



Testimony

HB 4242

To Renew or Not to Renew Chapter 313

Testimony in Opposition Before the Texas House Ways & Means Committee

by Carine Martinez, Director of Research and Publications

Chairman Meyer, Vice Chair Thierry, Members of the Committee:

My name is Carine Martinez, and I represent the Texas Public Policy Foundation. Thank you for the opportunity to testify today. We are respectfully in opposition to HB 4242.

It is no secret that the Texas Public Policy Foundation favors the free market and hence stands in opposition to renewing Chapter 313. If the Legislature should decide to reauthorize this program though, HB 4242 has the merit of renewing it for only 4 years—until 2026, which is a more reasonable step than renewing for a longer period a program that has generated much criticism.

Indeed, the [problems with Chapter 313 are many](#).

Do Business Incentives Actually Work?

The subject of economic development through targeted business incentives, in which select, often well-connected businesses receive special government treatments in the form of direct subsidies, tax breaks, or other special privileges has been well studied. The overwhelming conclusion is that, [at best, these incentives do not work; at worst, they can be harmful](#).

Research on the importance of business incentives on a business's location choice has shown that many other factors come into play, and incentives are rarely at the top of the list. A 2018 study of the research literature on the effects of state and local incentives, with a focus on “but for” percentages—how many businesses would not have chosen a location “but for” the incentives offered—estimated that at least [75% of businesses that received incentives in the U.S. would have located where they did without them](#).

Would They Have Come Without Chapter 313?

Research into Chapter 313's role in a business's decision to locate in Texas should be cause for concern.

A 2017 study of more than 80 Chapter 313 projects focused on the bargaining behavior between businesses applying for the abatements and the school districts granting them. Based notably on the percentage of a granted abatement businesses were willing to pay in supplemental payments to the school districts and on a survey of economic development experts, the author concluded that only about [15% of businesses that received such deals would have located elsewhere without them](#).

A [2016 article from Texas Observer](#) that studied the program pointed to examples of businesses that did not initially acknowledge strongly enough that Chapter 313 was a determining factor for their application to be approved yet reapplied and were subsequently approved after changing their application.

One subject of concern that has drawn criticism over the years is the one of supplemental payments. Whether one argues that they are necessary to the school district or whether one complains that they reduce the actual tax—and hence Chapter 313—benefits to applicants, the question one is tempted to ask is, then wasn't the tax break too high to start with? In addition, it is hard to understand how Chapter 313 could be described as an economic development tool that brings investments and jobs to Texas yet allows school districts to simply waive the job requirement.

What About Chapter 313's Transparency?

Chapter 313 does benefit from great transparency—and this should remain that way as long as the program lives. However, more can be done for taxpayers so as to give them access to the information and time they need to weigh in when their school district meets to approve a 313 agreement.

Chapter 313 Distorts the Market

Last but not least, government intervention distorts the market. The recent blackout episode has allowed us to see the cold reality of what consequences subsidies can have. Renewable energy projects, which, granted, benefit from subsidies at all government levels, have [displaced domestic energy producers](#). Our [Life:Powered](#) team has also found that a disproportionately high share—about a third—of 313 renewable energy projects were going to foreign companies, including some affiliated with foreign governments. To be clear, the problem is not with foreign companies investing in Texas but with market-distorting government favoritism negatively impacting Texas businesses and Texans in general.

Recommendations

Let Chapter 313 expire.

If the problem is property taxes that are too high, then we should fix the problem, which exists for every Texan, not try to calm a symptom for select and usually big corporate taxpayers. But many businesses move to Texas because of the relatively lower cost of doing business without a 313 agreement, which misses small businesses almost entirely and those businesses that do not move. Also, businesses which may not remain in operation for the long term receive long-term breaks.

If the Legislature decides to reauthorize Chapter 313, some improvements should be made:

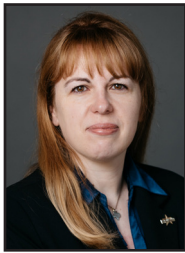
- Require a 30-day public notice after the Comptroller's certification and before a school district votes on the final agreement.
- Post more information with the public notice, similar to what was added to Chapter 312 in the 86th Legislature ([Section 312.207](#)), such as the name of the property owner and the name of the applicant for the tax abatement agreement, and the name and location of the reinvestment zone in which the property subject to the agreement is located. Adding a copy of the agreement with the notice would also be helpful to taxpayers who may not be used to navigating the Comptroller's website.
- Strengthen the job requirement as it currently exists by repealing the provision that allows school districts to waive this requirement.
- Remove the projects currently eligible for the program that have proven to cause the most distorting effects on the market, [sometimes with dire consequences](#).

Thank you for your time. I would be happy to answer any questions you may have.

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ABOUT THE AUTHOR



Carine Martinez is the director of research and publications at the Texas Public Policy Foundation. She conducts research on the effects on taxpayers and consumers of government programs that grant special privileges to certain businesses in the form of subsidies, tax credits, regulatory advantages, or other favors. She also oversees and manages the publication schedules for all policy areas the Foundation is working on and is responsible for editing research publications.

She is the co-editor of the Foundation's *Policymaker's Guide to Corporate Welfare* and is the author of several research publications, notably on film incentives, the hotel occupancy tax, and the three-tier system of alcohol distribution. She testified on these issues before the Texas Legislature during its 85th and 86th regular sessions. She was published in several newspapers including the *Austin American-Statesman*, *The Hill*, and *Forbes*.

Carine began working in public policy as a policy intern at the Foundation in 2014. She later worked as a policy analyst for Texas Action during the 84th Legislature and then spent a year in Washington, D.C., working as a research associate for the Charles Koch Institute.

Carine holds a bachelor's degree in international business administration (completed in English, French, and Spanish) and a master's degree in American studies from the Sorbonne in Paris, France.

Carine is originally from Paris, France, but happily moved to the United States in 2011 and finally in Texas in 2013. She became an American citizen in 2019.

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