewhere. This could be seen as corporate charity.

Another example of how abatements and incentives can be viewed as corporate charity was a 1998 instance in the city of Warren, Michigan. Hawke **Fracassa** (1998:1) discusses the case of the City of Warren granting **Chrysler** Corporation a 12-year \$4 million tax break. A Chrysler representative admitted to the city council that the company did not have a **financial** hardship but they wanted the tax abatement anyway. A local resident, who favors reform, complained that she does not **see** large amounts of money being returned **from** companies receiving the abatements. Additionally, the president of the city council stated that companies receiving abatements just use the threat of leaving as a weapon to hold over a city's head to get money off their tax bills for doing nothing.

According to Downs (1997:9), states **often** do not get what they pay for when they spend money on economic development programs. Even local development officials admit that incentives might have a **harmful** effect on the national economy. **With** the appearance that incentive programs are a runaway **train**, what if anything is being done to stop or even control them? Even though local government officials admit there are problems with economic

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<sup>40</sup> Peter Downs, "St. Louis Journalism Review." February 1997, pg. 9.



incentive packages, the one ultimate avenue would be to initiate "federal mandates," but almost all officials want to avoid those.

### **Economic Development Factors: Supply- and Demand-Side Incentives**

Laura Reese and Amy Malmer (1994:116) discuss supply- and demand-side incentive policies. Supply-side incentives are **directed** towards reducing the costs of production at a specific location. In addition, supply-side incentives have the tendency to increase inter-local competition; costs are borne by the cities and capital is **simply** moved around. **Tax** abatements are a **form** of a supply-side incentive.

Demand-side incentives, on the other hand, involve governments actively developing and **identifying** markets which includes recruiting business, identifying foreign markets, and offering various incentives to help reduce the costs of setting up a new location. This can also involve local governments aiding in the costs associated with the creation or expansion of local **firms**. Many times local **firms** looking for assistance are in their initial start-up stage, where costs can be high. See **Table 3.1** for examples of supply- and demand-side incentives.

**Reese and Malmer (1994:130-131)** cite tax abatements as supply-side incentives **because** they are directed towards reducing the costs of production in a specific locale. Reese and Malmer continue that demand-side policies are superior to supply-side policies in promoting economic development. Demand-side policies are **seen** as superior because they support research and development, provide business incubators, support small businesses, and include supporting strategic planning for job creation. **They** also suggest that development of quality-of-life(demand-side) policies are more beneficial than efforts to reduce costs to businesses (supply-side). **Reese and Malmer (1994:115)** continue that there is strong support

for demand-side incentives, although it still appears that few cities are using these techniques.

"Demand-side policies are not just a **reformulation** of the supply-side model but, rather, represent new policy strategies."<sup>41</sup> According to **Charles Spindler** and **John Forrester** (1993:33), these new policy strategies emphasize demand-side stimulation over specific government incentives. Additionally, demand-side policies have grown out of the failure of supply-side policies.

**Table 3.1**

**Supply- and Demand-Side Incentives**

<b>Supply-Side</b>	<b>Demand-Side</b>
<b>Marketing Tools</b>	
Videos, brochures, and trade shows	Solicit foreign business
Visits to prospects	Market development planning
Promotion of specific sites	Develop export markets
<b>Financial Tools</b>	
Tax abatements and deferred tax payments	Shared equity in projects
Direct loans, loan guarantees, and loan subsidies	Centralized management services
Donations of real property and cash contributions to projects	Training
Bonds	Sale/lease-back arrangements
<b>Land and Property Management Tools</b>	
Land donations, acquisitions, and condemnation	Technical assistance
Water and sewage systems provided	Rehabilitation of old buildings
<b>Leasing</b> , selling, and clearing of land	Industrial property management
Business relocation	Transfer of development rights
	<b>Office/retail</b> property management
<b>Reese, Laura A. and Amy B. Malmer. "The Effects of State Enabling Legislation on Local Economic Development Policies." <i>Urban Affairs Quarterly</i> 30 (September, 1994):130-131.</b>	

<sup>41</sup> Charles Spindler and John Forrester, "Urban Affairs Quarterly" September 1993, pg. 33.

Samuel Nunn (1994:584) argues that if there were a conversion to more widespread use of demand-side development incentive policies (including human and physical capital investment) local governments would trade-in the highly speculative benefits of tax abatements. What were indirect budget expenditures could now be **turned** into budget money for job training programs or **infrastructure** improvements. Communities would derive a direct benefit: investing in the community, the people of the community, and improving the **fixed** assets of the community by providing more services or amenities for local citizens.

Cities are unlikely to convert to demand-side policies because there would be an immediate cost of raising taxes or cutting existing services. "If tax abatements could be restricted to use only in 'needy' areas, it is conceivable that other areas might be more inclined to use demand-side development **policies**."<sup>42</sup> However, the definition of "needy" can be very subjective.

Local government officials are hesitant to raise taxes or cut services. More and more local government officials look to expand the tax base of their taxing jurisdiction by recruiting new businesses. There are other factors that **affect** abatement decisions, and these will be discussed.

### **Economic Factors Affecting Abatement Decisions**

Communities in many states grant some type of cash-like incentives for both businesses and residences. "**Over** the decades communities have relied on countless gimmicks, gadgets, and enticements for promoting economic **growth**."<sup>43</sup> Many of these

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<sup>42</sup> Samuel Nunn, "Policy Studies Journal." Vol. 22, No. 4, 1994, pg. 584-585.

<sup>43</sup> David Swenson and Liesl Eathington, "The Efficiency of Housing Tax Abatements on Housing Starts." April 1998, pg. 1.

incentives are rooted in national urban renewal law, and others are state derived. Incentives were originally designed to improve blighted areas or reverse the decline of an area. "It is rare to find a community that does not by ordinance possess and apply the entire panoply of development tricks allowed by local, state, or national law."''

Researchers are challenged to determine whether these programs have merit. According to Swenson and Eathington (1998:2), it is hard to measure a program's efficiency since the nation has enjoyed a prolonged period of economic expansion. "Absent knowledge of the effectiveness of the various approaches, many communities feel compelled to offer the sun and moon, fearing not to do so would make them appear **non-competitive**."<sup>45</sup>

**Burnier (1998:385)** reports that one goal of economic development programs is expansion of the economic pie. **Incentives** like tax abatements, low-interest loans, and building and infrastructure improvements are the development tools that will spark new or retain existing investments in the community. Communities are similar to businesses because they too are limited by the dictates of the marketplace. In addition, communities justify economic development initiatives on the grounds that there is no choice but to compete for already scarce development opportunities.

Downs (1997:9) states that one of the dynamics of preferential subsidies is that states just continue to give more and more away.

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<sup>44</sup> David Swenson and Liesl Eathington, 'The Efficiency of Housing Tax Abatements on Housing Starts.' April 1998, pg. 1.

<sup>45</sup> David Swenson and Liesl Eathington, 'The Efficiency of Housing Tax Abatements on Housing Starts.' April 1998, pg. 2.

At the same time states spend billions of dollars competing with one another to retain and attract businesses, they also struggle to provide such public goods as schools and libraries, police and fire protection, and the roads, bridges, and parks that are critical to the success of any **community**.<sup>46</sup>

Local governments, however, continue to offer subsidies when everyone else is doing the same thing. With the use of preferential subsidies, taxpayers can end up paying for levels of service they do not receive from their local governments because public officials have given money away to private businesses. Another drawback is that most **often** incentive deals are confidential with taxpayers having no input into the terms of the agreements.

According to Michael **Wolkoff (1992:340)**, while experts do **identify** the importance of economic development incentives, they also suggest that these incentive be tied to the development goals of the community. Policy **makers** are cautioned to take an accounting of the cost and benefits of development policies and to conduct the policies in an arbitrary **manner (Wolkoff, 1992:341)**. While economic factors are important, there are several other factors that the literature suggest are equally important.

### **Locational Factors Affecting Abatement Decisions**

What factors are most predominant in deciding where to locate a business? According to the Texas State Comptroller (*Forces of Change: Shaping the Future of Texas*, 1994:136), firms evaluating a location often examine **information** about the level of costs at alternative locations. Dan Dabney (*1991:325*) reports that financial incentives such as tax refunds, credits, and **abatements** only have a marginal effect upon a firm's location decision. While **James Papke and Leslie Papke (1986:357)**, state there is also little doubt the business

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<sup>46</sup> Quoted from an interview by Peter Downs with Melvin Burstein and Arthur Rolnick; taken from the "St.

community has a long standing perception that favorable tax comparisons provide an unambiguous signal that state and local governments are sensitive and responsive to a conducive business environment.

Dabney (1991:325) cites early theories on location decisions, which stressed that a firm chose a location, based on its ability to maximize profit or minimize costs at a certain location. Costs were generally classified as those of raw materials, transportation, and labor. An American economist, Edgar Hoover, expanded classic location theory when he provided a more thorough approach, which included agglomeration (defined as a cluster of disparate elements), and deglomeration forces as **well** as institutional factors.

Since World War II, location choice studies have shown that classic location factors are a major element in a firm's location decision. Factors such as transportation, labor, and market proximity continue to dominate a firm's locational decision even though the **firm** may also be influenced by secondary considerations.

Dabney (1991:328) cites non-traditional factors, such as quality-of-life amenities and behavioral factors, as more important elements when making a location decision. Non-traditional factors also include mild climates, **affordable housing**, cultural and recreational activities, and the quality of educational opportunities. In order for a business to operate, it is important to take non-traditional factors into consideration. Therese **McGuire (1986:371)** states that it would do a firm no good to move to a location where people do not want to live.

The impact of taxes on growth has tended for economic growth to be more sensitive in **cities**.<sup>47</sup> This occurs because **firms** are more concerned about other costs when making

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Louis Journalism Review, February 1997, pg. 9.

<sup>47</sup> **Texas State Comptroller**, *Forces of Change: Shaping the Future of Texas*, 1994, pg. 136.

decisions about where to locate. After a region is selected, companies are then more sensitive to taxes when deciding where to locate within that region.

According to Downs, (1997:9), when a **company** decides to relocate, it is either the right location for them or it is not. When locations are economically inefficient, fewer private goods are produced and money ends up being diverted to private goods in order to subsidize **inefficiency**. With that logic, if a particular site is the best location for the company then they do not need subsidies. (See Table 3.2 for factors that **affect** location decisions). In 1992, the state of Minnesota made a deal with Northwest Airlines. Northwest needed to build a new maintenance facility. It would have been cheaper to run this **kind** of **facility** in Louisiana where the weather was warmer. Instead, Northwest **was given** a \$380 million loan to build the facility in Minnesota. Even though Northwest estimated that it would be 30 percent cheaper to run the facility in Louisiana, the decision was made to build in Minnesota because of the state subsidies.

While businesses may not renounce tax abatements, many have expressed concerns about the lack of **funding** for public schools. Businesses recognize that tax abatements divert needed money away **from** schools. Therefore, companies that receive subsidies to move **from** one taxing jurisdiction to another within the same school district are the most “**perverse**”. The reason they are considered "perverse" is **because** the school districts have no choice but to participate in abatement agreements. However, legislation has been proposed, and in some cases passed, **so** that school districts can opt out of abatement agreements.

Downs (1997:9), continues that abatements and subsidies continue to be offered because everyone else offers them. If, however, penalties were initiated that ended the

subsidy game, companies would be forced to make location decisions based upon the **fundamentals** of business rather than just going with the highest bidder.

**Table 3.2**  
**Factors Affecting Location Decisions**

<b>Ranking of Factors in Location Decision, Reported in 1994</b>	
1. Real Estate Costs	10. Utility Services
2. Labor Force Issues	11. Utility Costs
3. Transportation	12. Quality of Life
4. Real Estate Availability	13. Business Services (Technical Support)
5. Market Access	14. Incentives
6. Regulatory Environment	15. Education System/Training Infrastructure
7. Labor Costs	16. Proximity to Suppliers/Raw Materials
8. Community Image	17. University Resources
9. Tax Image	
<b>John W. Mackay, Senior Consultant with Deloitte &amp; Touche, <i>Economic Development Review</i>, Fall 1994, conducted the original study. Study cited in "Interim Report on Economic Development Incentives" Senate Economic Development Committee, 75<sup>th</sup> Legislature, (July, 1996:11).</b>	

### **Political Factors Affecting Abatement Decisions**

Some cities and states develop economic development policy instruments and others do not. Richard Feiock (1989:267) gives three general explanations for adoption of these policies: **they** are a response to social **and economic** conditions; the organization or structure of government institutions may facilitate or impede adoption policies; and the internal dynamics of political systems and the organization of business interests.

Cities that "need" economic development are those most likely to pursue it, continues Feiock (1989:267), although "need is subjective. Generally, cities and states who are suffering fiscal stress and a declining employment or tax **base** are better off if there are more



businesses and jobs within their boundaries. The poorer and more **fiscally** stressed a city is, the more **likely** it is to rely upon expensive and concessionary economic development policies.

At the state level, some development actions are linked to economic need. At least one study, however, found that prosperous states are the most likely to offer tax abatements. Neighboring jurisdictions are often perceived to be in competition with one another and competition for development resources results in a development "arms race." State and local governments **will** attempt to match economic development policies of jurisdictions within their geographic area, especially those with comparable economic bases and similar economic conditions. Not only do the less well off cities pursue economic development policies, but they tend to adopt the most costly policies in a feverish attempt to attract investment in the face of competition **from** better-off but less ambitious municipalities!

Politicians often use economic arguments even when they are not justified by evidence. Feiock (1989:269) reports that studies of economic development policies have shown that tax abatements are some of the most expensive incentive policies and are the most popular. Other relatively inexpensive policy instruments may actually be more effective. The continued popularity of expensive policies may be partly related to the competitive environment facing state and local governments desperate to do something regardless of the cost. This can also provide high **visibility** for public officials for "credit claiming". If an area is experiencing economic decline there can be tremendous pressure on **officials** to do something. "In this environment visible policies with tangible **effects**, such as luring a large manufacturer with tax abatement, may provide political benefits for whoever can claim credit **for it**."<sup>48</sup>

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<sup>48</sup> Richard Feiock, 'Economic Development Quarterly," August 1989, pg. 269.

According to Ann Bowman and Michael Pagano (1996:1), cities can be described as shifting dynamic entities, moving in response to shifting economic and political coalitions. Substantial factors **can affect** a city's approach to economic development; changes in city leadership, the amount of state aid received, or the closure or downsizing of a major **firm** can have a major impact. There are also local politics to consider, which can be a major factor in the direction any city takes. Another significant factor that can affect a city's approach to development policies are the underlying local market forces such as the price of land, labor, and capital, any or all of, which can be very influential. Nevertheless, a city's most effective means of controlling growth is to invest in and regulate development.

Pursuing a vision for the future or **responding** to tax service imbalances is the responsibility of city **officials** (Bowman and Pagano, 1996:1). When a city sponsors development through incentives, it lowers a businesses' costs, while stimulating economic growth and is a purposeful political decision-making process that is undertaken selectively.

According to **Burnier (1998:388-389)**, local government officials are cautioned to keep in mind that economic development, especially in smaller communities, could **affect** a community's entire way of life. **Programs** should be considered in the fullest sense as a **community** process, rather than in the more narrow sense as a technical project development that is accomplished by a **handful** of "growth" elites!

Tom Fowler **(1992:2)** reports that some officials grant abatements because they believe new businesses will spend other money and pay other taxes that will be made up in the tax base, for example through sales **taxes**. For example, cities like Round Rock do grant abatements to local companies for expansion. But, they also have an agreement with other taxing jurisdictions, like the city of Austin, not to offer incentives to companies who simply

desire to move **from** one city to the other. Austin and Round Rock economic development officials are also considering asking other Central Texas communities to join in this type of agreement.

According to Richard Bingham and William **Bowen (1994:590)**, there is no question that in the political realm incentives are offered. However, few definitive empirically established answers are available to assess their successes or justify these expenditures. Such studies would be useful to substantiate which programs are the most cost efficient and effective. There are **locational** considerations that should also be evaluated.

### Credit for Offering **Incentives**

With such intense competition facing state and local governments for economic development, officials can be desperate to do something regardless of the cost (**Feiock, 1989:269**). When it comes to offering **incentives**, there is the high **visibility** that many of these policies bring.

According to **Larry Ledebur** and Douglas **Woodward (1990:221)**, increasingly state and local government officials measure their public **performance** by plant announcements and job creation. Public officials engage in fervent battle against one another for new plants, expansions, and relocations. Not only that, they are armed with increasingly expensive incentive packages that tie together everything **from** land acquisitions, job training, new roads and sewers, to **tax** credits. With all these **different** factors affecting decisions, however, there **are** risks for not offering tax abatements.

## Risks for Not Offering Incentives

While there is consistent and increased competition for economic development monies there are risk associated with not offering them. Bowman and **Pagano** (1996:1), report that county and city **governments** are constrained to operate within fixed territorial jurisdictions, but there are no such constraints on capital. To keep businesses **from** going elsewhere, it is **important** for officials to try to maximize services while minimizing taxes.

In Michigan, the Detroit News ran a point-counter point article. Cuyahoga Heights school board member, Ronald **Kryznovek**, and superintendent, Peter Guerrero, asked if abatements were money lost or gained. On the other side of the issue was local attorney, **Jeffrey** Rich, asking if abatements were seeding jobs or selling out.

**Kryznovek** and Guerrero (Detroit News, 1998:1-3) ask the question, is 25 percent of something better than 100 percent of nothing? Kryznovek and Guerrero maintain local and national **experts** agree that abatements are a fact of life, but there is no universal agreement on using them. If the Cuyahoga Heights community did not offer abatements, when others were, this community would lose a **significant** number of jobs. The resulting loss of business would cause **further** economic distress. There is a realization that intense competition surrounds economic development issues, nevertheless, tax incentives are important. **Kryznovek** and Guerrero end by saying they believe abatements are, in truth, money gained.

Rich (1998:1), states that every time someone receives an abatement everyone who works and lives in the taxing jurisdiction that granted the abatement has to work a little harder to subsidize somebody else's business. All communities pay for abatements in the **form** of higher taxes.

Cities are becoming heroes because they are giving away somebody else's money (Rich, 1998:2). Originally tax abatements were designed for urban renewal. Today in order to receive a tax abatement, companies may only be required to create jobs. Intense competition for businesses to locate within a jurisdiction, in turn, have states battling against states, and cities battling against cities. Too often, it appears this **stiff** development competition is for development that would have taken place even **if no** incentives had been offered.

More often than not, abatements are awarded to companies who are prosperous. If that is the case, are **tax** abatements just welfare for the politically powerful and wealthy businesses? Some argue that it is.

Other than periodic debate over tax abatement programs sparked by complaints **from** local taxpayers, there is an underlying fear among local officials. Some officials fear that if they repeal abatement ordinances they are sending an anti-growth message to developers and industrial prospects, and local governments would automatically be disadvantaged. There are credits and risks for offering or not offering abatements. Below is an examination of the types of incentives offered.

## **Incentives Offered**

When talking about economic development packages, the question of "how much will cost" is an important one. Although it can be difficult to find comprehensive information on the exact amount of dollars spent on these programs, it is quite a bit easier to locate information on abatements that have been granted.

Fowler (1991:1) reports that the city of Round Rock granted a computer company \$220,000 in tax abatements beginning January 1999, with a five-year extension. The agreement includes a 100 percent tax exemption for the years 1999 and 2000. The property tax abatements are estimated to be \$4.4 million and there will be abatements on \$12 million worth of equipment. The company must provide 211 jobs by the end of 1999 and 244 jobs by the end of 2002. A point of irony is that the company has already met both goals. They now have 250 employees and plan to increase to 350 workers in the next few years.

According to Swenson and Eathington (1998:4), many times tax abatements apply not just to city taxing authorities, but also to taxing authorities on the county, school, and community college level. In 1987, the state of Iowa offered a wide range of incentives. Any new housing construction or value enhancements to existing homes were eligible for ten-year local government tax abatement. These communities in Iowa issued abatements that were based upon a six year declining abatement amount, (e.g., 85 percent abated the first year, 60 percent abated the second, and so on). There were also three-year 100 percent abatements, while some used a 10-year 15 percent schedule. The city of Des Moines even went so far as to grant ten-year abatements for all qualifying properties.

Incentives can come in many different forms, from land acquisition to job training. To obtain a general idea of the wide range of incentives available Table 3.3 lists incentives that were granted in the automotive industry.

**Table 3.3**

**Incentives Offered in the Automobile Industry from 1978 to 1990**

<b>Company Name</b>	<b>Types of Incentives Offered</b>	<b>Incentive Amounts</b>
Diamond-Star	Land purchase assistance; site improvements; road, water, and sewer improvements; property <b>tax</b> abatements; and <b>savings</b> on water and <b>sewer</b> fees.	<b>\$ 118.3 +*</b>
General Motors	Road improvements, job training, and 40-year local <b>tax</b> abatement.	<b>\$ 70 +</b>
<b>Honda</b> of America	Property tax abatements on <b>buildings</b> and <b>\$16.4 million grant</b> for adjacent <b>motorcycle</b> factory.	<b>\$ 16.4 +</b>
<b>Isuzu/Fuji</b> Motors	Cultural aid transition <b>funds</b> for <b>Japanese</b> workers and their families; job training; road, <b>highway</b> and sewer assistance; and land purchase assistance.	<b>\$ 86 +</b>
<b>Mazda/Ford</b> Motors	Special loans; tax abatements; job training; and road highway, and sewer improvements.	<b>\$ 52 +</b>
<b>Nissan</b> Motor Company	Job training; property tax abatements; and road, rail, sewer, and site improvements	<b>\$ 66 +</b>
Toyota Motor Company	Land purchase assistance, site preparation, highway improvements, job training, and education programs for Japanese employees and their families	<b>\$ 325 +</b>
<b>Volkswagen</b> AG	Rail and highway improvements, job training, property tax abatements, and low interest loans	<b>\$ 86 +</b>
<b>*Larry C. Ledebur and Douglas Woodward. "Adding a Stick to the Carrot: Location Incentives with Clawbacks, Recisions, and Recalibrations." <i>Economic Development Quarterly</i> 4 (August 1990): 222.</b>		

\* In millions

**Incentive Controls**

Many incentives and tax abatements are granted because businesses are promising to develop new jobs for the community. There are, however, provisions that can be used when the promised jobs do not develop. Incentive controls are contract provisions that work within a **framework** of a legally binding contract. When abatements are granted contract provisions

provide some recourse to reclaim all or some of the financial incentives that are offered. For instance, if a firm fails to meet performance requirements; such as supply X number **of jobs** (Ledebur and Woodward, 1990:221), incentive controls **can** reclaim some or all of the money that was awarded through penalty provisions.

### **Penalty Provisions: Recisions, Penalties, Recalibrations, and Clawbacks**

Ledebur and **Woodward** (1990:229) state that both incentive packages and incentive controls come in many shapes. Penalty provisions are contract provisions that offer recourse to reclaim all or some of the financial incentives that were awarded. Penalty provisions fall into four basic categories: a recision cancels a subsidy agreement; recalibrations are subsidy adjustments that reflect changing **business** conditions; penalties are special charges for nonperformance or relocation; and clawbacks are a recovery of all or part of subsidy costs.

According to Alan Peters (1993:328), there continues to **be** an increase in negative comments about incentive **packages**. The competition for economic development projects between states is **often stiff** and intense, with more officials voicing their opinions that the subsidies and incentives **being** offered are much too extravagant.

### **Clawbacks**

One way of dealing with publicly subsidized **firms** that do not achieve specified performance goals is to impose sanctions on them. Suggested sanctions include cancellation of subsidy agreements, assessment of penalties, adjustment to the size of the incentive package, or even recovery of **all** or part of the incentive costs. These types of sanctions are generically referred to as "clawbacks." Clawbacks are usually applied to poorly performing



manufacturing and wholesale **firms** with performance being measured in terms of job creation or retention.

The range of economic development subsidies offered is continually growing (Peters, 1993:329). As it currently stands, examination of economic development programs and policies indicate they are operating to the detriment of sound public policy. As negative publicity increases and more extravagant packages are offered, there are increased calls to place some sort of controls on economic development packages.

Clawbacks can be used to control economic development packages. Normally, firms are offered incentives to relocate or expand within a certain taxing jurisdiction. Incentives, like property tax abatements, are offered for companies that agree to either create or retain a certain number of jobs over a set time period. When clawbacks were first offered, however, several legal questions arose. One of the major court **cases** dealing with the issue of clawbacks was the city of Duluth v. Triangle Corporation. In this case, Triangle received IRB bond money from the city of Duluth in Minnesota. The city of Duluth had placed stipulations on the receipt of the bond money. This included a limited **clawback** provision prohibiting the transference of equipment that was purchased with bond money to locations outside the city. After the abatement was granted, Triangle began moving not only equipment but also jobs out of the city. The city sued and won an injunction, which prevented **further** transfers. The Minnesota Supreme Court later upheld the case.

This case was important for two reasons (Peters, 1993:331). One was that this was the first **fully** litigated case that dealt with clawbacks. Second, it was also the first case resulting in a favorable verdict for a local **government** entity. This also showed government officials that in order to protect their taxing jurisdictions it is best to **specify** in fill a **financial**

recovery program beforehand. In the event that a plant should begin to shut down or scale back, protections are already in place to recover tax amounts that were abated.

Although clawbacks are an option to protect taxpayer's money, it is one that is rarely used. Most officials believe that it is unwise to punish a company whose performance is less than adequate. Local government officials think the additional pressure only serves to compound the problems a company may be experiencing. And, additional pressure may not achieve positive results for the taxing units either. In fact, it can act as a catalyst for worse results for the company and then taxing units receive no return on their investment. Many officials also choose not to impose the **clawback** provisions because they perceive a need for governments to maintain an understanding attitude toward inherent business risks.

### **Promoting Alternative Economic Development: State and Local Level Options**

If abatements are not offered, there are other options available to promote economic development. First, other options need to be examined. **Nunn (1994:581)**, suggests that one of the strongest local options is through the ballot **box**. Citizens **can** show their disapproval by not reelecting officials who favor and approve abatement policies. Second, it is always a good idea to put time limits on **tax** abatements; especially, so **future** generations are not unduly burdened. **Nunn (1994:581-582)**, also recommends having a strict evaluation of tax abatement renewals **after** they have expired. **Nunn** cites several reasons for increasing the public debate on tax abatements. The responsibility for financing infrastructure impacts differently upon individuals and businesses. **Businesses** can often shift their tax burdens forward to consumers in the form of higher prices. It is **difficult** to assess the imposing cost of property taxes on current individual taxpayers. Taxpayers end up paying their total tax **bills**,

have no way of shifting their costs for tax bills, and end up with a greater share of the total tax burden.

Is it likely that cities and states will correct the inter-urban competition for economic development? These are the same entities that engage in competition for business capital, at times with great intensity. With this said, it is unlikely that **this** strategy will change. There are few incentives to create a level playing field for development competition. Nunn (1994:583), suggests a conversion to demand-side incentive policies and inter-jurisdictional cooperative agreements. In **essence**, local governments could sign a no compete agreement. Keith Ihlanfeldt (1995:3341), states that a sensible approach is for states to "hedge their bets" with comprehensive economic development plans, using both supply- and demand-side policies. This would **allow** states to diversify their portfolios and allow for **experimentation** with novel approaches.

In Rich's (1998:3) opinion, if government officials want to offer tax abatements, taxpayers should tell local officials, if they want to be heroes, they should do it with their own money. Rich offers other ideas for attracting business without destroying a tax base: give low interest loans, offer **bonds**, help with land acquisition, waive city income tax payments, build infrastructures, and offer cash grants. According to George Whelan (1985:13), another option to help reduce the cost of **granting** abatements is for public bodies to assume partnership roles in development ventures. Public officials can explore mutually beneficial economic development packages with businesses that are considering locating in their jurisdictions. Whelan (1985:13), states that a community is not required to prostrate itself at the feet of private developers, as may have once been the case.

Ledebur and **Woodward (1990:226)**, write that an additional option is for state and local governments to form contracts to control interregional competition. Several states (Massachusetts and Minnesota) have proposed such contracts. States, however, appear resistant to sign such pacts and have shown they will do everything they can, within budget constraints, to entice more investment.

State and local **governments** can take control of incentive packages by doing the following:

- Establishing clear and consistent policies on subsidies and avoid ad-hoc case by case packages.
- Establishing budgets for each fiscal year that identifies the amount of money the entity is willing to invest.
- Identifying a target rate of return on subsidies.
- Requiring jurisdictions to use the most cost-effective subsidies (tax abatements are seldom the most cost-effective).
- Developing the analytical capacity to evaluate the benefits and costs associated with the subsidies.

If these steps prove ineffective, there are options available at the federal level.

### **Promoting Alternative Economic Development: Federal Level Options**

There have been calls on Congress to end the bidding war between cities and states by using its power under the Commerce Clause of the Constitution (Downs, **1997:9**). One option would require companies receiving economic incentives to declare this money as income and then it would be taxed at 100 percent.

Only the federal government can take steps to correct the fiscal disparities that have created the competition for business capital. Nunn (**1994:582-584**), maintains that it is the responsibility of the highest tier of government to correct what the lower levels of government

cannot. Suggested measures for reform include: withholding federal **funds** or threatening to withhold federal **funds**; using legal or legislative remedies to promote judicial intervention and activism; limiting abatement agreements to areas that have the "greatest need"; and prohibiting abatement agreements altogether. While the options appear limited and most experts agree that economic development is essential, many agree that steps need to be taken to limit the "arms race." Current scholarly literature suggests that many states fear the unilateral withdrawal of abatements even though acknowledging they may not be **effective**. George Morse and Michael **Farmer** (1986:235), report that this is perhaps another indication that it would take national legislation to prohibit incentives. Contacting state and or local officials to **determine** the prevailing attitudes about abatement should prove beneficial. A statewide survey of Texas county judges was done to determine specific attitudes on tax abatements.

## Chapter 4: Conceptual Framework and Methodology:

### Connecting the survey instrument to the literature

#### Conceptual Framework

This chapter presents and explains the **framework** used to organize and construct the survey instrument. This ties current tax abatement literature to the **survey** instrument. Next the specifics of the methodology such as the strengths and weaknesses of survey research, the samples, and the statistics used are discussed.

The purpose of the research project is to (1) examine the issues surrounding property tax abatements, and (2) to describe the attitudes and opinions of Texas county judges.

Most economic development literature focuses on three issues:

- economic factors
- political factors
- location factors

Economic factors usually deal with the financial reasons tax abatements are offered. Political factors are significant in determining how much of a property's value will be abated and who will receive the abatements. Some authors maintain that political factors also encompass public approval of elected officials. Finally, locational factors deal with local governments struggle to maintain, expand, or recruit new business into communities.

Previous survey research on abatement issues has indicated a pattern of local officials having reservations about offering and granting abatements or incentives. Officials feel that in order to remain competitive in attracting and retaining businesses in their communities, they have no choice but to **compete for** economic development projects.

The literature review provides background **information** necessary to assess past attitudes and opinions on tax abatements. In addition, each factor is linked to sources in the larger literature. Since it would be difficult to question all 254 county judges in Texas, a sample of 60 will be used. Respondents are a non-random sample of county judges who were selected on the basis of the population of the counties in which they serve (**See Appendix A**). The counties with the 60 largest population were surveyed, because larger counties are more likely than smaller counties to offer tax abatements as economic development incentives.

## **Operationalization**

This project's conceptual framework encompasses three working categories, economic, political, and location considerations. The survey questions are a replication of questions **McKethan** (1997) used to assess the attitudes of municipal officials. The survey will help assess county judge's opinions on tax abatements taking the three above factors into consideration. The generalized categories on the questionnaires correspond to the conceptual framework as follows:

- Questions 1, 2, 3, 4, 5        =        Economic factors
- Questions 6, 7, 8, 9, 10, 14   =        Political factors
- **Questions 11, 12, 13, 15**       =        **Locational** factors

## **Economic Factors Affecting Abatement Decisions**

Many communities in many states have enacted ordinances granting cash-like incentive to new businesses, industries, institutions, and homeowners. Incentives were originally designed to improve blighted areas or reverse areas in decline. Swenson and **Eathington**

(1998:2) report researchers are challenged to determine whether these programs have merit. Many communities feel compelled to offer incentives, fearing not to do so would make them appear non-competitive.

According to **Burnier (1998:385)**, one goal of economic development programs is expansion of the economic pie. Incentives like tax abatements, low-interest loans, and building and infrastructure improvements are the development tools that will spark new or retain existing investments in the community. In addition, communities justify economic development initiatives on the grounds that there is no choice but to compete for already scarce development opportunities.

Questions one through five represent economic considerations when assessing opinions and attitudes on abatements. (See **Table 4.1**) The questions linking economic factors address whether incentives: are effective tools in attracting development; create jobs; are supply-side policies that are superior to demand side policies; result in a zero sum game; and cause erosion of local tax bases .

### **Political Factors Affecting Abatement Decisions**

Cities that "need" economic development are those most **likely** to pursue economic development, although "need" is subjective. According to Feiock (1989:267), generally, cities and states suffering fiscal stress and a **declining** employment or tax bases are better off if there are more businesses and jobs within their boundaries. Poorer and more fiscally stressed communities are more likely to rely upon expensive and concessionary economic development policies.



Neighboring jurisdictions are **often** perceived to be in competition with one another and competition for development results in a development "arms race." Not only do the less well off cities pursue economic development policies, but they tend to adopt the most costly policies in a feverish attempt to attract investment in the face of competition **from** better-off but less ambitious municipalities!

Feiock (1989:269) continues that tax abatements are thought to be one of the most expensive policies when there are other relatively inexpensive policy instruments that may actually be more effective. The continued popularity of expensive policies may be partly related to the competitive environment facing state and local governments desperate to do something regardless of the cost. Economic development policies can also provide high visibility for public officials for "credit claiming." If an **area** is experiencing economic decline there can be tremendous pressure on officials to do something. When a large manufacturer is lured with offers of tax abatements, there may be political benefits for whoever can claim the credit.

Bowman (1996:1) reports there are many factors that can **affect** a city's approach to economic development; changes in city leadership, the amount of state aid received, or the closure or downsizing of a large firm can also **have** a major impact. There are also local politics to consider, which can be a decisive factor in the direction any city takes.

Fowler (1999:2) makes the case that some officials gain political benefits when they explain the reasoning behind granting abatements. Officials believe new businesses will spend other money and pay other taxes that will be made up in the tax base, for example through sales taxes.

Questions number 6-10 and 14 represent political considerations when assessing opinions and attitudes on abatements. (See Table 4.1) The questions linking political factors include: how taxpayers view abatements; whether luring large corporations has significant advantages for local officials; whether abatements are seen as giveaways, but a necessity to compete; whether it is a necessity for officials to appear active in the economic development field; and whether local officials do not trust other cities not to offer them.

### **Locational Factors Affecting Abatement Decisions**

Firms evaluating a location **often** examine information about the level of costs at alternative locations (*Forces of Change: Shaping the Future of Texas*. 1994:136). According to Dabney (1991:325), **financial** incentives such as tax refunds, credits, and abatements only have a marginal effect upon a firm's location decision.

Early theories on location decisions stressed that a firm chooses a location based on its ability to maximize profit **or** minimize costs at a certain location. Costs are generally classified as those of raw materials, transportation, and labor.

Factors such as transportation, labor, and market proximity continue to dominate a firm's **locational** decision even though the firm may also be **influenced** by secondary considerations. Non-traditional factors, such as quality-of-life, are also more important elements when making a **location** decision (Dabney, 1991:328). Non-traditional factors include mild climates, affordable housing, cultural and recreational activities, and the quality of educational opportunities. After a region is selected, companies are then more sensitive to taxes when deciding where to locate within that region.

Downs (1997:9) reports that when a company decides to relocate, it is either the right location for them or it is not. When locations are economically inefficient, fewer private goods are produced and money ends up being diverted to private goods in order to subsidize inefficiency. With that logic, if a particular site is the best location for the company then they do not need subsidies anyway.

Questions 11, 12, 13 and 15 represent locational considerations when assessing opinions and attitudes on abatements. (**See Table 4.1**) The questions linking locational factors ask if abatements are: the primary reason a business picks a location; more important than quality of **life** factors; a deciding factor after the choice of locations has been narrowed down; and viewed by executives as a primary factor in making location decisions.

A **summary** of the conceptual framework shows how each element of the framework is linked to questionnaire items in **Table 4.1**.

Table 4.1

Connecting the Conceptual Framework to the Literature and Survey

Reference	County Judges' Opinions of Tax Abatements	Questionnaire Item
	<b>I. Economics</b>	
Burnier, 1992: 14	Effective tool in attracting industrial development	Item 1
Ihlandfeldt, 1995: 339	Job creation is primary goal of municipal economic development	Item 2
Reese and Malmer, 1994: 115	Abatements are more effective attracting industrial development than small business loans	Item 3
Nunn, 1994: 576	Abatements erode local tax base	Item 4
Bachelor, 1997: 711	Abatements result in a zero-sum game	Item 5
	<b>II. Political</b>	
Nunn, 1994: 580	Taxpayers favor granting abatements	Item 6
Feiock, 1989: 269	Recruiting business is politically advantageous for municipal officials	Item 7
Bachelor, 1994: 603-604	Abatements are viewed as corporate "giveaways" but are a necessity to compete with other communities	Item 8
Nunn, 1994: 575	Abatements are offered because other cities offer them	Item 9
Bachelor, 1994: 603-604	Political necessity to appear active in economic development	Item 10
Nunn, 1994: 575	Municipal officials offer abatements because they do not trust other cities not to	Item 14
	<b>III. Locational</b>	
Dabney, 1991: 328	Primary factor in making location decision	Item 11
Downs, 1997: 9	Quality of life and other factors considered before abatements	Item 12
Spindler and Forrester, 1993: 31	Abatements considered only after choices have been narrowed	Item 13
Dabney, 1991: 326	Executives view incentives before any other factor in making location decisions	Item 15

## Methodology

This section examines methodological issues such as survey research, the sampling technique, and the statistics. According to Earl Babbie (1998:255) and Robert Yin (1994:3), survey research is the most appropriate methodology for the descriptive phase of social research, and for that reason will be used for this research project. "Today, survey research is perhaps the most frequently used mode of observation in the social **sciences**."<sup>49</sup>

Survey research questions can be categorized as "who," "what," "where," "how" and "why" questions. There is a type of "what" question that is actually a **form** of "how much or how many" and this is best answered by using a survey. In addition, "a survey can be readily designed to enumerate the **what's**."<sup>50</sup> In this case, the "what" is what are the attitudes and opinions of county judges in Texas?

There are strengths and weaknesses for all types of social science research. An important aspect of survey research is that it is strong on reliability and weak on **validity**.<sup>51</sup> The categories for this project are: **SA=Strongly Agree**, **A=Agree**, **NO=No Opinion**, **D=Disagree**, and **SD=Strongly Disagree**. According to Babbie (1998:274), people's opinions seldom take the **form** of strongly agreeing to strongly disagreeing to a specific statement. In this case, survey responses must be regarded as only an approximate indicator of what the researcher had in mind when **framing** the question. Babbie continues that by presenting all subjects with standard stimulus, a survey will go a long way toward eliminating unreliable observations made by a researcher. **Carefully** worded questions can also significantly reduce

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<sup>49</sup> Earl Babbie, *The Case of Social Research*, pg. 255.

<sup>50</sup> Robert K. Yin, *Case Study Research: Design and Methods*, pg. 5-6

<sup>51</sup> Earl Babbie, *The Case of Social Research*, pg. 274.

the subject's own unreliability. Below are Babbie's (1998:272-274) suggested strengths and weaknesses of survey research. (See Table 4.2)

**Table 4.2**  
**Strengths and Weaknesses of Survey Research**

<b>Strengths</b>	<b>Weaknesses</b>
Are very useful in describing the characteristics of a large population.	Can appear superficial in the coverage of complex topics.
Make large samples feasible.	Can seldom deal with the <i>context</i> of social life.
Allow the development of operational definitions from actual observations.	Researchers rarely develop the feel for the total life situations in which respondents are thinking and acting.
By asking many questions there is considerable flexibility in the analyses.	Standardization often represents the least common denominator in assessing attitudes, circumstances, and experiences
Have an important strength in regard to measurement generally—researchers have to impute the same intent to all respondents to a given response.	Standardization can resemble putting square pegs into round holes, people's opinions seldom take the form of strongly agree or strongly disagree.
	Can be inflexible because they typically require that the initial study design remain unchanged throughout.
	Are subject to artificiality. Surveys cannot measure social action; they can only collect self-reports of recalled past action or of prospective or hypothetical action.
Source: Earl Babbie, <i>The Practice of Social Research</i> 8ed. Belmont, California: Wadsworth Publishing Company, 1998. Pages: 272-274	

Survey research requires that the survey instrument be tested for reliability. McKethan (1997) conducted a similar study in which he surveyed mayors and city officials of the 60

largest Texas municipalities. The survey is a replication of **McKethan's** survey, but will be administer to county judges instead of city mayor's or their representatives

As the number of available survey items has increased dramatically, so has the tendency to replicate existing items from other surveys. Aside **from** saving the work involved in developing new items, preexisting items typically carry some evidence of reliability and validity with **them**.<sup>52</sup>

Validity is defined as a measure that accurately reflects the concept you intended to measure. Reliability is the quality of a measurement method that suggests each time a question was asked to a diierent survey population you would come up with the same relative answers.

### **Survey Information**

This self-administered questionnaire was mailed to respondents on August 31, **1999**, with a cover letter explaining the purpose of the survey. The respondents were asked to return the survey by September 27, **1999 (See Appendix B)**. County judges were asked to complete the survey (**See Appendix C**), and return in an enclosed, stamped, self addressed envelope. County judges were selected from 60 counties. Judges were selected on the basis **of the** population count of the jurisdictions in which they served. Counties with the largest populations were selected because it is thought that the larger counties are more likely to offer tax abatements than smaller counties. A list of the judges selected are Listed alphabetical by the name of the county they serve (**See Appendix D**).

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<sup>52</sup> David L. Morgan, *Focus Groups as Qualitative Research*, pg. 25.

## Sample Information

In order to assess the effectiveness of the survey an acceptable response rate needs to be reached. Also if there is a high response rate, there is less chance of significant response bias. According to Babbie (1998:262), a response rate of **50** percent is adequate for reporting and analysis, **60** percent is good, and **70** percent is very good. This survey was sent to **60** Texas county judges and **51** were returned, which is an **85** percent response rate. A second mailing was not done due to the high response rate.

Respondents are a non-random sample **of judges** who were chosen on the basis of the populations in their respective counties. According to Babbie (1992:262), a process of purposive sampling in selecting a specific population may be appropriate based on the researcher's knowledge of the population. To determine prevailing attitudes on tax abatements, it is instrumental to survey respondents who have knowledge of the subject.

## Statistics

Once the surveys were returned, simple descriptive statistical analysis was **performed** to **quantify** the survey results. For each question, the frequency, percentage, and mode of the responses are calculated. The mode for each question determines the overall perception of the respondents for each statement. The following chapter provides a detailed analysis of the survey results.



## Chapter 5: Results

Chapter 5, the Results Chapter provides a description of the results of the survey. (See Table 5.1) Also provided is an analysis of the response rate, data tabulation, and an overall data summary. The perceptions of the county judges concerning economic, political, and locational factors, as pertains to abatement issues, are discussed in detail. Significant issues are identified and discussed.

There are strengths and weaknesses for all types of social science research. People's opinions seldom take the form of strongly agreeing or disagreeing to a specific statement. By using standard questions, a survey will go a long way toward eliminating **unreliable** observations made by a researcher. In addition, carefully worded questions significantly reduces the researcher's own unreliable observations.

The information in this survey is assessed on a scale of 1 to **3** using an interpretation of Likert-type answers with the data compressed into three categories: (1) respondents agree with the statements; (2) respondents **are** neutral or have no opinion on the statements; and (3) respondents disagree with the statements. An examination of the **findings** for economic, political, and **locational** factors were examined using a mean rating of between 1 and 3.

### Economic Summary of Findings

Economic considerations in **offering** tax abatements are the first set of factors examined. (See Table 5.1). Respondents were asked if they found tax abatements and incentives to be effective tools in attracting industrial development. The judges strongly supported this statement with 96 percent of them agreeing that abatements are an effective

industrial development tool. When asked if the judges believe job creation is the primary goal of economic development, 90 percent of them agreed.

**Tax** abatements are seen as supply-side economic development policies, while business recruitment and small business loans are seen as demand-side policies. Respondents were asked if they believed that supply-side policies were more effective in attracting business than demand-side policies. The range of opinions on this question were more varied; however, nearly 60 percent of the respondents agreed supply-side policies are more effective than demand-side policies in attracting development.

The judges were asked if they agreed with the statement that tax abatements erode the local tax base, more than 65 percent of the respondents disagreed with this statement. Some of the literature suggests that tax abatements result in a zero-sum game where corporations simply move **from** one city and one incentive to another. Nearly 70 percent of the judges disagreed with this statement.

Of economic factors considered, the statement receiving the greatest support (96 percent) **from** the judges was that abatements are an effective industrial development tool with job creation as one of the primary goals. Another question that had the second highest rate of approval was whether creation **of jobs** is the primary goal of economic development.

### **Political Summary of Findings**

Political considerations are the next set of factors examined. (See Table 5.1) The county judges believe that most taxpayers look favorably upon the granting of tax abatement with nearly 60 percent agreeing. **In** addition, 67 percent of the judges think **bringing** business into a community has significant political advantages for municipal officials. The judges

acknowledge there are political advantages to offering abatements; but only **49** percent agreed that property tax abatements are viewed as corporate "giveaways" that are a necessity to compete with neighboring communities. Overall, the judges disagreed that abatements are a "giveaway."

Nearly **80** percent of the respondents agree that abatements are offered in large part because other cities make them available. Respondents were asked if they believe it is a politically necessity for local officials to appear active in the economic development field, to which **78** percent of the judges agreed. Only **49** percent of the judges agreed with the statement that tax abatements are offered because local **officials** do not trust other cities not to offer them.

### **Location Summary of Findings**

The final set of factors examined are location considerations. (See Table 5.1) The judges were asked if they believe that businesses view the availability of abatements as a primary factor in deciding to locate in a community. The respondents were more evenly split on their answers to this question; however, there was general disagreement with this statement. Overall, only **47** percent of the judges agreed that abatements were a deciding factor in making location decisions. Exactly 65 percent of the judges believe quality of life factors are considered before abatement considerations. Tax abatements are not viewed by the judges as a major factor in a location decision; however, over **80** percent of the judges do think abatement considerations are a major factor once a business has narrowed down the list of locations to a small number of cities.

Finally, the judges were asked if they believe that most corporate executives view incentives before any other factor in deciding to locate in a particular area? The judges strongly disagreed with this statement, with over 60 percent in disagreement. The judge's responses indicate that businesses consider factors other than incentives as a primary factor in making location decisions.

## **Summary**

The scholarly literature does not provide comprehensive information on local government official's attitudes on specific issues dealing incentives and abatements. The survey of Texas county judges does indicate that officials in the positions to offer abatements are aware of the ramifications such decisions can bring. Most of the opinions expressed by the judges in this survey are corroborated in current literature. Officials feel compelled to offer incentives to expand tax bases, and do so in large part, because this offers political and economic advantages to local governments and their **officials**. There is general agreement that abatements do not erode tax bases, but at the same time officials understanding that there are more effective economic development tools available.

Table 5.1

Survey Results for Economic, Political, and Locational Factors  
Percent Distribution

Factors	Agree (%o)	Neutral (%o)	Disagree (%)	Total * (N = 51)
<b>Economic:</b>				
attract industrial development	96	2	2	100 % n = 51
creation of <b>jobs</b>	<b>90</b>	4	6	100 % n = 51
supply-side policies more effective than demand-side policies	59	29	12	100 % n = 51
erosion of local <b>tax</b> base	13	20	67	100 % n = 51
tax abatements result in a <b>zero-sum</b> game	12	20	69	100 % n = 51
<b>Political:</b>				
<b>taxpayers</b> look favorably upon granting abatements	57	16	28	100 % n = 51
significant political advantages for local officials	67	22	12	100 % n = 51
administrators view abatements as "giveaways"	49	16	35	100 % n = 49
offer abatements because other cities do so	78	6	16	100 % n = 49
political necessity to appear active in economic development	78	12	10	100 % n = 49
do not trust other cities <b>not</b> to offer them	49	22	29	100 % n = 49
<b>Locational:</b>				
Abatements are a <b>primary</b> factor in location decision	47	12	41	100 % n = 49
quality of life factors considered <b>first</b>	65	19	17	100 % n = 49
to narrow list of possible locations	82	8	10	100 % n = 48
corporate executives view incentives before other factors	12	27	61	100 % n = 49

\* Totals do not **sum** to 100 due to rounding.

## Chapter 6 : Conclusion

The professional literature on economic development, and tax abatements in specific, sporadically report the opinions of local government **officials** on tax abatements. However, survey research targeting **affected** officials does not exist to provide empirical evidence. This research project is not conclusive; but does provide insight into some of the economic, political, and locational factors that **affect** Texas county judges' opinions on tax abatement issues.

### Summary of Opinions on Economic Factors

The Texas county judges surveyed have offered their opinions on tax abatements and given their perceptions on what offering abatements means to their individual communities. (See Table 6.1) Concerning economic factors, the judges believe incentives and tax abatements are effective economic development tools that attract industrial development. The judges also support the idea that job creation is the primary goal of economic development.

Respondents agreed that supply-side policies are more effective than demand-side policies in attracting development. The judges disagree that tax abatements erode the local tax base. Some of the literature suggests that tax abatements result in a zero-sum game where corporations simply move **from** one city and one incentive to another. The respondents strongly disagreed with that statement.

## **Summary of Opinions on Political Factors**

Political considerations are examined next. (See Table 6.1) The judges believe most taxpayers look favorably upon granting of tax abatements. They also agree that bringing business into a community by offering incentives has significant political advantages for municipal officials. The judges disagreed with the statement that corporations view tax abatements as corporate "giveaways." The judges agreed that abatements are a necessity to remain competitive with other communities.

Texas county judges agree that abatements are offered in large part because other cities offer them. Finally, the judges believe it is a political necessity for local officials to appear active in the field of economic development. Finally, the judges disagreed that tax abatements are offered because local officials do not **trust** other cities not to offer them.

## **Summary of Opinions on Location Factors**

Location considerations are the final set of factors examined. (See Table 6.1) The respondents do not believe corporations view the availability of abatements as a primary factor in deciding to locate in a community. The judges agree that corporations view quality of life and other factors before considering tax abatements. The judges did agree, however, that after a corporation narrows down a list of possible locations to a small number of cities, offers of tax abatements become a consideration.

Finally, the judges disagreed with the statement that incentives are a primary factor for corporations making a location decision. The judges recognize that factors other than incentives are considered before making a final location decision.

**A study conducted by McKethan (1997) asked municipal officials the same questions. (See Table 6.1) A comparison of McKethan's 1997 findings are presented with the finding of this research project.**



Table 6.1

## Summary of Economic, Political, and Location Considerations

	<b>McKethan's 1997 Findings Agree/Do Not Agree</b>	<b>Anderson's 1999 Findings Agree*/Do Not Agree</b>
<b>Economic Considerations</b>		
Effective tool in attracting industrial development	Agree	Agree
Job creation is primary goal of economic development	Agree	Agree
Abatements more effective attracting business than small business loans	Agree	Agree
Erode local tax base	Do Not Agree	Do Not Agree
Result in a zero-sum game	Do Not Agree	Do Not Agree
<b>Political Considerations</b>		
Taxpayers look favorably upon granting	Do Not Agree	Agree
Significant political advantages	Agree	Agree
View abatements as "giveaways," but still a political necessity	Agree	Do Not Agree
Offer abatements because other cities do so	Agree	Agree
Political necessity to appear active in economic development	Agree	Agree
Do not trust other cities <u>not</u> to offer incentives	Do Not Agree	Do Not Agree
<b>Location Considerations</b>		
Primary factor in location decision	Do Not Agree	Do Not Agree
Quality of life factors considered first	Agree	Agree
To narrow list of possible locations	Agree	Agree
Corporate executives view incentives before other factors	Do Not Agree	Do Not Agree
	<b>N= 34</b>	<b>N= 51</b>
<b>*Agree = 50% or more of respondents agree with statement.</b>		

## **Suggestions for Further Research**

In comparing the reported results from **McKethan's** study, there are two areas that city **officials** differed from county judges. The first area was the statement that taxpayers look favorably upon the granting of tax abatements. This survey showed that 57 percent of the county judges agreed with the statement that taxpayers look favorably upon granting abatements. The 1997 study of municipal officials found that only 26 percent of respondents agreed that taxpayers look favorably upon granting abatements.

Another question with a difference of opinion was with the statement that corporations view abatements as "giveaways," but are still a political necessity. In this study, exactly 49 percent of the judges agreed that corporations view abatements as "giveaways," but were still a political necessity, while the 1997 study showed that 54 percent of municipal officials agreed. While there was a difference in opinion with this statement, the survey respondents were closely split on this issue.

In Texas, the responsibility for assessing what exactly has been abated for property tax purposes falls on the county appraisal districts. It would be interesting to survey the chief appraisers to see if their opinions are similar to municipal officials and county judges.

Since **McKethan's** findings **differ** slightly with these reported results, another population to examine would be taxpayers. Taxpayer should be surveyed to find out specifically what their opinions are on tax abatements and if they agree with local government officials on tax abatement issues.

The scholarly literature seems to suggest that officials offer abatements without a complete picture of what is being offered. County judges understand that abatements may be "giveaways," but the competition for economic development continues. With the continued

competition, most local officials feel they have no choice but to continue to compete in the field of economic development.

Many of the respondents answered "No opinion" to a large number of the questions. In order to determine the reason for the high number of responses with no opinions it is suggested that more demographic information be compiled if a similar study is undertaken. This would be **helpful** in determining if the neutral responses were due to the fact the respondents did not offer tax abatement in their respective communities and were therefore not familiar with tax abatements; or if they in fact had no discernible opinion on the subject.

# APPENDIX A

## COUNTY POPULATION ESTIMATES: 1990 TO 1998

### TEXAS STATE DATA CENTER POPULATION ESTIMATES FOR TEXAS COUNTIES, 1990 TO 1998

County <u>Code</u>	<u>County</u>	<u>April 1990</u>	<u>July 1997</u>	<u>January 1998</u>	<u>Metropolitan Statistical Area (MSA) Name</u>
1	101 Harris	2,818,101	3,157,875	3,178,995	Houston
2	057 Dallas	1,852,810	2,021,087	2,032,171	Dallas
3	015 Bexar	1,185,394	1,334,722	1,342,934	San Antonio
4	220 Tarrant	1,170,103	1,328,732	1,340,037	Fort Worth-Arlington
5	227 Travis	576,407	693,517	699,981	Austin-San Marcos
6	071 El Paso	591,610	683,657	688,626	El Paso
7	108 Hidalgo	383,545	511,324	518,878	McAllen-Edinburg-Mission
8	043 Collin	264,036	401,443	416,620	Dallas
9	081 Denton	273,525	371,518	382,389	Dallas
10	078 Fort Bend	225,421	316,886	324,189	Houston
11	031 Cameron	260,120	316,542	318,737	Brownsville-Harlingen-San Benito
12	178 Nueces	291,145	311,496	312,081	Corpus Christi
13	170 Montgomery	182,201	253,744	259,999	Houston
14	123 Jefferson	239,389	247,646	248,481	Beaumont-Port Arthur
15	084 Galveston	217,396	242,133	242,253	Galveston-Texas City
16	152 Lubbock	222,636	232,458	231,841	Lubbock
17	020 Brazoria	191,707	224,910	227,523	Brazoria
18	014 Bell	191,073	225,419	226,952	Killeen-Temple
19	246 Williamson	139,551	207,123	212,893	Austin-San Marcos
20	161 McLennan	189,123	203,788	204,265	Waco
21	240 Webb	133,239	184,980	189,037	Laredo
22	212 Smith	151,309	165,705	166,275	Tyler
23	021 Brazos	121,862	139,352	140,025	Bryan-College Station
24	243 Wichita	122,378	129,232	127,975	Wichita Falls
25	221 Taylor	119,655	127,909	127,877	Abilene
26	088 Ector	118,934	123,795	124,139	Odessa-Midland
27	165 Midland	106,611	118,634	119,576	Odessa-Midland
28	126 Johnson	97,165	113,052	114,916	Fort Worth-Arlington
29	092 Gregg	104,948	112,399	112,848	Longview-Marshall
30	188 Potter	97,841	109,316	109,577	Amarillo
31	226 Tom Green	98,458	105,416	105,578	San Angelo
32	091 Grayson	95,019	102,998	104,202	Sherman-Denison
33	070 Ellis	85,167	100,100	102,200	Dallas
34	191 Randall	89,673	100,829	101,076	Amarillo
35	105 Hays	65,614	84,800	86,475	Austin-San Marcos
36	181 Orange	80,509	84,603	84,194	Beaumont-Port Arthur
37	235 Victoria	74,361	82,580	83,362	Victoria

# APPENDIX A

## COUNTY POPULATION ESTIMATES: 1990 TO 1998

TEXAS STATE DATA CENTER POPULATION ESTIMATES FOR TEXAS COUNTIES, 1990 TO 1998

County <u>Code</u>	<u>County</u>	April <u>1990</u>	July <u>1997</u>	January <u>1998</u>	Metropolitan Statistical Area ( <u>MSA</u> ) Name
38	019 <b>Bowie</b>	81,665	83,591	82,854	<b>Texarkana</b>
39	003 <b>Angelina</b>	69,884	78,115	79,270	
40	184 Parker	64,785	76,267	77,525	Fort Worth-Arlington
41	050 <b>Coryell</b>	64,226	75,521	76,197	Killeen-Temple
42	094 Guadalupe	64,873	75,155	75,906	San Antonio
43	046 Comal	51,832	71,043	72,354	San Antonio
44	116 Hunt	64,343	70,443	71,039	Dallas
45	107 Henderson	58,543	67,645	68,962	Dallas
46	205 San <b>Patricio</b>	58,749	66,796	67,205	Corpus <b>Christi</b>
47	146 Liberty	52,726	65,044	65,844	Houston
48	129 Kaufman	52,220	62,941	63,583	Dallas
49	102 Harrison	57,483	60,681	60,609	Longview-Marshall
50	174 Nacogdoche:	54,753	59,699	59,717	
51	236 Walker	50,917	57,346	57,830	
52	001 Anderson	48,024	52,949	53,424	
53	214 Starr	40,518	50,380	50,970	
54	011 <b>Bastrop</b>	38,263	48,178	48,929	
55	100 <b>Hardin</b>	41,320	47,178	47,553	Austin-San <b>Marcos</b>
56	139 Lamar	43,949	45,746	45,766	Beaumont-Port Arthur
57	159 Maverick	36,378	45,218	45,763	
58	201 Rusk	43,735	45,568	45,571	
59	037 Cherokee	41,049	44,736	45,317	
60	133 <b>Kerr</b>	36,304	42,874	43,238	

SOURCE: Texas State Data **Center/Texas A&M** University; the April 1990  
**population** figures are the latest revised Census  
 Bureau figures, and do not include estimates for the undercount.

## **Appendix B**

August 31, 1999

Name

County Name

Address

City, State Zip

The Honorable Judge \_\_\_\_\_

I am a graduate student at Southwest Texas State University and will graduate in December 1999 with a Master in Public Administration. One degree requirement is to complete an applied research project. My project involves gathering information **from** Texas county judges about their attitudes and opinions on property tax abatements and incentives. To this end, I selected the top sixty counties based upon population density to participate in this survey.

I would greatly appreciate your taking time to respond to questions on the enclosed survey. Your responses are confidential and will be destroyed upon project completion. Please return the survey by September 27, 1999, in the enclosed self-addressed, stamped envelope.

Thank you in advance for participating in my project and returning the survey within the specified time.

Sincerely,

Sherry Anderson  
103-A Cloudview Drive  
Austin, Texas 78745-5612

## **Appendix C**

A Study to Describe the Attitudes and Opinions of Texas County Judges on the Effectiveness of Tax Abatements and **Incentives**

This questionnaire is designed to obtain specific **information** on County Judges' attitudes and perceptions concerning tax abatements and incentives.

Please circle the appropriate response:

**SA=Strongly Agree**

**A=Agree**

**NO=No Opinion**

**D=Disagree**

**SD=Strongly Disagree**

- 
1. I believe **tax** abatements and incentives are an effective tool in attracting industrial development.

**SA**

**A**

**NO**

**D**

**SD**

2. I believe job creation is the primary goal of municipal economic development.

**SA**

**A**

**NO**

**D**

**SD**

3. I believe supply-side policies such as tax abatements are more effective in attracting industrial development than demand-side policies such as small business loans.

**SA**

**A**

**NO**

**D**

**SD**

4. I believe tax abatements erode the local tax base.

**SA**

**A**

**NO**

**D**

**SD**

5. I believe supply-side policies such as tax abatements result in a zero-sum game in which corporations simply move **from** one city and one incentive to another.

**SA**

**A**

**NO**

**D**

**SD**

6. I believe that most taxpayers look favorably upon the granting of property tax abatements.

**SA**

**A**

**NO**

**D**

**SD**

7. I believe luring a large corporation to the community has significant political advantages for a municipal official.

**SA**

**A**

**NO**

**D**

**SD**

8. I believe most municipal administrators view property tax abatements as "giveaways" to corporations, but necessary to compete with neighboring communities.

SA                      A                      NO                      D                      SD

9. I believe the primary reason abatements are offered to corporations is because other cities also make them available.

SA                      A                      NO                      D                      SD

10. I believe it is politically necessary for a municipal official to appear active in the field of economic development.

SA                      A                      NO                      D                      SD

11. Generally, I believe industrial corporations view the availability of abatements as a primary factor in deciding to locate in a community.

SA                      A                      NO                      D                      SD

12. I believe most corporations view quality of life and other factors before considering abatements.

SA                      A                      NO                      D                      SD

13. I believe tax abatements are a major factor only after a corporation has narrowed the possible list of locations to a **small** number of cities.

SA                      A                      NO                      D                      SD

14. I believe most municipal officials offer tax abatements because they do not trust other cities not to do ~~so~~.

SA                      A                      NO                      D                      SD

15. I believe most corporate executives view incentives before any other factor in deciding to locate in a particular area.

SA                      A                      NO                      D                      SD

*Responses to the above questions will be held confidential.*



## **Appendix D**

### **List of County Judges Surveyed**

#### Anderson County

The Honorable Carey G. **McKinney**  
500 North Church Street  
Palestine, Texas 75801-3000

#### **Brazos** County

The Honorable Alvin W. Jones  
300 East 26th Street, Suite 114  
Bryan, Texas 77803-5363

#### Angelina County

The Honorable Joe **Berry**  
Post Office Box 908  
Lufkin, Texas 75902-0908

#### Cameron County

The Honorable Gilberto **Hinojosa**  
964 East Harrison Street  
**Brownsville**, Texas 78520-7123

#### Bastrop County

The Honorable Ronnie C. McDonald  
804 Pecan Street  
Bastrop, Texas 78602-3846

#### Cherokee County

The Honorable Harry G. Tilley  
502 North Main Street  
Rusk, Texas **75785-1343**

#### Bell County

The Honorable Jon H. Burrows  
Post Office Box 768  
**Belton**, Texas 76513-0768

#### Collin County

The Honorable Ronald L. Harris  
210 South McDonald Street, Suite 626  
**McKinney**, Texas 75069-5667

#### **Bexar** County

The Honorable **Cyndi** Taylor **Krier**  
100 Dolorosa, Suite 101  
San Antonio, Texas 78205-3002

#### Comal County

The Honorable Danny Scheel  
150 North **Seguin** Street, Suite 301  
New **Braunfels**, Texas 78130-5122

#### Bowie County

The Honorable James M. **Carlow**  
Post Office Box 248  
New Boston, Texas 75570-0248

#### **Coryell** County

The Honorable John Hull  
620 East Main Street  
**Gatesville**, Texas 76528-1334

#### **Brazoria** County

The Honorable John G. **Willy**  
111 East Locust Street, Suite 308  
Angleton, Texas 77515-4642

#### Dallas County

The Honorable Lee F. Jackson  
411 Elm Street, 2nd Floor  
Dallas, Texas 75202-3317

**Denton** County  
The Honorable Kirk Wilson  
110 West Hickory Street  
**Denton, Texas 76201-4116**

**Guadalupe** County  
The Honorable James E. Sagebiel  
307 West Court Street  
**Seguin, Texas 78155-5743**

**Ector** County  
The Honorable Jerry D. Caddel  
300 North Grant Avenue, Room 227  
Odessa, Texas **79761-5159**

**Hardin** County  
The Honorable Billy Bruce Caraway  
Post Office Box 760  
**Kountze, Texas 77625-0760**

**El Paso** County  
The Honorable Dolores Briones  
500 E. San Antonio Avenue, Room 301  
**El Paso, Texas 79901-2419**

**Harris** County  
The Honorable Robert A. Eckels  
1001 Preston Avenue, Suite 911  
Houston, Texas **77002-1817**

**Ellis** County  
The Honorable Al Cornelius  
101 West Main Street  
**Waxahachie, Texas 75165-3759**

**Harrison** County  
The Honorable J. Rodney Gilstrap  
200 West Houston Street, Room 315  
Marshall, Texas **75670-4028**

**Fort Bend** County  
The Honorable James C. Adolphus  
301 Jackson Street, Suite 719  
Richmond, Texas **77469-3108**

**Hays** County  
The Honorable Jim Powers  
111 East San Antonio Street, Suite 300  
**San Marcos, Texas 78666**

**Galveston** County  
The Honorable James D. Yarbrough  
722 Moody Avenue #200  
**Galveston, Texas 77550-2318**

**Henderson** County  
The Honorable Tommy G. Smith  
101 East Tyler Street  
Athens, Texas **75751-2547**

**Grayson** County  
The Honorable Horace Groff  
100 West Houston Street, Suite 15  
Sherman, Texas **75090-5958**

**Hidalgo** County  
The Honorable Jose Eloy Pulido  
Post Office Box 1356  
**Edinburg, Texas 78540-1356**

**Gregg** County  
The Honorable Mickey D. Smith  
101 East Methvin Street, Suite 300  
**Longview, Texas 75601-7236**

**Hunt** County  
The Honorable Joe A. Bobbitt  
Post Office Box 1097  
**Greenville, Texas 75403-1097**

Jefferson County  
The Honorable Carl R. **Griffith**  
Post Office Box **4025**  
Beaumont, Texas **77704-4025**

**McLennan** County  
The Honorable Jim Lewis  
Post Office Box **1728**  
Waco, Texas **76703-1728**

Johnson County  
The Honorable Roger **Harmon**  
**2** North Main Street  
Cleburne, Texas **76031-5573**

Midland County  
The Honorable Bill Morrow  
**200** West **Wall** Street **#6**  
Midland, Texas **79701-4512**

Kaufinan County  
The Honorable Wayne Gent  
**100** West Mulberry Street  
Kaufinan, Texas **75142-2058**

Montgomery County  
**The** Honorable Alan B. Sadler  
**301** North Thompson Street, Suite **210**  
**Conroe**, Texas **77301-2893**

Kerr County  
The Honorable Frederick L. Henneke  
**700** Main Street  
**Kerrville**, Texas **78028-5323**

Nacogdoches County  
The Honorable Sue Kennedy  
**101** West Main Street, Suite **130**  
Nacogdoches, Texas **75961-4806**

Lamar County  
The Honorable M. C. **Superville**  
**119** North Main Street, Room **201**  
Paris, Texas **75460-4266**

**Nueces** County  
The Honorable Richard M. Borchard  
**901** Leopard Street, Room **303**  
Corpus Christi, Texas **78401-3602**

Liberty County  
The Honorable I. Lloyd **Kirkham**  
**1923** Sam Houston Street, Room **201**  
Liberty, Texas **77575-4846**

Orange County  
The Honorable Carl K. **Thibodeaux**  
**801** Division Street, Room **207**  
Orange, Texas **77630-6353**

Lubbock County  
The Honorable Thomas V. Head  
Post Office Box **10536**  
Lubbock, Texas **79408-3536**

Parker County  
The Honorable Mark Riley  
**1** Courthouse Square  
Weatherford, Texas **76086-4302**

Maverick County  
The Honorable Rogelio Escobedo  
Post Office Box **955**  
Eagle Pass, Texas **78853-0955**

Potter County  
The Honorable Arthur Ware  
**500** South Fillmore Street  
Amarillo, Texas **79101-2439**

Randall County  
The Honorable Ted Wood  
401 16th Street  
Canyon, Texas 79015-3841

Tom Green County  
The Honorable Michael D. Brown  
112 West Beauregard Avenue  
San Angelo, Texas 76903-5835

Rusk County  
The Honorable Sandra Hodges  
115 North Main Street  
Henderson, Texas 75652-3147

Travis County  
The Honorable Samuel T. Biscoe  
Post Office Box 1748  
Austin, Texas 78767-1748

San Patricio County  
The Honorable Josephine Miller  
400 West Sinton Street, Room 105  
Sinton, Texas 78387-2450

Victoria County  
The Honorable Helen R. Walker  
115 North Bridge Street, Room 127  
Victoria, Texas 77901-6544

Smith County  
The Honorable Larry T. Craig  
100 North Broadway Avenue, 3rd Floor  
Tyler, Texas 75702-7236

Walker County  
The Honorable Charles Wagamon  
1100 University Avenue, Room 204  
Huntsville, Texas 77340-4641

Starr County  
The Honorable Jesus Alvarez  
County Courthouse, Room 203  
Rio Grande, Texas 78584

Webb County  
The Honorable Mercurio Martinez  
Post Office Box 29  
Laredo, Texas 78042-0029

Tarrant County  
The Honorable Tom Vandergriff  
100 East Weatherford Street, Suite 501  
Fort Worth, Texas 76102-2115

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## Glossary:

**Abatement** – an amount abated; esp.: a deduction **from** the full amount of a tax.”

**Empowerment Zones\* (EZs)** – are communities selected by the federal government and receive all of the benefits that Enterprise Communities receive, in addition to others. These benefits include: Employer Wage Credits for qualified employers who engage in trade, business, or human service delivery in designated Empowerment Zones; businesses are allowed an increased income tax deduction for qualified investments; and states with designated rural Empowerment Zones will receive Empowerment **Zone/Enterprise** Community Social Service Block Grants (**EZ/EC** SSBG).

**Enterprise Communities\* (ECs)** – are rural communities selected by the federal government to receive federal assistance including: tax-exempt Facilities Bonds for certain private business activities; special consideration in competition for funding under numerous Federal programs; and states with designated communities will receive Empowerment **Zone/Enterprise** Community Social Service Block Grants (**EZ/EC** SSBG).

**Enterprise Projects (EPs)** – an enterprise zone is defined by the Texas Department of Commerce as "a qualified business that commits to create or retain **permanent** jobs; commits

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<sup>53</sup> Webster's Ninth New Collegiate Dictionary. Copyright 1984 by Merriam-Webster Inc. Pg. 44.

to make a minimum investment in the enterprise zone; and commits to maintain a level of jobs from the date of state tax refund for at least three years.”<sup>54</sup>

Enterprise Zones (**EZs**) – are areas that are economically distressed (in Texas, this designation lasts for seven years), has more rigorous economic qualification standards, and offers a wider range of incentives on both the state and local levels. In Texas, for tax abatement purposes, enterprise zones are considered reinvestment zones without further designation.<sup>55</sup>

Financial incentives – economic developers use tools that facilitate and encourage business relocation, expansion, and retention. Incentives should encourage actions or activities that would not have taken place if the incentives were not offered. And, incentives can be classified in two broad categories: non-tax and tax. They lower business costs and do not involve a direct outlay of public funds, while at the same time encouraging job creation and capital investment.”

Historic preservation sites (**HPs**) – a local taxing entity may choose to grant an exemption to a historic site. Under the Texas Property Tax Code, Section 11.24, there are two main requirements to receive historic preservation status: the property should be designated as a

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<sup>54</sup> “Tax Abatement Policy in Texas” Texas Research League, December 1994, pg. 20.

<sup>55</sup> “Tax Abatement Policy in Texas” Texas Research League, December 1994, pg. 19.

<sup>56</sup> Interim Report on Economic Development Incentives,” Senate Economic Development Committee, 75<sup>th</sup> Legislature, July 1996, pg. 4.

Recorded Texas Historic **Landmark**<sup>57</sup> by the Texas Historical Commission; or designated as a historically significant site in need of tax relief to encourage **preservation**.<sup>58</sup>

**Reinvestment Zones (RZs)** - The Texas Property Tax Code, Section **11.28**, defines a reinvestment zone as an area where private investment will promote economic development and public welfare. Property owners within a zone, who make specified improvements, receive an exemption for all or part of the value of new improvements to the **property**.<sup>59</sup> A reinvestment zone is used as a local economic development tool, and is intended to stimulate local economies by attracting new companies and encouraging growth of existing **businesses**.<sup>60</sup> Also defined as, "geographic areas designated by a city or county for the purpose of granting tax abatement or tax increment **financing**."<sup>61</sup>

**Tax abatement programs (TAPs)** - the Texas Property Tax Code, Section **11.28**, defines a property **tax** abatement as exempting all or part of the increase in the value of improvements and personal property. Abatements begin when a local government designates a particular area as a "reinvestment **zone**."<sup>62</sup>

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<sup>57</sup> Texas Government Code, Chapter 442.

<sup>58</sup> <<http://lm.window.state.tx.us/taxinfo/inci&nice/proptax.ht>

<sup>59</sup> <<http://www.window.state.tx.us/taxinfo/incidence/proptax.html>>

<sup>60</sup> "Reinvestment Zones & Tax Abatements," Texas Department of Commerce, March 1997.

<sup>61</sup> "Interim Report on Economic Development Incentives," Senate Economic Development Committee, 75<sup>th</sup> Legislature, July 1996, pg. 29.

<sup>62</sup> <<http://www.window.state.tx.us/taxinfo/incidence/proptax.html>>

**Tax** Increment Funds (**TIFs**) – are similar to a tax abatement in that both programs require that a reinvestment zone be designated according to the Texas Tax Code, V.A.T.C., Art. 1066e. TIFs use public money to pay for public improvements and does not involve exemptions. Cities act as developers, making improvements according to a master plan. Improvements are made in the **TIF** zones and are paid for by **selling** bonds. Instead of paying off the bonds from city revenues, the cities use a special **fund** comprised of taxes that are levied by all of taxing units in the zone. Taxes are levied on the increased property values in the zone. Another notable difference between abatements and TIFs; TIFs require other taxing units to participate in the plan, whereas abatements offer the option of not participating in the agreements. However, tax abatements create penalties for taxing units who do not participate.

\***EZ/ECs** were designed to empower rural communities and their residents to create jobs and opportunities by building Federal-State-local and private-sector partnership. Businesses are encouraged to invest in and create jobs in distressed areas, stimulating the creation of new jobs, particularly for the disadvantaged and long-term unemployed. They operate under four key principles:

- (1) Economic opportunity, including job creation and expansion.
- (2) Sustaining community development through comprehensive approaches.
- (3) Community-based partnerships, involving participation of **all** segments of the community.
- (4) Strategic vision for change, providing the community with a strategic map for **revitalization**.

Note: The Department of Agriculture is responsible for the designation of Rural Empowerment Zones and Enterprise Communities (**EZ/ECs**), with the federal legislation being effective March 8, 1995. This is under Subchapter C, Part I (Empowerment Zones, Enterprise Communities and Rural Development Investment Areas) of Title **XIII** of the Omnibus Budget Reconciliation Act of 1993.

This information was provided from the United States Department of Agriculture  
Home page: <http://www.ezec.gov/About/rurlreg.html>.