



Legislative UPDATE

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Looking Ahead: Property Tax Abatement and the Economic Development Landscape

Economic development incentives have always been controversial. When a city offers an incentive to attract a new business, like a property tax abatement agreement or sales tax rebate, the city council often hears from citizens that the deal is a form of corporate welfare and merely shifts the tax burden to homeowners to cover the subsidy to the business. Heated but healthy debates over the merits and necessity of incentives occur in city halls across the state on a monthly basis.

As a practical matter though, if your city wants to “win” a new manufacturing facility or corporate headquarters, it typically must play the game. That’s the reality when other cities, states, and even countries are offering lucrative incentives to lure businesses elsewhere.

For cities and businesses alike, the big economic development issue in the next legislative session will be the extension of the statute authorizing cities to enter into property tax abatement agreements. Chapter 312 of the Texas Tax Code authorizes taxing entities (excluding school districts) to use property tax abatement as an incentive to both attract new businesses and retain and develop existing businesses. Under the statute, taxing entities may limit the property taxes assessed on repairs or improvements to certain properties for up to ten years. Texas cities are authorized by the statute to tailor tax abatement agreements to city-specific economic development guidelines and criteria.

Section 312.006 of the Tax Code currently reads as follows:

Sec. 312.006. EXPIRATION DATE. If not continued in effect, this chapter expires September 1, 2019.

A bill to extend the expiration date above must pass both houses of the Texas legislature and be signed by the governor in 2019 in order for cities to retain their ability to offer traditional property tax abatement agreements moving forward. Given the contentious nature of economic development incentives, passage of this legislation is far from a safe bet. In all likelihood following our policy development process in the summer of this year, TML will be very supportive of efforts to extend the expiration date next session.

With the property tax abatement debate looming next session, TML has joined the Texas 2050 Coalition, a group of chambers of commerce and business and civic associations united to promote economic innovation and prosperity throughout the state. The Texas 2050 Coalition recently submitted a letter supporting the work of the House Select Committee on Economic Competitiveness. That letter can be read [here](#).

Incentives, while important to many cities, aren't the only thing for Texas cities to consider when making their communities more business-friendly. Consider the recent process to attract Amazon's second headquarters, or "HQ2." Perhaps no economic development issue in recent memory has received as much attention, or sparked as much debate. Amazon received over 200 responses from cities and counties nationwide to its HQ2 RFP issued late last year, almost all of which included substantial subsidies offered in exchange for the estimated 50,000 high-paying jobs Amazon is expected to bring with it.

Looking at the [Amazon RFP](#) provides insight into what businesses might value in a prospective location, even if not all businesses can be equated with Amazon. The RFP mentions, in no particular order, the key decision drivers for where Amazon will locate its HQ2. Not surprisingly, incentives are included in that list, along with other fairly straightforward considerations like workforce, a suitable building site, and a business-friendly environment and tax structure.

On a more fundamental level, though, the RFP includes decision drivers entitled "Cultural Community Fit" and "Community/Quality of Life." These factors encompass "local government structure and elected officials eager and willing to work with the company," and "a community where our employees will enjoy living, recreational opportunities, educational opportunities, and an overall high quality of life." If the Amazon RFP demonstrates anything, it's that economic development is bigger than just incentives.

For better or worse, tax incentives are an important piece of the economic development puzzle. But beyond incentives, city leaders play an instrumental role in making sure Texas communities appeal to businesses and job-seekers alike. People want to locate in communities that have strong public schools, new and well-maintained infrastructure, short response times for public safety personnel, nice public parks and public spaces, and an overarching sense of community. As the mayor of Houston [recently commented](#), these things cost money.

To be sure, the prospect of losing property tax abatement incentives is a real threat to the economic vitality of Texas cities. Even more threatening, however, is the continued push by some state leaders to restrict cities' use of property tax revenue. If the state legislature elects to

restrict the primary source of revenue for cities, counties, and school districts, [as recently proposed](#), the debate over property tax abatement incentives becomes largely academic. Without adequate funding, local governments will no longer be able to provide the infrastructure and services that make Texas communities so attractive to businesses in the first place, much less consider abating property taxes for economic development purposes. The legislature should provide local governments the tools to promote economic prosperity, not take them away.

Payday Lending Clearinghouse Updates

The League's "Payday Lending Clearinghouse" webpage, available at <https://www.tml.org/payday-updates>, includes information related to the regulation of payday and auto title lenders. It is updated from time-to-time to reflect recent developments. On February 22nd, the Austin Court of Appeals dismissed for want of jurisdiction The Money Store's appeal of a Travis County Court opinion holding that the City of Austin's payday lending ordinance is not preempted by Section 393.602(b) of the Texas Finance Code. The Court concluded that it could not hear the appeal under Texas Government Code Sec. 30.00027 because the municipal court did not convict The Money Store or impose a fine, and the county court at law did not affirm the municipal court's judgment.

The Court's memorandum opinion can be read [here](#).

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