

THE FAILED PROMISE OF THE **TEXAS** **MIRACLE**



WORKERS DEFENSE PROJECT

IN COLLABORATION WITH

THE RAY MARSHALL CENTER FOR THE STUDY OF HUMAN RESOURCES
AT THE LYNDON B. JOHNSON SCHOOL OF PUBLIC AFFAIRS

EXECUTIVE SUMMARY

Millions of Texans need good jobs: jobs that both pay a living wage and offer basic benefits to working families, such as health insurance coverage and paid sick days. Today, over 4.8 million people in Texas live below the poverty line, a number greater than the entire population of more than half of states in the U.S.¹ Poverty in Texas is also highly discriminatory, with unemployment, low wages, and a lack of access to basic necessities such as food and medical care disproportionately affecting the State's African-American and Latino families.^{2,3} To ensure sustainable economic growth in Texas, the main goals of state and local job creation programs should be to create good jobs for all working Texas families.

In order to verify how well current job creation programs were benefiting working Texas families, the Workers Defense Project and the Ray Marshall Center for the Study of Human Resources examined tax subsidy programs and other economic incentives utilized at the state and local level to spur economic development and job growth in Texas. A

WHAT IS ECONOMIC DEVELOPMENT ANYWAY?

Economic development refers to public sector practices that strive to promote growth in the private sector. Economic development is premised on the idea that economic expansion will benefit local communities by creating jobs, building infrastructure, and increasing the community's tax base. Cities, counties, school districts, and other government entities generally engage in economic development by paying out cash (in the form of grants or subsidizing infrastructure development) or relinquishing revenue (through tax abatements and fee waivers).ⁱ

In Texas, tax subsidies are big business. There are 13 different types of subsidies used by local governments, and five types used by the state government. This report focuses specifically on Chapter 380/381 programs and their state-equivalent, the Texas Enterprise Fund. Our researchers estimate that Texas spends **at least \$1.76 billion** every year on subsidizing private businesses. This estimate is likely lower than the true amount of subsidies given out by the State because of poor reporting practices.

From 2003 to 2014, the Texas Enterprise Fund doled out over \$500 million, and Chapter 380/381 agreements cost the cities of Austin, Dallas, and Houston at least \$403 million.

ⁱ See the appendix for a detailed description of both local and state-level Texas incentive programs



Photo courtesy of Bread for the World

special focus was placed on examining the Chapter 380 (city) and Chapter 381 (county) programs, which is one of the least transparent development programs used by Texas cities and counties. These agreements provide grants, tax breaks, and low-cost loans to corporations in exchange for new jobs and economic activity in an underdeveloped area. We also examined other key programs in Texas, including Chapter 313 agreements, which are used by local school boards, and the Texas Enterprise Fund, the statewide version of Chapter 380/381 agreements.

This report examines two key issues: the income, education, and employment inequality faced by Texas families and whether state and local job creation programs are improving or exacerbating that inequality for taxpayers and working Texas families. Our in-depth examination of Chapter 380/381 agreements and other job creation programs indicate that while the Lone Star State has made substantial investments to attract Fortune 500 companies to the state, it has failed to invest in Texas businesses and families. As a result, these policies have left Texas businesses and families paying the bill for billions of dollars in corporate tax breaks. To ensure that the State puts Texas business and working families first, this report presents key recommendations that will help to build sustainable and equitable economic development policies.

CORPORATE SUBSIDIES IN THE LONE STAR STATE

In recent years, economic development programs, also referred to as economic incentive programs, have frequently been highlighted as one of Texas' main tools for growth. While economic incentives have played some role in the Texas economy over the last 25 years, local government giveaways to private-sector businesses were generally considered unconstitutional in Texas prior to 1987, when the Texas Constitution was amended to clarify that incentive programs could serve a public purpose.⁴ The use of economic incentive programs in Texas became increasingly common after the founding of the Texas Enterprise Fund (TEF), a program that provides incentives to large companies that are considering opening a new office in the state.⁵ Formed in 2003 under former Governor Rick Perry, the TEF has given out more than \$500 million from 2003 to 2014 to some of the largest corporations in the world. When attracting a new business to the state, the TEF requires that local governments also provide some form of incentive to the company.

In total, Texas has 13 different incentive programs used by local governments, and five programs used by the state government (see Appendix). The goals of these programs are diverse. Some programs aim to attract tourists to the area, others seek to revitalize blighted areas, and some try to create jobs. Each program has its own unique funding source, and depending on the program, funds can be pulled from sales taxes, property taxes, or "special assessments", which are additional taxes assessed in a particular area specifically for an economic incentive program. While this report focuses on just one of the local programs (Chapter 380/381 agreements), and just one state program (the Texas Enterprise Fund), other programs are discussed when relevant.

Available data suggest that Texas doles out at a **minimum \$1.76 billion annually** to private corporations through these 18 state and local programs.ⁱⁱ This figure likely underestimates the millions of dollars lost to cities and the state through tax abatements granted as incentives: researchers were unable to determine the full value of subsidies on 10% of the Chapter 380/381 projects analyzed because local governments failed to provide any estimate of the value of incentive. Additionally, local governments are not required to report spending on several types of incentive programs, further suggesting the estimate is extremely conservative.

To view our interactive explorer of companies that received government subsidies from Austin, Dallas, and Houston, visit: <http://goo.gl/OwdXR5>

WHAT CAN \$1.76 BILLION BUY?

Texas could pay the public university tuition for every college applicant in the state, and still have a surplus \$500 million every year.^{6,7}

ⁱⁱ This is an estimate based on the 2015 Tax Exemptions and Tax Incidence Study and the 2014 Texas Economic Incentive Program report conducted by Texas Comptroller of Public Accounts. It also includes the annual spending average for Chapter 380 and 381 agreements in Austin, Dallas, and Houston, which are not reported in the Comptroller's studies. It does not include estimates for several mechanisms, including Chapter 312 agreements, municipal management districts, and public improvement districts.



\$43,000

Cost per Samsung job in CA

\$308,000

Cost per Samsung job in TX



A critical issue with incentive programs is the competition that emerges amongst cities and states to attract companies to the area. Cities within Texas compete with one another to win contracts, and Texas often competes with other states, often resulting in a lose-lose scenario for local and state governments. For example, Texas gave away \$321 million to Samsung Electronics, and in return received the promise of 900 new jobs. As a result Texas agreed to pay more than \$356,000 per job. A few years later, Samsung threatened to move their San Jose, California facility and its 1,300 new jobs to Austin unless California incentivized them to stay. The local and state governments of San Jose and California gave Samsung an incentive package worth approximately \$56 million, equating to a cost of \$43,000 per job. Samsung accepted the incentive package from California, indicating that Texas' giveaway to Samsung may have been a raw deal for Texas taxpayers.

KEY FINDINGS: A FAILED PROMISE

Instead of contributing to a prosperous economy for all Texas families and promoting the creation of good jobs, the State's economic incentive programs may be deepening racial and income inequalities, at the expense of small businesses and working Texas families. Based on our examination of Texas' economic incentive programs, we have found that these programs are:

- **FAILING TO PROMOTE TEXAS BUSINESSES:** Over one-third of companies who received a local tax subsidy or grant were out-of-state businesses. Additionally, few data have been collected regarding the percentage of new jobs that went to local Texas workers versus workers from out-of-state. Austin was the only city to collect data on workers' residency status, which demonstrated that approximately one-third of all new jobs created went to non-local workers.⁸



Photo courtesy of Boudin

- **FAILING TO INVEST IN THE TEXAS WORKFORCE:** Costs by incentive program varied enormously, and the programs with the largest budgets were often the least efficient. For example, the cost per new job created by a Chapter 313 agreement, which provides property tax breaks to corporations, was an astounding 79 times higher than the cost of new job created by the Texas Workforce Commission's Skills Development Fund. The return on investment for projects throughout the State also varied substantially after taking failed project goals into account. For example, the cost per job created by the Texas Enterprise Fund was nearly three times higher after adjusting for the number of new jobs that were actually verified, as compared to the number of jobs that were promised (see Figure 1).⁹
- **DIVERTING RESOURCES FROM EDUCATION AND TRAINING:** As Texas has prioritized investment in businesses that can promise large numbers of jobs, the state has failed to invest in the education and job training programs necessary to ensure that Texans can actually obtain those jobs. Many of the jobs created under economic incentive programs require a college education, yet only 20% of Texans hold a college degree, far lower than the national average. Access to education is critical in a state where it is estimated that by 2020, 62% of all jobs in Texas will require postsecondary education.¹⁰ The problem is especially acute for Texas' growing Latino population, as only 12% hold a bachelor's degree.¹¹ Instead of closing the economic gap, these programs increase inequality by diverting scarce resources from the education and job training Texas families need to compete for these jobs.

Over one-third of companies who received a local tax subsidy or grant were out-of-state businesses.

■ **FAILING TO DELIVER FOR FAMILIES AND COMMUNITIES:** Many economic incentive programs did not establish clear benefits for the local communities, while others lacked basic standards to ensure that the new jobs offered benefits or a living wage. Even when goals were clearly established, businesses rarely faced consequences for failing to meet project milestones. Of the Chapter 380/381 agreements we examined, we were unable to validate the number of jobs actually created for every one in four contracts. Austin was the only city to have strong reporting and accountability mechanisms incorporated into its corporate grants agreements, and it has been the only city to regularly provide information about the Chapter 380/381 recipients to the public.

■ **SHIFTING THE TAX BURDEN TO TEXAS FAMILIES:** Researchers found that homeowners are likely footing the bill for these tax programs, as Texas has no personal state income tax. Texas homeowners pay higher proportions of property taxes than many of the largest corporations in the country that have moved to Texas. For example, the average Texas homeowner paid twice as much as Visa in property taxes per square foot. Visa, an Austin subsidy recipient, grosses over \$12 billion in revenue annually.¹² As large companies are given steep discounts on their taxes, the average Texas homeowner has seen their property taxes increase by 58% in the last decade.¹³

In addition, significant oversight and transparency issues emerged in these programs, and commitments were left unfilled at both the local and state level. Transparency and accountability among local programs is crucial because the TEF requires companies to obtain incentives or tax abatements from local governments before the TEF grants funds.¹⁴ For example, we were unable to validate the number of jobs promised in one in four economic incentive agreements made in Austin, Dallas, and Houston between 2003 and 2014. Cities also frequently failed to require companies to regularly report on project progress, and follow-up by project officers was often inadequate.

Figure 1: Jobs Promised vs Jobs Created

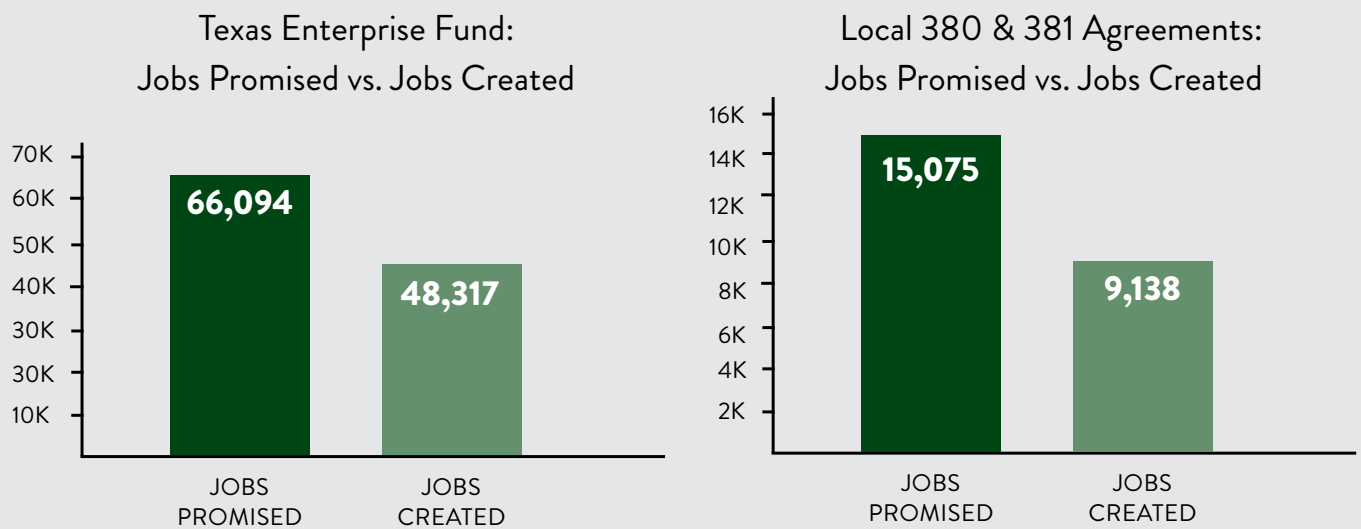




Photo courtesy of Dave Wilson

RECOMMENDATIONS

At every level of government, from school boards to City Councils, from County Commissioners to state legislators, policymakers have a unique opportunity to implement sound policies that invest in families, reward taxpayers, and encourage business growth and innovation. State tax subsidy programs will only be able to deliver on their promise of creating high-paying, good jobs for working Texas families if Texas workers have the education and training that they need to obtain those jobs. Furthermore, programs like the ones examined in this report must set clear goals for workforce development and provide adequate transparency or oversight of tax subsidy programs.

Policymakers creating and utilizing economic incentive programs must ensure that such programs include the following components to ensure that all Texans are benefiting from economic growth:

1. CREATE GOOD JOBS

Local and state government can do more to ensure that economic development programs incentivize good, safe, and high-paying jobs that benefit hardworking Texas families. All economic incentive programs must be able to demonstrate that they create jobs that provide a living wage, benefits, and opportunities for career advancement. Additionally, incentive programs must ensure that Texas families benefit, by setting goals to hire local workers, with an emphasis on hiring from disadvantaged communities.



Photo by Jason Cato

2. ENSURE TRANSPARENCY AND ACCOUNTABILITY

All cities in Texas should routinely and uniformly report detailed information about all types of economic incentive programs. Austin, Texas already has one of the most transparent economic incentive programs in the country, requiring and publishing annual independent audits of each contract. Other model cities include New York City and Memphis, Tennessee, which both provide public access to detailed information about each contract.¹⁵ Communities should have the opportunity to learn about potential projects, and should be able to voice their opinion before a final decision is made. Increased transparency will help prevent program waste and abuse, especially when programs lack strong standards to protect against conflicts of interest. Regular and transparent audits of economic development projects will help ensure that these projects are meeting their goals and benefitting local communities. Lastly, all incentive contracts should either withhold the grant until the project is completed or include a strong mechanism for recouping funds if a project fails to meet its goals.

3. PASS POLICIES TO PREVENT CORRUPTION AND CONFLICTS OF INTEREST

Researchers frequently found that campaign donors and local government contractors also received large incentive packages. Local and state governments lacked mechanisms during the application process to identify applicants who may pose a potential conflict of interest, such as large campaign donors and government contractors.



AUSTIN CREATES REAL CONSEQUENCES FOR COMPANIES WHO FAIL TO FULFILL THEIR PROMISES

In 2011, the City of Austin voted to waive \$2.4 million in fees as an incentive for White Lodging, the developers of a downtown Marriott hotel. In return, White Lodging agreed to pay all construction workers employed on the project the prevailing wage, which sets a wage floor for workers depending on their occupation and experience level. City auditors later discovered that a dozen workers were not receiving sufficient wages, and White Lodging failed to correct the issue despite repeated requests to do so.

Because White Lodging failed to correct the wage problem, the City demanded that the \$2.4 million be returned. White Lodging sued, but ultimately, the courts ruled that White Lodging had to pay back all waived fees and drop their lawsuit against the City.

The City of Austin's thorough project audits and strong mechanisms for recouping funds from companies who fail to deliver on their promises should be considered as a model for other Texas cities.

4. LEVEL THE PLAYING FIELD

Large incentive packages for corporations create an unfair advantage since the recipient is saving money while property taxes increase for other businesses and homeowners who live in the surrounding area.¹⁶ Governments should instead focus on providing infrastructure, streamlining bureaucratic processes, and investing in workforce development and education to attract new businesses to the region.

5. INVEST IN EDUCATION AND TRAINING

Texas must do more to invest in education and training to ensure that Texas families have the skills and knowledge they need to move into good, high-paying jobs. A skilled and educated workforce is the most important driver for economic development and policymakers must ensure that there is a career pathway for Texans to move into those jobs through public education and higher education. Because corporate subsidy programs directly impact the revenue of state and local government by waiving local taxes and fees, policymakers must ensure that subsidies are not undermining their ability to provide the investment in education and infrastructure that are the most important drivers of economic prosperity. Policymakers should encourage corporations to make significant investment in workforce development programs and higher education institutions to ensure programs meet the needs of business.

TABLE OF CONTENTS

PREFACE	11
OVERVIEW	13
INCOME, EMPLOYMENT AND EDUCATION INEQUALITIES IN TEXAS	21
JOB CREATION AND ECONOMIC DEVELOPMENT PROGRAMS IN TEXAS: A CASE STUDY OF THE CHAPTER 380/381 PROGRAM	25
THE HIGH COST OF TEXAS' ECONOMIC DEVELOPMENT PROGRAMS: HIGHER TAXES FOR SMALL BUSINESSES	30
RECCOMENDATIONS	32
APPENDIX: TEXAS' INCENTIVE PROGRAMS	35
ENDNOTES	38
ACKNOWLEDGEMENTS	43

PREFACE

By Peter Fisher

State and local incentives for business have become routine, and they have become expensive. It has been estimated that state and local governments in the U.S. spend upwards of \$70 billion annually on business incentives. Incentives — in the form of tax credits, tax exemptions or abatements, loans, or outright grants and subsidies, and typically tied to capital investment or to the creation of jobs — have become the centerpiece of state economic development policy.

Yet as incentives have proliferated they have come under increasing criticism. Economists, watchdog organizations, and public officials are increasingly questioning whether they are getting their money's worth. Are companies fulfilling their promises of job creation? Is the public paying companies to do things they would have done anyway? Are states and cities overbidding for high-profile plant relocations? Are we being smart about economic development?

States and localities have always had important roles to play in facilitating economic growth. They are the chief providers of education, and are responsible for much of the nation's infrastructure. Without an educated workforce, without roads and water systems and public transit, the economy could not function. Yet the past 40 years have seen the notion of "economic development policy" reduced to a single-minded strategy: lower business costs through tax incentives or grants to compete with other states for investment and jobs.

Here's the rub: incentives are expensive, and compete for public funds with investments in education, job training, and infrastructure maintenance and modernization. How do we know public dollars are being directed where they will be most effective in producing real economic growth?

Business incentives have been around long enough that researchers have had ample opportunity to address a key question: How effective are they in changing business investment and location decisions? The research question is simple: Do places that offer more and larger incentives experience more economic growth, other things equal?



Photo courtesy of Hossam El Hamalawy

Statistical methods control for those “other things” that affect growth: infrastructure, workforce education levels, proximity to resources and to markets, energy costs, wage rates, occupancy costs, climate. The overall conclusion is that taxes and incentives have only small effects on business decisions.

The reason for this result is simple: state and local taxes account for a very small portion of the overall costs of doing business. As a result, even a large tax incentive is likely to be swamped by small differences in wage rates, or in other costs that can vary substantially from place to place. The upshot is that most business decisions will hinge on those other cost differences; taxes will be the decisive factor in only a small percentage of cases. For all the rest of the cases, the incentive goes to a firm that would have made the same choice without the incentive. This makes incentives a very expensive strategy.

Some would like to believe that business incentives pay for themselves. But incentives would have to be far more effective than researchers have found for this to be the case. Anyone who has taken a serious look at the dozens of studies of taxes and incentives would have to conclude that the cost of incentives far outweighs any revenue gain from new economic activity. This makes it all the more important to use them judiciously and to continually evaluate their effectiveness.

Incentive programs should be subject to the same annual budget scrutiny as any program that must compete for public dollars. This begins with transparency and information. Evaluation cannot happen without basic, ongoing and verified data on where funds are being directed and what businesses are doing with those funds. But evaluation is not enough. For the evaluation to be taken seriously all incentive programs should have a sunset, and programs that turn out to be very expensive for very little documented gain should be allowed to expire.

Most importantly, program effectiveness should not be measured simply by counting jobs. The goal of economic development policy should be to raise the standard of living, and that means job quality matters — wage rates, job stability, workplace safety, health and pension benefits.

There is a broader issue: incentives should be compared to alternative uses of public funds. By narrowing the focus of economic development policy to the provision of business incentives states and localities are in danger of undermining their long term prospects for economic growth and a rising standard of living for their residents. When budgets are tight and demands on revenue are growing, diverting tax revenue to incentives — whether in the form of outright expenditure or through “tax expenditures” that have the same effect — is likely to result in reduced investments in education, job training, infrastructure and other essential public services that are important to business and that are the basis for rising economic productivity. Such a narrow focus also ignores that fact that new business formation and innovation are much more important in driving economic growth than plant relocations.

As for the design of programs, one simple principle would help reduce waste and increase cost-effectiveness: Up-front subsidies should be replaced with annual subsidies contingent upon goal attainment. Up-front subsidies encourage “take the money and run” behavior on the part of footloose businesses instead of a long-term commitment to a community. In contrast, replacing a grant or an unconditional loan with a forgivable loan means that each year the loan payment due is converted to a grant to the extent that project goals — number of jobs, job quality — are met that year. Tax abatements and credits should be structured the same way. Firms are rewarded for staying, not just showing up, and they have to prove each year that they are meeting the goals of the program. This is a more effective approach than clawbacks, because it puts the burden on the firm to prove it is attaining goals instead of on the community to prove it is not.

It is hoped that this report will help to move Texas cities towards a more comprehensive evaluation of incentive programs and their effectiveness as an economic development strategy, and to redesign and reform of those incentives.

Peter S. Fisher, Research Director at the Iowa Policy Project. Fisher holds a Ph.D. in Economics from the University of Wisconsin-Madison, is a professor emeritus and former chairman of Urban and Regional Planning at the University of Iowa. Fisher is a nationally recognized expert on public finance.

OVERVIEW

Millions of Texans need good jobs: jobs that both pay a living wage and offer basic benefits to working families, such as health insurance coverage and paid sick days. Today, over 4.8 million people in Texas live below the poverty line, a number greater than the entire population of more than half of states in the U.S.¹⁷ Poverty in Texas is also highly discriminatory, with unemployment, poverty-level wages, and a lack of access to basic necessities such as food and medical care disproportionately affecting the State's African-American and Latino populations.^{18,19} To ensure sustainable economic growth in Texas, the main goals of state and local job creation programs should be to create good jobs for all working Texas families. This report explores the inequalities faced by Texans today, and how well Texas' economic development programs create good jobs for all working Texas families.



Photo by Jason Cato

ECONOMIC GROWTH, ECONOMIC INEQUALITY TEXAS-SIZED INEQUALITIES

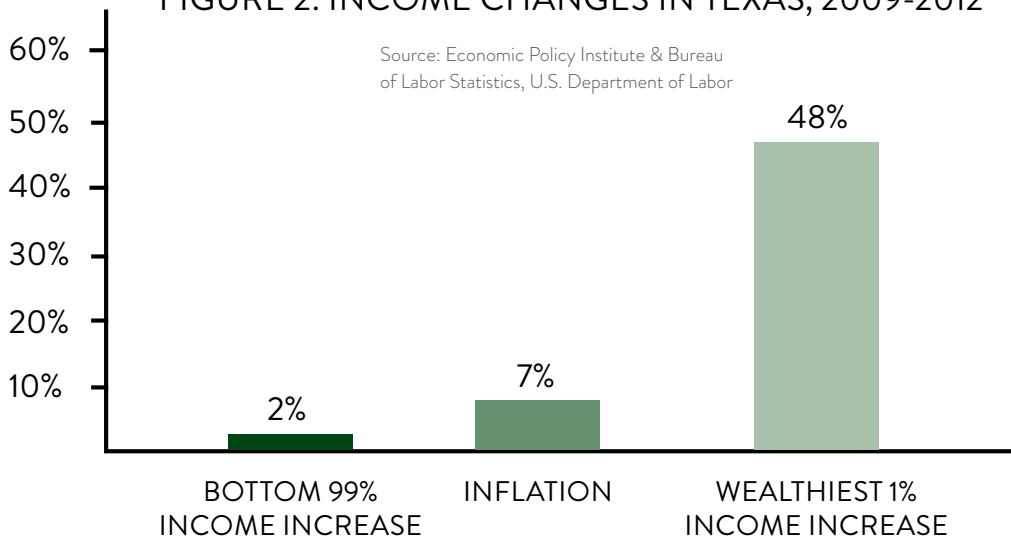
Texas' growing economy almost exclusively benefits one group: the wealthiest one percent of Texans, which includes households earning \$423,099 or more per year.²⁰ During the post-recession period, Texas' economy remained relatively strong and had one of the lowest unemployment rates in the country.²¹ But even though Texas' economy is claimed to be one of the strongest in the Nation, the poverty rate is comparable to more economically stagnant states such as Arkansas and Alabama.^{22,23} On the surface, this seems like a paradox: a state with one of the strongest, fastest-growing economies also has one of the highest poverty rates in the country. Texas' economic growth is clearly not benefiting all working Texas families.

During and after the Great Recession, former Governor Rick Perry and many other Texas politicians were touting Texas' resilience against the economic recession and its relatively small loss of jobs compared to other states. Yet not all Texans benefited from this resilience. From 2009 to 2012, the incomes of the wealthiest 1% of Texans grew by more than 50%. For the other 99% of families, post-recession Texas looked quite different.²⁴ The bottom 99% of Texans saw an income increase of just 2%, which failed to even keep pace with inflation during the same time period.



Photo courtesy of Brian Hoffman

FIGURE 2: INCOME CHANGES IN TEXAS, 2009-2012



Texas' low unemployment levels and high poverty rates indicate that this unequal distribution of growth is resulting in dire consequences for working families, many of whom are struggling to make ends meet. The number of Texas households utilizing the food stamp program tripled from 2000 to 2010, and now more than 1.4 million households rely on food stamps to feed their families.²⁵ Housing costs have also become a heavy burden on many Texas families, particularly in urban areas. In Austin, Texas, the median cost of a home skyrocketed by 48% from 2005 to 2014 while the median family income increased by just 12% during the same period. For the vast majority of Texas families, wages simply are not keeping up with the rising cost of basic necessities.

In addition to food and housing, access to health care is also out of reach for millions of Texas families. Health care access has long been a major issue in Texas, but it has become one of the state's most critical problems, given that Texas has the highest uninsured rate in the U.S.²⁶ A lack of access to health care services disproportionately affects low-income Texans: 40% of low-income adults lack health insurance compared to just 11% of high- and middle-income adults.²⁷ The poor access to health care services is reflected in numerous key health outcomes for the state. Nationally, Texas has the 6th highest percentage of people with diabetes, the 3rd highest teen birth rate, and the 2nd highest percentage of households that experience hunger.^{28,29}

TEXAS' ECONOMIC INCENTIVE PROGRAMS

Texas has many policy options at its disposal when it comes to fostering the creation of good jobs. State and local leaders could bet on Texas families by investing more in education – a skilled and educated workforce is crucial to attracting high-paying quality jobs. They could also choose to invest more in infrastructure – many high paying employers place a premium on their ability to move resources and goods to and from market quickly, safely, and inexpensively. Even with these policy choices, and many others, in front of them, Texas leaders have chosen to invest heavily in corporate subsidies as a job growth strategy. Our researchers examined whether these programs are fostering the creation of good, family-supporting jobs, or exacerbating the inequality stifling too many Texas families.

Texas has many state and local development incentive programs that provide grants ranging from less than \$50,000 to more than \$50 million. Former Governor Rick Perry and many state and local politicians frequently tout these incentive programs as one of the keys to Texas' growth. Historically, city government giveaways to private corporations were generally considered unconstitutional.³⁰ This view changed in 1987 when the Texas Constitution was modified to clarify that economic development has a public purpose. Texas cities now spend millions of dollars a year attracting businesses to their area with the goals of creating jobs, developing infrastructure, and increasing the local tax base. Spending on subsidies increased after the Texas Enterprise Fund was established in 2003, and Texas now has a large and complex system of local subsidy programs. There are currently 13 different mechanisms that allow local governments to provide financial incentives to private corporations, in the form of grants, tax breaks, and low-cost loans, in addition to five state-level incentive programs (see Appendix).³¹

HOUSTON POLICYMAKERS ENSURE THAT MAJOR LEAGUE SPORTS TEAMS GO TAX-FREE

In 2011, the City of Houston signed an incentive contract for Dynamo Stadium, which would house a major league soccer team. In exchange for the construction of the stadium and the team playing the majority of home games in Houston, the City agreed to rebate 100% of the stadium's total sales and use and mixed beverage taxes, every year, for 30 years. These tax breaks had an estimated value of \$35 million. The City of Houston also functions as the owner of the stadium, and therefore Dynamo Stadium, LLC pays no property taxes. This is not the first time that Houston has spent large amounts of taxpayer dollars on sports stadiums. In 2002, the City of Houston contributed a whopping \$284 million to construct Reliant Stadium for use by the National Football League through funds generated by hotel occupancy and car rental taxes. An additional \$202 million was spent on the Toyota Center, an indoor arena, also through hotel occupancy taxes.

EVERYTHING IS BIGGER IN TEXAS

1991

Texas starts exempting companies from property taxes for creating jobs



SINCE 2004, AUSTIN, DALAS AND HOUSTON HAVE GIVEN OUT AT LEAST **\$400 MILLION** TO PRIVATE CORPORATIONS.

BUT WDP RESEARCHERS COULD NOT FIND EVIDENCE THAT

1987

Local governments first begin to provide grants to private corporations

2003

The Texas Enterprise Fund is established

39%

OF JOBS

WERE EVER CREATED



TAX BREAKS GRANTS LOANS

HOW DO CITIES & COUNTIES GIVE MONEY TO CORPORATIONS?

In Texas, there are **13 different ways** that cities and counties can give money to corporations.

State & local governments give away at least \$1.7 billion every year to private corporations. Not all local governments report how much they spend.

WHO GETS THE MOST MONEY?



AUSTIN: High-tech manufacturing companies received over \$75 million



HOUSTON: Real estate & development projects received over \$25 million



DALLAS: The information & telecommunications sector received \$20 million

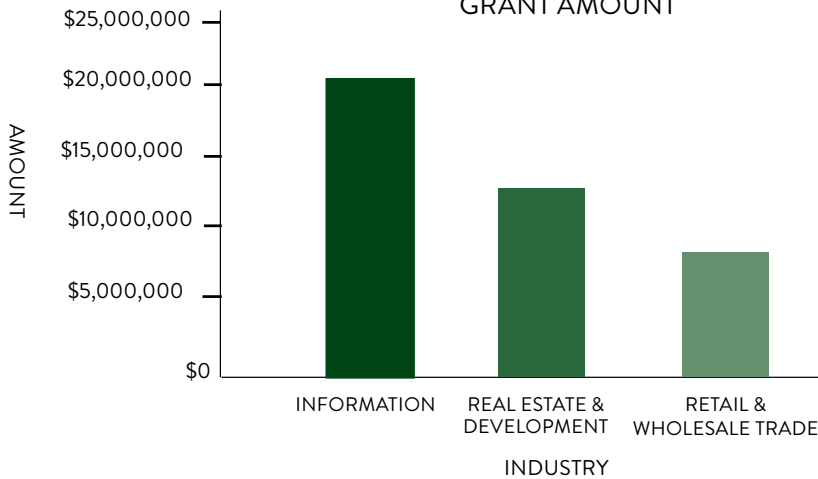
Researchers estimate that Texas spends at least \$1.76 billion annually on state and local economic incentive programs.ⁱⁱⁱ Unfortunately, this estimate is very conservative since local governments do not adequately report their spending in a transparent manner. This estimate also does not include 3 of the 13 local mechanisms that did not have data available, and the estimate for Chapter 380/381 agreements only include data for Austin, Dallas, and Houston.

The data revealed that each city focused on attracting particular industry sectors. For example, researchers found that Dallas attracted more information and telecommunication businesses than any other industry. In Austin, high-tech companies and real estate and development received the largest incentives. For example, two well-known high-tech companies, Apple and Samsung, received over \$310 million in Chapter 380/381 and TEF grants. In Houston, a park development project was given over \$52 million, which was the reason for the high net grant amount in industries that were unclassifiable. Real estate and development was the second highest-earning industry for Chapter 380 and 381 agreements in all three cities.

ⁱⁱⁱ This is an estimate based on the 2015 Tax Exemptions and Tax Incidence Study and the 2014 Texas Economic Incentive Program report conducted by Texas Comptroller of Public Accounts. It also includes the annual spending average for Chapter 380 and 381 agreements in Austin, Dallas, and Houston, which are not reported in the Comptroller's studies. It does not include estimates for several mechanisms, including Chapter 312 agreements, municipal management districts, and public improvement districts.

CHAPTER 380/381 CONTRACTS BY CITY: 2003-2014

DALLAS: TOP INDUSTRIES BY GRANT AMOUNT



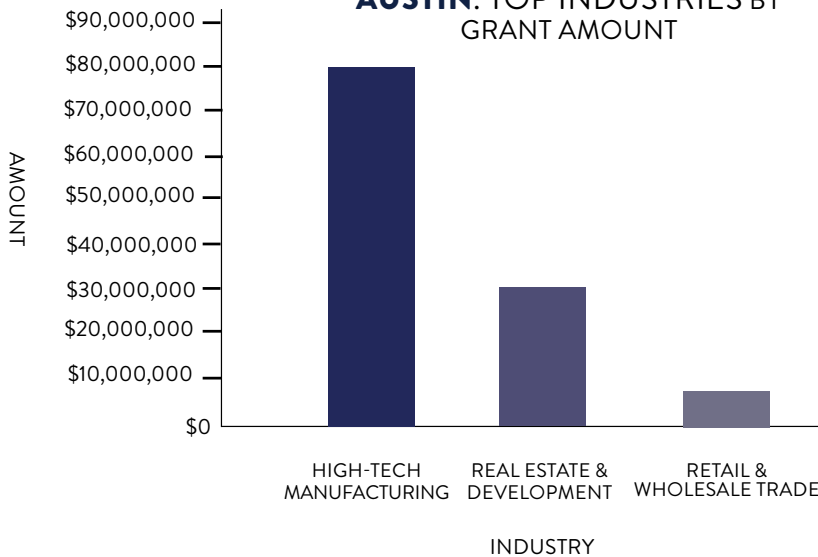
NUMBER OF INCENTIVE CONTRACTS: 53

TOTAL ESTIMATED AMOUNT AWARDED: \$51,276,094

TOP INDUSTRIES: Information & communications

AWARD TYPES: 81% grants, 15% property tax abatements, 4% low-interest loans

AUSTIN: TOP INDUSTRIES BY GRANT AMOUNT



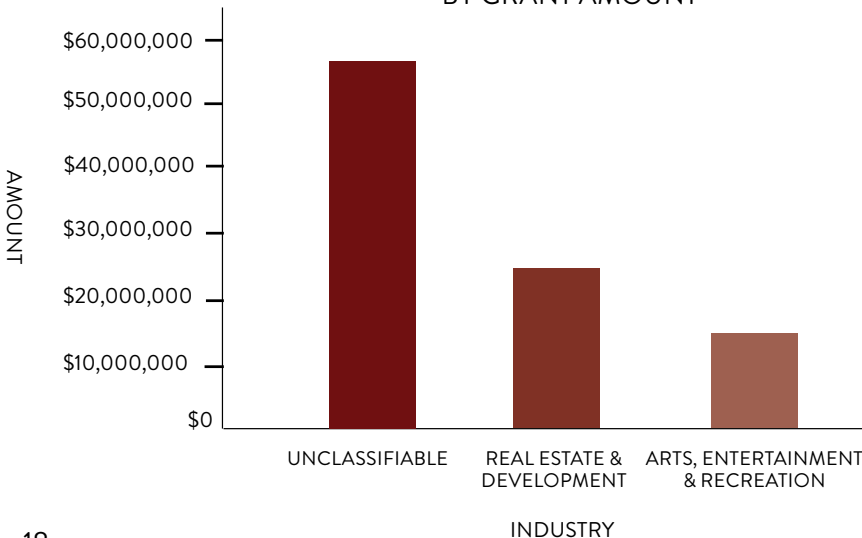
NUMBER OF INCENTIVE CONTRACTS: 25

TOTAL ESTIMATED AMOUNT AWARDED: \$125,282,864

TOP INDUSTRIES: Technology

AWARD TYPES: 28% grants, 72% tax abatements, 0% low-interest loans

HOUSTON: TOP INDUSTRIES BY GRANT AMOUNT



NUMBER OF INCENTIVE CONTRACTS: 35

TOTAL ESTIMATED AMOUNT AWARDED: \$229,079,981

TOP INDUSTRIES: Unclassifiable, real estate & development

AWARD TYPES: 44% grants, 28% tax abatements or bonds, 28% infrastructure assistance

Note: A large parks bond project also received a large Chapter 380 grant from the City of Houston. Because the grant funded a project and not a company, it does not have an associated industry.

STRENGTHS:

- Usually required payroll information to verify that jobs were created
- No funds were paid out until proof of project milestone completion was submitted

WEAKNESSES:

- Exceptions were made for AT&T, which did not submit payroll information
 - No estimates were made for the value of property tax abatements, with the exception of one contract and were thus excluded from the estimated total value of awards
-

STRENGTHS:

- Strong contract monitoring and evaluation
- Required information about the average wages and benefits offered of each job
- Includes multiple community benefits, such as preferential hiring of local, minority, and women-owned businesses, workers compensation coverage, and at least ten hours of OSHA training for construction workers employed on incentive projects.
- Strong recovery of public dollars to ensure that taxpayers are paid back if a company fails to fulfill their promises

WEAKNESSES:

- Tax abatements were frequently very long, including agreements of up to 20 years of tax breaks.
-

STRENGTHS:

- Usually required payroll information to verify that jobs were created
- No funds were paid out until proof of project milestone completion was submitted

WEAKNESSES:

- Payroll information was not submitted in order to verify jobs. Employers only had to submit a notarized document for proof
 - No compliance or program data was available for the vast majority of contracts
 - Wage floors of minimum benefits were not set for jobs created by economic incentive contracts.
 - Even though real estate and development received many of the Chapter 380/381 contracts, construction workers were never factored in the jobs creation numbers.
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Photo courtesy of Julie Kertesz

CLOSE THE GAP: CREATE GOOD JOBS THAT SUPPORT TEXAS FAMILIES

In light of the disparities between the top 1% of Texans and the rest of Texas families, living wage jobs that provide benefits, such as paid sick leave and health insurance, are critically important to Texans. Yet of the 58 local incentive contracts that promised to create new jobs, only one in five set any wage standard for the new jobs. Only Austin contracts had requirements regarding the provision of benefits to part-time or full-time workers, and these benefits often only included ten hours of OSHA safety training and workers' compensation insurance.

If local governments use taxpayer dollars to subsidize business expenses, they need to ensure that any new jobs created will provide a living wage and decent benefits for local workers and their families. Policymakers should also consider people who are hired through the indirect jobs created by incentive projects, such as in construction and transportation. The economic well-being of these working people and their families, who often face low wages and dangerous working conditions, is crucial to the economic health of the state. Not only do they have a right to a living wage, a safe work environment, and job benefits for themselves and for their families, but supporting these workers also ensures the economic success of Texas businesses and communities. Investing in working Texas families is not just the right thing to do; it is the smart thing to do.

A wage floor was set for only 20% of companies who promised to create jobs. Even fewer were required to offer benefits.

INCOME, EMPLOYMENT AND EDUCATION INEQUALITIES IN TEXAS

WHY WORKING FAMILIES NEED GOOD JOBS

INCOME INEQUALITY

The combination of inequality, low wages, and unemployment has led to deep pockets of poverty throughout the state, primarily affecting families of color. One in three Latino and African American children live in poverty in Texas, compared to just one in ten non-Hispanic White children.³² Overall, 16% of Texans live below the federal poverty level.³³ The scale of poverty in Texas is immense: over 4.8 million people in Texas live below the poverty line, a number greater than the entire population of 58% of states in the U.S.³⁴ Widespread poverty is particularly troubling in a state that is averse to government assistance programs and spends less than the national average on government programs for education, nutrition, and health care.³⁵ Texas relies heavily on the federal government for the existence of the few assistance programs available in the State. At the same time, Texas takes a greater proportion of federal money than California to keep Texas' minimal programs afloat.³⁶ Living wage jobs with benefits are needed for millions of Texans, and all job creation programs that use taxpayer dollars should ensure that the new jobs will meet these basic standards.

Texas has been one of the Nation's strongest job-creating states, adding over 2 million new jobs between 2000 and 2013.³⁷ Thirty percent of these new jobs paid relatively high wages of at least \$26 an hour or more. Higher wages and new jobs throughout the State are frequently going to Texas' Anglo population, while families of color in the State disproportionately suffer from unemployment, low wages, and poverty. Latinos, the second largest ethnic group in Texas, earn approximately half as much as the average non-Latino White worker. In 2013, the per-capita income for each non-Latino White Texan was \$28,188, while the per-capita income for an African-American was \$19,624 and just \$15,177 for a Latino.³⁸ Unemployment also disproportionately impacts families of color, as Latinos are twice as likely to be unemployed compared to non-Latino Whites, and African-Americans are nearly three times as likely to be unemployed.³⁹



Photo by Jason Cato

EMPLOYMENT INEQUALITY

The State's failure to invest substantially in education raises serious doubts about how many Texans will benefit from the new jobs created by Samsung, Apple, and other high-tech incentive projects. Even though Austin has a higher number of science, technology, engineering, and mathematics (STEM) field graduates than many other cities in the U.S., high-tech companies have struggled to find enough qualified workers to fill its positions. At its Austin campus, Samsung hired over 100 workers in 2014 through the H1-B visa program⁴⁰, a guest worker program that allows companies to hire skilled workers from other countries when they cannot find local workers qualified for open positions. This should come as no surprise given that 79% of Austin-area tech CEOs report having a difficult time finding qualified applicants.⁴¹ The vast majority of Samsung's jobs at its Austin plant require at least a bachelor's degree in engineering, a field only 8% of all Americans pursue, a figure likely lower for the Texas' large population of Latinos and African-Americans.⁴²

Such racial employment disparities are reflected in data about worker demographics in the three key industries incentivized by local economic incentive programs: high-tech manufacturing, information and telecommunications, and real estate and property development. According to the American Community Survey, just 21% of high-tech manufacturing workers in Texas are Hispanic or African American.⁴³ This stands in stark contrast to Texas' general population, where 51% of Texans are Hispanic or African American.⁴⁴ These numbers are somewhat better in the information and real estate sectors, but the disparity persists with just 26% and 32% of the industries comprised of Hispanic and African American employees, respectively. When considering incentive projects, policymakers must also consider existing racial disparities in employment, and should prioritize projects that will help Texas families of color access good, middle class jobs.

EDUCATION INEQUALITY

Texas' future is demanding an educated workforce, and the State's leaders are failing to prepare Texas families. Research conducted by the Georgetown Public Policy Institute estimates that by 2020, 62% of jobs in Texas will require a postsecondary education, but currently just 20% of Texans have a bachelor's degree.^{45,46} Unless there is sudden and drastic change in the educational policies and practices of the state, the percentage of Texans with degrees is likely to decline. Bernard Weinstein, a professor of business economics at the Southern Methodist University told the Texas Tribune, "One of the big things facing Texas and a lot of other states, is that we have a rapidly growing population of under-educated workers".⁴⁷ The Latino population will soon be the dominant ethnic group in Texas, but this population has historically faced multiple barriers to accessing higher education. Only 61% of Texas Latinos have graduated from high school and just 12% of Latinos in the State have earned a bachelor's degree, and little is being done in the state to improve the statistics.^{48,49} The "race gap" in educational attainment is projected to become far greater by 2030, with Latinos increasingly overrepresented in lower education levels if the population growth is unmatched by an increase in access to higher education.

Educational opportunities in the STEM fields need to keep pace with Texas' heavy focus on increased job creation in the high-tech industry. Unfortunately, Texas' educational indicators are lagging behind most other states. Texas ranks dead last in the percentage of people who have graduated from high school, and Texas' average scores for the Scholastic Assessment Test, a college entrance exam, are lower than 46 other states.⁵⁰ In 2013, just 41% of Texas fourth graders and 38% of eighth graders were considered proficient in mathematics.⁵¹ Texas spends less per student on education than the national average, even after recent significant increases to educational spending in the State budget.⁵²

Low standards and small budgets in elementary, middle, and high schools have led to poor outcomes in postsecondary education in Texas. Relatively few Texans pursue higher education in the STEM fields, and women and people of color are particularly underrepresented in these fields. Just 9% of all STEM bachelor's degrees awarded nationally went to Latino students, and in Texas, only 16% of Latino college students who start out as a STEM major end up graduating with a STEM degree.^{53,54} Inequality in education may be partly due to the high costs of a university education, especially for the State's poorest families. Higher education is increasingly out of reach for middle- and lower-income families. Between 2002 and 2012, tuition costs for public universities in Texas doubled, rising nearly four times faster than inflation.⁵⁵

An educated and well-trained workforce is key to a strong economy. Investing in education and public infrastructure has repeatedly been found to be a more effective strategy for job creation and business growth than investing in tax abatements for individual companies.⁵⁶ In fact, finding skilled workers is a key concern for many employers, ranking higher than concerns about access to capital or government regulations, according to a survey of small business employers in Texas.⁵⁷ Given the enormous demand for skilled workers in technology, healthcare, energy, and construction industries, ensuring that Texas families are equipped with in-demand skills and a strong education will attract new businesses to the state.⁵⁸ Texas' enormous incentive spending on job creation will mean little if fewer and fewer Texas families are able to receive the education needed to obtain those new jobs.

**Today only 20% of Texans have a college degree. By 2020,
62% of Texas jobs will require postsecondary education.**



Photo by Jason Cato

JOB CREATION AND ECONOMIC DEVELOPMENT PROGRAMS IN TEXAS

A CASE STUDY OF THE CHAPTER 380/381 PROGRAM

In order to verify how well current job creation programs were benefiting working Texas families, we examined tax subsidies programs and other economic incentives utilized at the state and local level to spur economic development and job growth in Texas. While multiple economic development programs are discussed, we conducted a case study of Chapter 380 and 381 agreements, one of the most opaque local economic incentive programs permitted in the state of Texas. These agreements can provide corporations with grants, tax abatements, or low-cost loans for any goal that has been set by the local government, and they can come from any source of local revenue. At the time of data collection, there were no existing state or federal regulations around reporting for these types of agreements, so all information was obtained through open records requests. The City of Austin is the one exception to this rule, as the City makes all information about its Chapter 380 agreements, including follow-up and compliance information, publicly available online.

METHODOLOGY

From September 2014 to August 2015, researchers filed numerous Texas Public Information Act requests to three cities (Austin, Dallas, and Houston), and three counties (Travis, Dallas, and Harris). Requests were also filed to the cities of San Antonio and Fort Worth but were not obtained due to a prohibitively high cost. All information about Chapter 380/381 agreements was received in one of three forms: (1) contract documents, (2) memos, or (3) compliance documents, such as payroll records and invoices. Data about each agreement was abstracted from contract documents into a standardized spreadsheet for analysis. This research is the result of a collaboration by a team of researchers from Workers Defense Project and the Ray Marshall Center for the Study of Human Resources, with critical assistance from Good Jobs First, the Center for Public Policy Priorities, and the Texas Organizing Project.

In addition to examining Chapter 380 and 381 agreements, researchers also reviewed existing reports about Chapter 313 agreements and state economic incentive programs, including the TEF. Chapter 313 agreements are contracts made between school districts and corporations, with the aim of creating jobs and increasing a district's tax base. The TEF is a "deal-closing fund" that incentivizes companies to locate in Texas rather than other states, and was created by former Governor Rick Perry. These types of incentive programs were examined using existing sources, such as reports by the State Auditor's Office, legislative and government reports, and reports by private entities.

CASE STUDY FINDINGS:

MISSING JOBS IN JOB CREATION PROGRAMS

Even though the primary goals of most local subsidy programs were to create jobs and increase the local tax base, follow-up data was often incomplete or nonexistent. Researchers were unable to find documentation for 39% of the jobs companies promised to create by the end of 2014 (see Table 1). However, it is not only local subsidy programs that lack adequate data. The State Auditor's Office, which oversees the statewide Texas Enterprise Fund, has no evidence of over one-fourth of promised jobs subsidized by the fund.⁵⁹ Without adequate documentation, there is no way to verify if the promised jobs were created. Far more oversight is needed to ensure that companies receiving government subsidies fulfill their promises.

■ **Table 1: Percentage of new promised jobs that were verified as created** ■

	NUMBER OF PROMISED JOBS	NUMBER OF VERIFIED JOBS	PERCENT UNVERIFIED
LOCAL CHAPTER 380 & 381 AGREEMENTS	15,075	9,138	39.4%
TEXAS ENTERPRISE FUND	66,094	48,317	26.9%

Beyond the lack of compliance data, local subsidy programs also failed to require basic workplace standards. Of the 111 contracts awarded from 2003 to 2014, 58 promised to create jobs, and only 11 of those had wage standards written into the contracts. Even fewer required benefits such as health insurance or paid sick leave. The only specific job standard commonly found in the contracts was a prohibition on hiring undocumented workers. Additionally, local hiring requirements were largely absent from the contracts and several companies may have simply moved the majority of employees to Texas from another state.^{60,61} While this may help increase local tax bases in a small way, it does little to reduce unemployment, and may be better termed "job relocation" rather than "job creation". The City of Austin was the only city to examine whether or not companies hired local workers, and they found that approximately 35% of all jobs created through Chapter 380 agreements went to non-local workers.⁶²

CORPORATE PROFILE: AT&T MONOPOLIZES LOCAL AND STATE SUBSIDIES

In 2008, AT&T signed a contract with the City of Dallas, promising to move their corporate headquarters to the city and create 550 new jobs. No wage standards were set in the contract, nor was there language specifying if the jobs needed to offer benefits or if a percentage of the workers were required to be local Dallas-area residents. AT&T received both a \$10 million cash grant and a 10-year tax abatement agreement worth an estimated \$8,467,954, totaling more than \$18.4 million. This single contract with AT&T accounted for one-third of all money given out under Chapter 380/381 agreements in Dallas, and was nine times larger than any other Dallas contract amount.

This giveaway is particularly alarming given the scope and nature of AT&T's political activity in Texas. From 2012 to 2015, AT&T has had more lobbyists in the Texas legislature than any other company. In 2015, AT&T employed 96 lobbyists in Texas, far more than any other company.⁶³ Besides incentive grants, AT&T has also benefited in many other ways from Texas taxpayers. AT&T earned over \$1 billion in city and state contracts from 2008-2014 by monopolizing telecommunications contracts with local governments, and the company has also repeatedly won major tax breaks for the telecommunications industry.^{iv} As the largest telecommunications provider in Texas, AT&T has benefited from an unknown, "confidential" amount of money from these large state-level tax breaks to the industry as a whole. Recently AT&T threatened Texas policy makers that they would pull out of the state if they did not triple a \$50 million tax break for the telecommunications industry for construction of infrastructure.⁶⁴

AT&T received a grant nine times larger than any other grant given by the City of Dallas.

The cost per job also varied greatly by city, since not all job creation requirements were verified in all cities. In Houston, job creation data was especially poor. According to information obtained under the Texas Public Information Act, the City of Houston only reported verification of 236 jobs out of more than 2,000 that had been promised to date (see Table 2). The cost per job may in fact be much lower, but without evaluation data accessible to taxpayers and policymakers, it is impossible to accurately assess how effective and efficient these programs are.

Given Texas' limited government budget, spending millions of taxpayer dollars for jobs of questionable quality that may or may not go to Texans is an irresponsible use of public funds. The lack of transparency and accountability only makes this spending more dubious, especially in light of Texas' rising inequality and plummeting wages.

■ **Table 2: Cost per promised and verified job, by city** ■

	AUSTIN	DALLAS	HOUSTON
COST PER PROMISED JOB	\$7,455	\$5,111	\$97,993
COST PER VERIFIED JOB	\$14,783	\$10,609	\$889,004

^{iv} This estimate includes contract amounts from the city government of Austin, Dallas, and Houston and the state government of Texas. Data analyzed from government check register databases.



Photo courtesy of David Grant

CORPORATE PROFILE: SAMSUNG ELECTRONICS AND THE COST OF HIGH-TECH JOBS

Samsung Electronics is one of the world's largest companies - the thirteenth largest when ranked by revenue.⁶⁵ In 1997, Samsung Electronics opened its first manufacturing facility outside of South Korea in Austin, Texas.⁶⁶ In 2004, Samsung began talking with government officials at the local and state levels about the possibility of adding a new \$4 billion facility onto the existing Austin property, with the discussion focused on how much the government was willing to pay to keep Samsung in Texas.⁶⁷ New York State was rumored to extend an offer worth more than \$500 million to Samsung to entice them to move north, but Samsung's existing facility in Austin, in addition to approximately \$321 million offered in tax breaks, was a major reason they eventually decided to "stay put."

The deal with Samsung was fraught with controversy. In South Korea, citizens were angered by the exportation of high-wage jobs to the U.S.⁶⁸ At home, the deal stagnated because it was unclear if the largest potential investor, Manor Independent School District, could legally provide a large incentive to a private company. The City of Austin, Travis County, and the Texas Enterprise Fund had already committed over \$118 million in grants and tax breaks, but more money would need to come from Manor ISD's Chapter 313 agreement. After a personal conversation with former Governor Rick Perry, the Manor ISD school board ended up granting Samsung a property tax break estimated to be worth at least \$120 million, and then later approved an additional deal worth another \$83 million.⁶⁹ Samsung Electronics is set to receive over \$321 million from Texas taxpayers, and in exchange they promised to create a minimum of 900 new jobs.⁷⁰

Samsung has surpassed their jobs requirements goal, creating approximately 2,300 direct jobs. Yet issues and concerns persist. The cost paid by Texas taxpayers of over \$356,000 per job promised is immense, even after factoring in the 2,300 jobs Samsung actually created, bringing the cost per job to over \$139,000 for Texas taxpayers.^v Such an enormous price tag for job creation is not uncommon in Chapter 313 projects, which are administered by local school district boards. From 2001 to 2010, the average cost of a new job created through a Chapter 313 agreement was over \$306,000, a cost 40 times higher than that of the Texas Enterprise Fund and 79 times higher than the cost of new job created by the Skills Development Fund.⁷¹

^v When a school district provides a tax break to a corporation, that funding should be fully replaced by state funding education, but it is unclear if all funds are replaced for each Chapter 313 agreement.

^{vi} The cost per job is usually calculated by the number of jobs promised in the incentive contract but we have adjusted for the number of jobs actually created by Samsung to date. The figure of 2,300 created jobs was collected by WDP researchers from City of Austin compliance data.

THE COST OF TEXAS' ECONOMIC DEVELOPMENT PROGRAMS

HIGHER TAXES FOR SMALL BUSINESSES

Many of the world's greatest businesses began as tiny operations: Apple, Inc., Hewlett-Packard, and Amazon.com began as two-person projects in cheap rentals or borrowed spaces. Small businesses are a critical part of the American economy, driving innovation and employing 49% of all workers in the U.S.^{vii} Small businesses drove national job growth after the economic recession, creating 67% of all new jobs from 2009 to 2011. In Texas, small businesses are also critical to the economy, employing more than 4 million workers and dominating the real estate, construction, and professional and technical industries. Many of the small businesses in Texas are very small: 32% of all Texas workers are employed by a firm with 99 employees or less, and 16% in a business with 19 or fewer employees.

Despite the fact that small businesses have created the majority of new jobs and are driving innovation in Texas, they face challenges operating in the Lone Star State. Small businesses in Texas pay higher taxes relative to their national counterparts, largely due to the State's steep property and sales taxes.⁷² Businesses with political connections and large oil and gas companies may fare well in the State, benefiting from a host of tax abatements and grants, but small enterprises rarely see such benefits. In our examination of Chapter 3801/381 agreements, the majority of companies that received this type of incentive were companies, and over one-third were large companies based outside of Texas.

The small business disadvantage in Texas is evidenced by the State's statistics. In Texas, the percentage of businesses classified as large is 4.3 times higher than the national average.⁷³ Small businesses are disproportionately impacted by Texas' heavy reliance on property taxes, particularly in times of hardship. Because Texas lacks an income tax, it must make up the revenue by assessing high property and sales taxes, which generally affect lower- and middle-income families and small businesses most deeply. Property taxes are especially difficult for small businesses that have gone through a trying year, since they must pay lump sum and, unlike

THE HIGH PROPERTY TAX TRAP

Since Texas does not have a state income tax, it must generate revenue through sales and property taxes. Texas' property taxes are the fifth highest in the Nation, and sales taxes are the twelfth highest nationally.^{74,75} High property taxes are increasingly ensnaring working Texas families and entrepreneurs in poverty traps, as loan sharks offering high-interest property tax loans have proliferated throughout Texas.⁷⁶ These property tax loans, which often target families in the impoverished Texas-Mexico border region, can mushroom to more than double the loan amount in a five-year period. These types of loans have been on the rise because of Texas' ever-growing property tax burden. The average Texas property tax rate for both homeowners and business owners rose 8% from 2012 to 2013, resulting in the largest dollar increase in property taxes nationally, and property tax collections have increased by 58% over the last decade.⁷⁷

Because many small business owners and employees make low annual incomes, high property taxes may be acting as a double-burden among Texas' innovators and entrepreneurs. Among businesses with fewer than 100 employees, the average salary is approximately \$38,000 a year, which would place these workers in Texas' bottom quartile of income earners, a group that pays a disproportionately high amount of their income to property taxes.^{78,79} As property taxes continue to rise in Texas, small "mom 'n' pop" food service establishments, laundries, retail stores, and other service businesses will continue to struggle to survive in the nation's most business friendly state.

Small businesses may be at a particular disadvantage when they are located in the same area as economic incentive recipients. Researchers from Ball State University found that higher tax abatement use by local governments correlated with higher overall taxes for both businesses and households in the area.⁸⁰ Small businesses that are already paying more for goods and services due to their smaller scale are also paying more in property and sales taxes when a much larger company with local subsidies moves into the neighborhood.

DO BIG BUSINESSES HAVE A BIGGER IMPACT?

The Texas Enterprise Fund and other local tax incentive programs often target large businesses because these businesses can promise a larger number of both direct and indirect jobs. Nationally, targeting large businesses for incentive packages is commonplace: an analysis of 4,200 incentive contracts by Good Jobs First found that 90% of incentive money was given out to large corporations.⁸¹ Yet empirical evaluations of tax incentives given to large corporations have repeatedly shown that it is generally ineffective, leading to little or no net employment gains in the regions providing the incentive.

A rigorous analysis compared six control regions to six regions that had provided large incentives to the retail store Cabela's, which offers sporting goods products. Some of the incentives were extremely large, including one incentive worth more than \$75 million.⁸² The analysis found no net employment changes in any of the regions that had provided incentives, largely because the retail wages were too low to attract any new workers to the area. An additional local study of a large incentive granted to Cabela's in Buda, Texas found almost no economic impact beyond a brief spike and subsequent decline in sales tax revenue.⁸³ Other economic studies have found that incentives to large manufacturing, gambling, or wholesale corporations have had either no impact or a negative impact on regional employment in those industries.⁸⁴

RECOMMENDATIONS

At every level of government, from school boards to City Councils, from County Commissioners to state legislators, policymakers have a unique opportunity to implement sound policies that invest in families, reward taxpayers, and encourage business growth and innovation. State tax subsidy programs will only be able to deliver on their promise of creating high-paying, good jobs for working Texas families if Texas workers have the education and training that they need to obtain those jobs. Furthermore, programs like the ones examined in this report must set clear goals for workforce development and provide adequate transparency or oversight of tax subsidy programs.

Policymakers creating and utilizing economic incentive programs must ensure that such programs include the following components to ensure that all Texans are benefiting from economic growth:

1. CREATE GOOD JOBS

Local and state government can do more to ensure that economic development programs incentivize good, safe, and high-paying jobs that benefit the hardworking Texas families. All economic incentive programs must be able to demonstrate that they create jobs that provide a living wage, benefits, and opportunities for career advancement. Additionally, incentive programs must ensure that Texas families benefit, by setting goals to hire local workers, with an emphasis on hiring from disadvantaged communities.

2. ENSURE TRANSPARENCY AND ACCOUNTABILITY

All cities in Texas should routinely and uniformly report detailed information about all types of economic incentive programs. Austin, Texas already has one of the most transparent economic incentive programs in the country, requiring and publishing annual independent audits of each contract.⁸⁵ Other model cities include New York City and Memphis, Tennessee, which both provide public access to detailed information about each contract. Communities should have the opportunity to learn about potential projects, and should be able to voice their opinion before a final decision is made. Increased transparency will help prevent program waste and abuse, especially when programs lack strong standards to protect against conflicts of interest. Regular and transparent audits of economic development projects will help ensure that these projects are meeting their goals and benefitting local communities. Lastly, all incentive contracts should either withhold the grant until the project is completed or include a strong mechanism for recouping funds if a project fails to meet its goals.

3. PASS POLICIES TO PREVENT CORRUPTION AND CONFLICTS OF INTEREST

Researchers frequently found that campaign donors and local government contractors also received large incentive packages. Local and state governments lacked mechanisms during the application process to identify applicants who may pose a potential conflict of interest, such as large campaign donors and government contractors.

4. LEVEL THE PLAYING FIELD

Large incentive packages for corporations create an unfair advantage since the recipient is saving money while property taxes increase for other businesses and homeowners who live in the surrounding area.⁸⁶



Photo by Jason Cato

Governments should instead focus on providing infrastructure, streamlining bureaucratic processes, and investing in workforce development and education to attract new businesses to the region.

5. INVEST IN EDUCATION AND TRAINING

Texas must do more to invest in education and training to ensure that Texas families have the skills and knowledge they need to move into good, high-paying jobs. A skilled and educated workforce is the most important driver for economic development and policymakers must ensure that there is a career pathway for Texans to move into those jobs through public education and higher education. Because corporate subsidy programs directly impact the revenue of state and local government by waiving local taxes and fees, policymakers must ensure that subsidies are not undermining their ability to provide the investment in education and infrastructure that are the most important drivers of economic prosperity. Policymakers should encourage corporations to make significant investment in workforce development programs and higher education institutions to ensure programs meet the needs of business.

CONCLUSION

Growing inequality in education, employment, and income means that millions of Texans need access to living wage jobs with basic benefits, especially for communities of color. More than half of Texans are African-American or Latino, yet these families reap few of the benefits of Texas' economic development programs and instead struggle to obtain higher education and face high unemployment rates. To ensure sustainable economic growth in Texas, the main goals of state and local job creation programs should be to create good jobs for all working Texas families.

APPENDIX:

TEXAS' INCENTIVE PROGRAMS

LOCAL ECONOMIC DEVELOPMENT PROGRAMS

TYPE	WHO CREATES IT?	HOW DOES IT WORK?	WHAT ARE THE GOALS?
Chapter 380/381 agreements	City & county governments	Governments can provide grants, tax abatements, or low-cost loans to corporations in exchange for jobs, community investment, or some other defined benefit.	Goals vary by counties, but are generally focused on job creation, increasing the local tax base, and public infrastructure development
County assistance districts	County governments	County assistance districts are much different than other types of incentive programs. These are special districts designated by the county and approved by voters than can charge up to 2% additional sales tax in the district for public activities, such as improving roads, libraries, development promotion, or increasing public safety personnel.	Improving public infrastructure, promoting tourism and development
Development corporations (Type A/B sales tax)	City governments	This uses sales tax to provide grants to companies that are new or expanding in the area. Type A projects can fund manufacturing, research and development, military bases, and job training projects. Type B projects have more restrictions and requirements, but can fund Type A projects as well as sports centers, parks, affordable housing projects, and museums. Businesses must agree to creating new jobs or providing substantial financial investment in the community.	Jobs creation and community development
Enterprise zones	City governments, with community input	Enterprise zones provide sales tax refunds to businesses that locate in economically disadvantaged communities, or that hire people from those communities. Communities can vote on where enterprise zones should be located.	Stimulate job creation and business development in economically depressed parts of a city

LOCAL ECONOMIC DEVELOPMENT PROGRAMS

TYPE	WHO CREATES IT?	HOW DOES IT WORK?	WHAT ARE THE GOALS?
Freeport exemption	City & county governments	Provides a tax exemption on “goods in transit” that remain in Texas for 175 days or less. Oil & gas and related products may not receive the exemption.	Reduce cost of transporting materials into and out of Texas
Municipal & county hotel occupancy tax	City & county governments	This is an additional tax that can be imposed on hotels, and the resulting funds must be used to promote travel and tourism to the city or county. The City of Houston frequently uses hotel occupancy taxes to fund the development of sports stadiums.	Put “heads into beds” by promoting tourism, financing sporting events, historic preservation, arts promotion, etc.
Public improvement districts	City & county governments	A special zone is designated, and cities or counties can collect special assessments on properties in the zone. Those funds are then used to build public infrastructure in the zone.	The creation of public infrastructure is used to attract new development and businesses to the area
Neighborhood empowerment zones	City governments	A specially-designated area in a city to promote economic development, affordable housing, or improvement in social services.	Develop affordable housing, improve blighted areas
North American Free Trade Agreement (NAFTA) impact zones	City governments	Impact zones are areas that substantially deter growth in the city due to poverty, poor housing, crime, etc. Within impact zones, cities can provide building fee waivers, property tax abatements, and encourage the use of green building standards.	Promote employment, investment, and business within the zone

APPENDIX, CONT:

LOCAL ECONOMIC DEVELOPMENT PROGRAMS

TYPE	WHO CREATES IT?	HOW DOES IT WORK?	WHAT ARE THE GOALS?
Tax abatement agreements (Chapter 312)	City & county governments and special districts	<p>How it works: Tax abatement agreements involve four steps:</p> <p>Step 1: The city, county, and other districts that are involved must vote on adopting an abatement, and set up guidelines and criteria.</p> <p>Step 2: A public hearing must be set and disseminated to the general community.</p> <p>Step 3: If the project has met the guidelines and will benefit the community after it ends, a reinvestment zone is designated. This is usually an enterprise zone.</p> <p>Step 4: The agreement is set with the company, and the city, county, and/or special district may provide an abatement.</p>	Attract new industries, create jobs, and increase the tax base of an area
Tax increment financing (TIF)	City governments	Cities can designate an underdeveloped area as a “tax increment financing zone”. The city will then begin to fund and build public infrastructure in that zone to attract new development to the area.	Eventually, the new developments built in the zone will lead to increased property and sales tax revenue for the city, which will pay off the cost of the infrastructure.
Value limitations (Chapter 313)	School districts	<p>With a Chapter 313 agreement, a company can be exempt from up to 50% of their school district property taxes for a maximum of ten years by creating jobs in the area. Funds that are given up by school districts are supposed to be replaced by funding from the state government.</p> <p>The Comptroller of Public Accounts reported that the average cost per job created in this program type was \$306,086.</p>	Job creation is the primary goal of this type of agreement.

STATE ECONOMIC DEVELOPMENT PROGRAMS

TYPE	WHO CREATES IT?	HOW DOES IT WORK?	WHAT ARE THE GOALS?
Texas Certified Capital Company Program (CAPCO)	Comptroller of Public Accounts	Taxes on insurance premiums are used to fund venture capital companies that in turn invest in Texas businesses.	Provide investments in small-growth companies in order to create jobs for Texans
Economic development refund	Comptroller of Public Accounts	These awards were only given during 2008. In order to be eligible, a business had to either increase their payroll by \$3 million or increase appraised value of property by \$4 million.	N/A
Texas Emerging Tech Fund	Office of the Governor	This program was ended in 2015.	N/A
Texas Enterprise Fund (TEF)	Office of the Governor	Businesses considering Texas and at least one other state for relocation or a new development can apply for TEF grants, provided that they create at least 50 new jobs in urban areas or 25 new jobs in rural areas.	Attracting new industries and large companies to Texas; creation of high-wage jobs
Texas Moving Image Industry	Office of the Governor	Film and television projects must spend at least \$250,000 in Texas to qualify for this incentive, and at least 70% of jobs must be given to Texas residents. These projects often create a high number of jobs for a short period.	Promote the Texas economy and job creation
Texas Workforce Commission Skills Development Fund	Texas Workforce Commission	The Texas Workforce Commission provides grants to businesses and unions to work with technical and vocational training educators to develop programs for critical industry skills.	Increase the skill level and wages of Texas workers

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THE FAILED PROMISE OF THE TEXAS MIRACLE:

CORPORATE SUBSIDIES IN THE LONE STAR STATE

A REPORT BY WORKERS DEFENSE PROJECT

IN COLLABORATION WITH THE RAY MARSHAL CENTER FOR THE
STUDY OF HUMAN RESOURCES AT THE LYNDON B. JOHNSON
SCHOOL OF PUBLIC AFFAIRS

