



A Brief Overview of Local Economic Development Policies in Texas

by **Jess Fields**
Senior Policy Analyst

Key Points

- Economic development incentives benefiting individual businesses are used more than ever before in Texas.
- Negotiations between local governments and businesses are completely exempt from open meetings and open records requests.
- The widespread use of economic development incentives creates an environment in which businesses expect to receive handouts.

In recent years, local governments in Texas have increasingly used economic development policies in an attempt to grow their economies, attract business prospects, and expand their tax base. The number of economic development corporations has grown from 336 in 1997 to 697 in 2011, and from 2006 to 2011, 758 new tax abatement agreements were entered into by local governments. Following are the most common economic development incentives:

- **Property Tax Abatements** – A tool allowing local governments to reduce the property taxes of a business prospect for a period of time. Only the value of improvements may be abated.
- **School District Tax Credits** - Chapter 313 of the Tax Code allows school districts to issue tax credits to private entities for up to the amount of the maintenance and operations rate of the ad valorem tax, in other words, the portion of the tax not used for debt service.
- **Tax Increment Financing (TIF) Districts** – These are reinvestment zones created by counties and cities that capture the “increment,” or the increase in value within the district, in a special fund over a number of years. Both property and sales taxes may be captured, and captured funds may only be spent within the district.
- **Economic Development Sales Tax** – Local governments may create economic development corporations (EDCs) that capture sales tax proceeds for the purpose of using them for economic development. There are two kinds of sales tax EDCs, Section 4A and Section 4B, each funded by up to one-half cent of the local sales tax. A city may have either, or both.
- **Infrastructure Projects** – Sometimes, infrastructure is built out for a development in order to incentivize a business prospect. In addition to being a natural extension of local authority, it is also authorized under Chapter 380 of the Local Government Code.
- **Business Parks and Land Transfers** – Business parks are sometimes built to attract business prospects, and parcels of land within them can be conveyed by the local government at no cost. Generally speaking, local governments have a great deal of flexibility to give land to business prospects at no cost, as long as they deem it in the public interest.
- **Streamlining Development Standards** – An incentive more common to cities than to other entities would be to waive or reduce standards and regulations that apply to development related to a new business prospect. Additionally, these localities may facilitate the process of permitting, staff interaction, and other issues that might otherwise slow the development process.
- **Chapter 380 Economic Development** – This part of the Local Government Code allows local governments to use public money for economic development purposes as long as they deem the use constitutes a “public purpose.” As many things can be deemed public purposes, and what defines a public purpose is left to the governing body, the statute provides broad authority.

Contributing to the widespread use of economic development agreements is the fact that the negotiation of incentive agreements is completely exempt from the Texas Open Meetings Act, meaning that a governing body may deliberate about them in closed session. In effect, a local government

continued

may go into closed session to deliberate regarding economic development, then emerge from closed session to take action without having any place for public review or input. If no agreement is reached, the public will never know about what was negotiated in closed session. The only indication that such deliberations are occurring in closed session is the agenda posting of the 551.087 exception to the Act.

The use of economic development policies by Texas localities creates a never-ending cycle where increased use of incentives actually results in more businesses seeking such deals. As the use of incentives by Texas cities has grown considerably in recent years, they have been offered to smaller businesses. The threshold of investment and jobs required of business prospects seeking incentives has steadily declined. Because research indicates that competition among localities for business prospects has become a primary reason for offering incentives, the effectiveness of economic development policies should be questioned.

For more information about economic development, see the Center for Local Governance's, "An Overview of Economic Development Policies in Texas," available at www.texaspolicy.com.

The Center for Local Governance, a project of the Texas Public Policy Foundation, is a resource that can help develop policies to solve the many challenges faced by Texas' local governments. Elected officials, staff, and interested citizens are encouraged to contact us.

About the Author



Jess Fields is Senior Policy Analyst in the Center for Local Governance at the Texas Public Policy Foundation, one of the largest conservative state-level public policy think tanks in the United States. Fields served on the College Station City Council from 2010 to 2013, representing all of College Station's nearly 100,000 residents in an at-large position. He graduated from Texas A&M University in College Station, and has owned a small business in College Station since 2007. He and his wife Courtney have a daughter born in July 2013, Lacey.

