

Take It to the Limit

Benefits and Costs of Chapter 313 Tax Limitations

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Texas is generally considered a low-tax state, but its reliance on property taxes for local funding leads to property taxes higher than those in many other states. Property taxes particularly place a burden on the development of capital-intensive projects that often provide higher-than-average-paying jobs. School taxes make up approximately 54 percent of local property tax collections.

Texas Chapter 313, also called the Texas Economic Development Act, was created in 2001 by Texas House Bill 1200. It regulates a school district's ability to offer tax value limitations to proposed local manufacturing projects. The program is intended to increase economic development and related high-paying employment in the state by allowing local school districts to offer property tax relief to selected projects. Chapter 313 is scheduled to expire in 2022, and the Texas Legislature is taking up the question of renewal in the 2021 session. This article explores the program's tax impact on 437 participating projects.

The Takeaway

Chapter 313, an incentive-based program designed to encourage the development of capital-intensive projects and strengthen the overall Texas economy, is up for renewal in the 2021 legislative session.

Most people are probably more familiar with a related program, Chapter 312, which allows local governments to offer tax abatements to development projects in their jurisdictions. Tax abatements are tax rebates, or agreements to not collect taxes owed. School districts were originally included in the state-granted eligibility to reward tax abatements, but changes to school finance rules in the 1990s meant districts lost funding over and above the abatement. Consequently, they abandoned the program. Chapter 313 replaced abatements for school districts. The program placed limits on the taxable value of a project. This seemingly minor change removed the loss of state funding to the school district.

State funding to school districts is directly related to the number of students in the district and inversely related to the total taxable value of property in the district. Limiting taxable value instead of offering an abatement meant school districts would be no worse off in terms of total per-student spending when a Chapter 313 tax value limitation is approved. The state would continue funding the school as if the value of the capital in the project was no greater than the limitation.

Chapter 313 projects are subject to the limitation for no more than ten years after the initial investment. The limit on the project's taxable value is set by the statute and determined by school district characteristics. To be eligible for a Chapter 313 limitation, a project must be:

- for manufacturing, research and development, or a specific type of electrical generation;
- a Texas Priority Project; or
- a computer center related to one of those classifications.

The project developer can negotiate rebates with the school district. If the school district agrees, the proposed agreement is submitted to the Texas Comptroller for approval. As of Jan. 22, 2021, about 580 Chapter 313 projects have been approved.

Chapter 313 Projects by Industry and Location

The two North American Industry Classification System (NAICS) industries with the most Chapter 313 projects

Chapter 313 Project Reporting Requirements

Active Chapter 313 projects are required to submit a cost data report to the Texas Comptroller biannually once they are underway. This report provides the name of the participating school district, the project name, and the project's industry, as well as historic and forecast investment amounts, taxes, tax rates, and direct payments from the project developer to the school district.

As of Oct. 23, 2020, 437 projects had a cost data report available on the state comptroller's website. These formed the basis of the analysis in this report. Financial data are inflation-adjusted and analyzed in terms of "project years" to put all projects on an equivalent timeline.

are utilities and the combined oil, gas, and petrochemicals grouping with 246 projects (56.3 percent) and 163 projects (37.3 percent), respectively (see table).

These projects, which account for 93.6 percent of all Chapter 313 projects, are clustered in four broad areas of Texas (Map 1, p. 4). Oil, gas, and petrochemical projects are primarily along the Gulf Coast (Map 2, p. 5), while utilities projects are largely in the Panhandle, West Texas, and Rio Grande Valley (Map 3, p. 5).

Project locations by school district for the remaining industries are shown in maps 4-10 (pp. 6-9).

Chapter 313 Project Count by Three-Digit NAICS Industry Code

Industry Grouping		Count	Percent of Total Count
Auto	NAICS 336 Transportation equipment manufacturing	2	0.5
Cement	NAICS 327 Nonmetallic mineral product manufacturing	2	0.5
Electronics	NAICS 334 Computer and electronic product manufacturing	8	1.8
Food	NAICS 311 Food manufacturing	5	1.1
Machinery	NAICS 333 Machinery manufacturing	4	0.9
Metal	NAICS 331 Primary metal manufacturing	6	1.4
O&G&C	NAICS 324 Petroleum and coal products manufacturing	21	4.8
O&G&C	NAICS 325 Chemical manufacturing	136	31.1
O&G&C	NAICS 211 Oil and gas extraction	6	1.4
	Oil, Gas, and Petrochemicals	163	37.3
Utilities	NAICS 221 Utilities	246	56.3
Wood	NAICS 321 Wood product manufacturing	1	0.2
	Total Project Count	437	

Source: North American Industry Classification System

Project Investment, Market Values, and Taxation

The average 25-year reported investment per Chapter 313 project is approximately \$500 million (Figure 1). This amounts to \$217 billion total for all 437 projects included in the Texas Real Estate Research Center’s study. Most projects see all of their investment in the first two to three years, with few receiving funding beyond that point.

The average taxable market value of Chapter 313 projects peaks in the sixth year as new investment winds down and depreciation on the market value of the initial investments begins to outweigh any further value increases. By the tenth year of the project, the market value is 83 percent of the peak market value, and by the 25th year it has, on average, fallen to 38 percent of the peak market value.

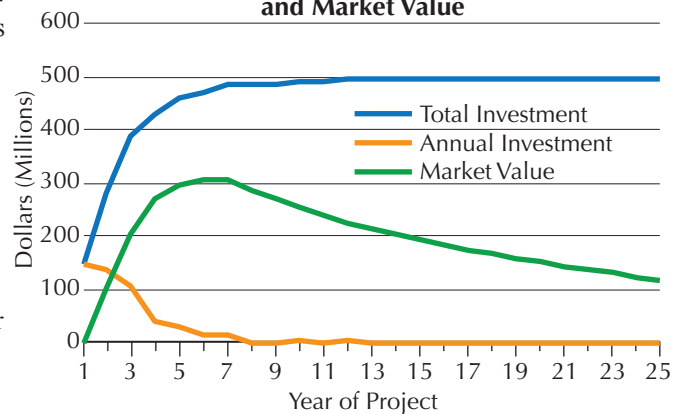
Local property taxes owed for an average project in Texas under Chapter 313 limitations are comparable to the unlimited local property taxes that would have been paid if Chapter 313 status had not been awarded and the project had still come to fruition. Even with the tax value limitation, local property tax collections rise an average of \$3.9 million per year between the third and tenth year of the project (Figure 2). Once the limitation runs out, a Chapter 313 project continues paying property taxes on the market value for the remaining life of the project.

The difference between Chapter 313’s limited taxes and the potential unlimited taxes are a project’s gross savings from participating in Chapter 313 (Figure 3). For the average project, the maximum annual gross savings (\$2.8 million) occurs in the seventh year. *Total* gross tax savings for an average project is \$23.2 million. School districts can negotiate with Chapter 313 projects for defined types of rebates. These rebates are paid directly to the district and do not impact state funding. By removing the value of the rebates out of the gross savings, the total net tax savings for an average project falls to \$17 million.

Complete Accounting of Economic Benefit

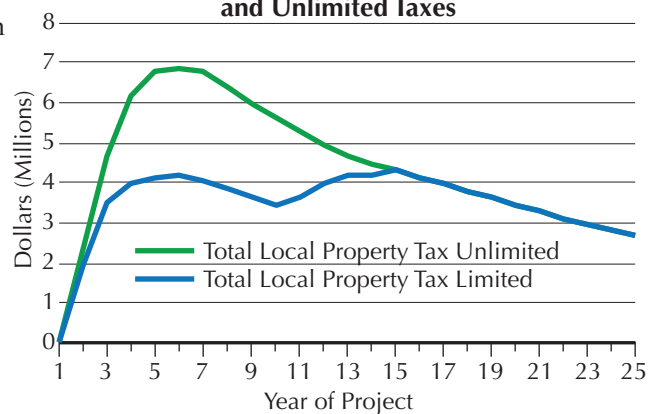
Chapter 313 incentives are intended to help Texas compete against other states for large-scale capital investments and, according to state tax code, “strengthen and improve the overall performance of the economy of this state.”

Figure 1. Average Project Investment and Market Value



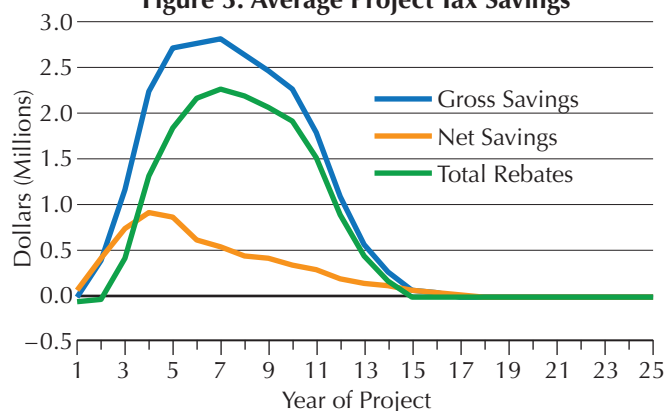
Sources: Texas Comptroller and Texas Real Estate Research Center at Texas A&M University

Figure 2. Average Project Limited and Unlimited Taxes



Sources: Texas Comptroller and Texas Real Estate Research Center at Texas A&M University

Figure 3. Average Project Tax Savings



Sources: Texas Comptroller and Texas Real Estate Research Center at Texas A&M University

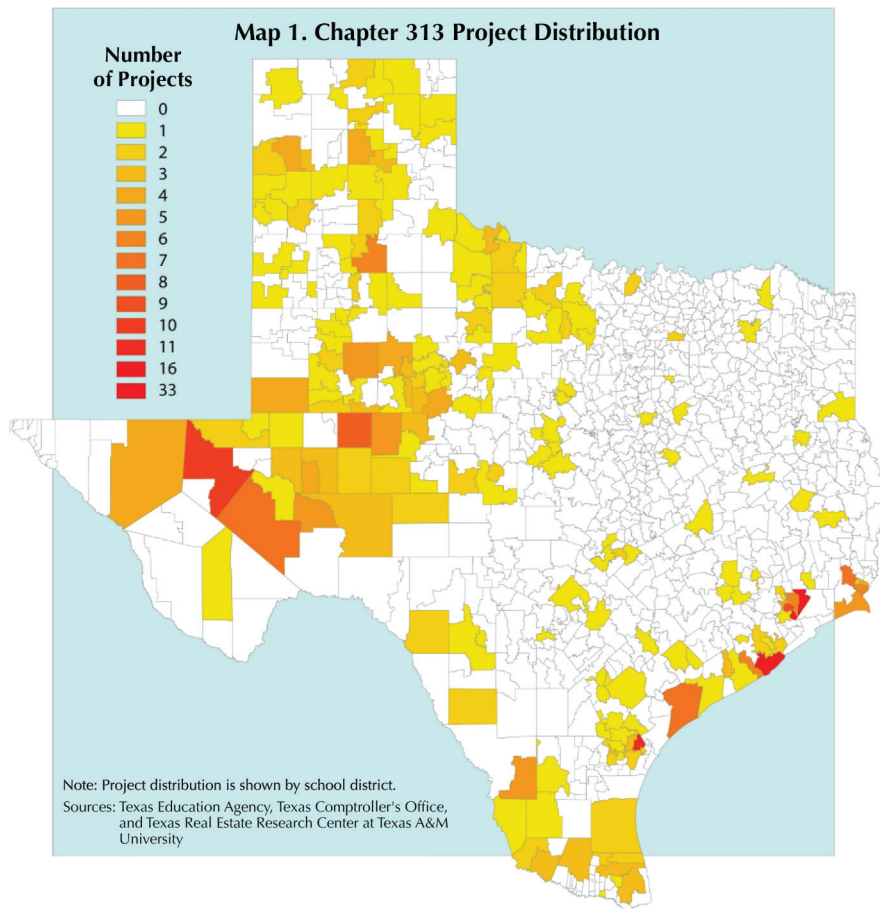
However, measures other than direct local property tax collections and project revenues should be taken into consideration for a more complete accounting of the program's total economic benefit or potential to induce economic development. Such measures include impacts on other taxes paid, employment, income, property values, government costs, and the nondirect induced and indirect impacts.

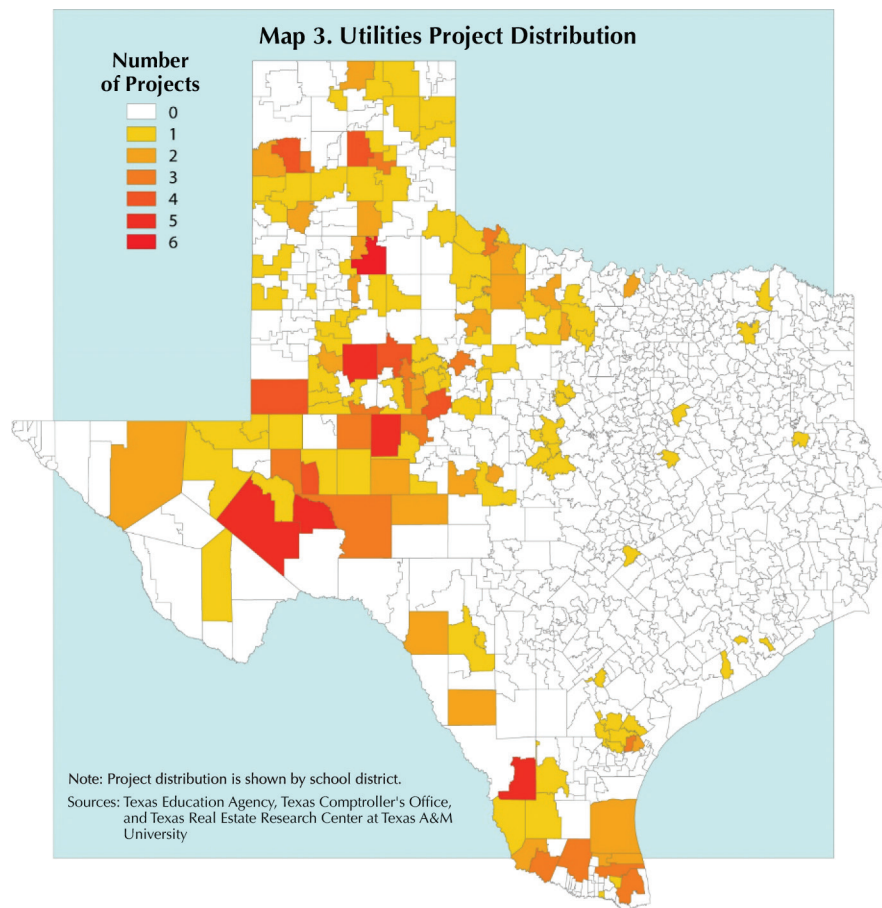
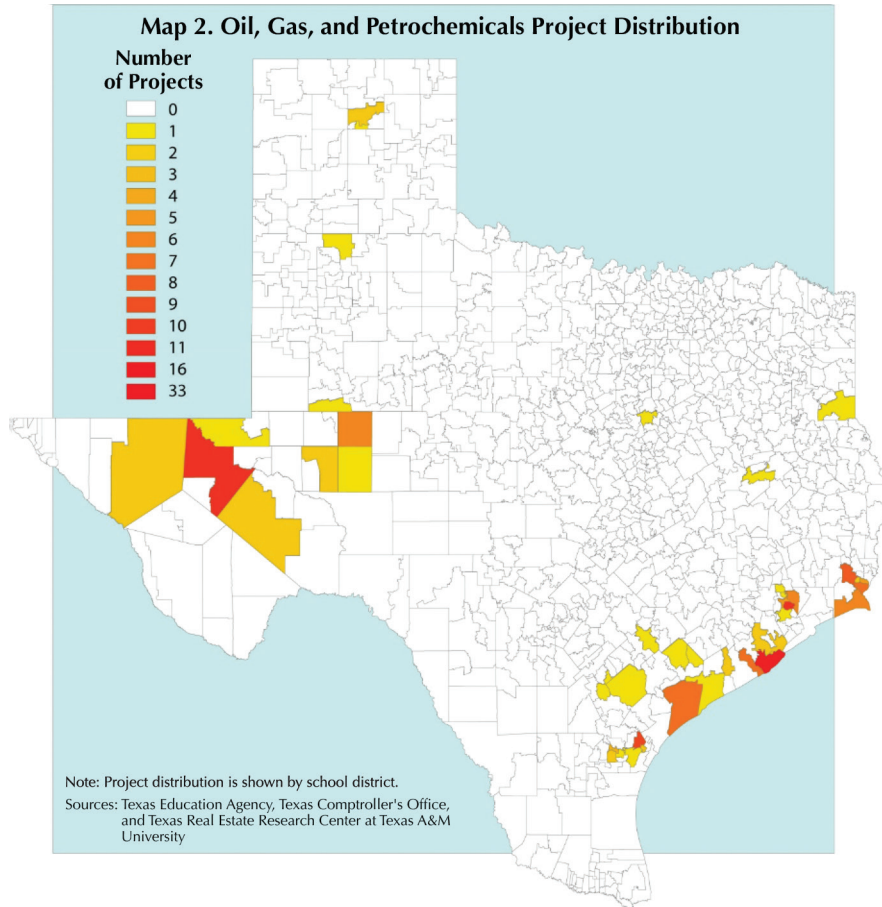
Any project has benefits as well as costs. If the gross benefit of Chapter 313 projects is calculated and found to be positive, the question becomes, "What proportion of the projects are induced by the incentive?" If the proportion is greater than the ratio of the incentive costs to the gross benefit of Chapter 313 developments, then Chapter 313, on the whole, would likely be regarded as

succeeding in its goal of improving economic development in Texas.

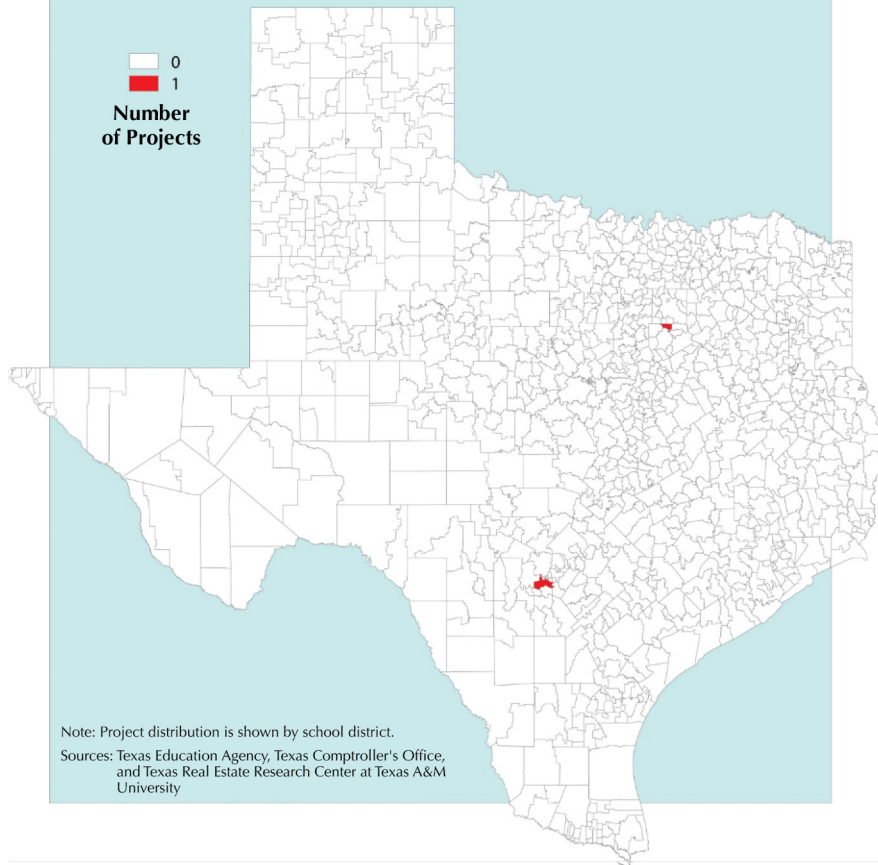
For instance, in the example from the previous section, the present value of 25 years of net tax savings through Chapter 313 would be 17.4 percent of the present value of 25 years of unlimited taxes that the project developers would have paid without Chapter 313. In other words, Chapter 313 would have to induce at least 17.4 percent of investment to have the net effect of increasing the expected present value of revenues to local property-taxing jurisdictions. 🗺️

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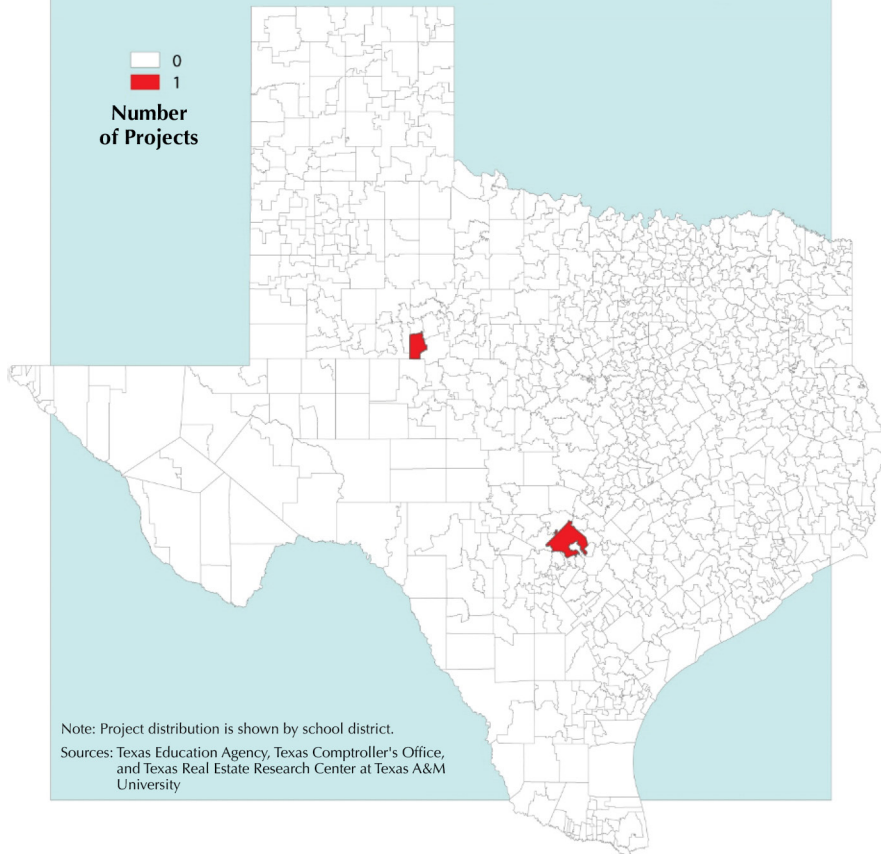




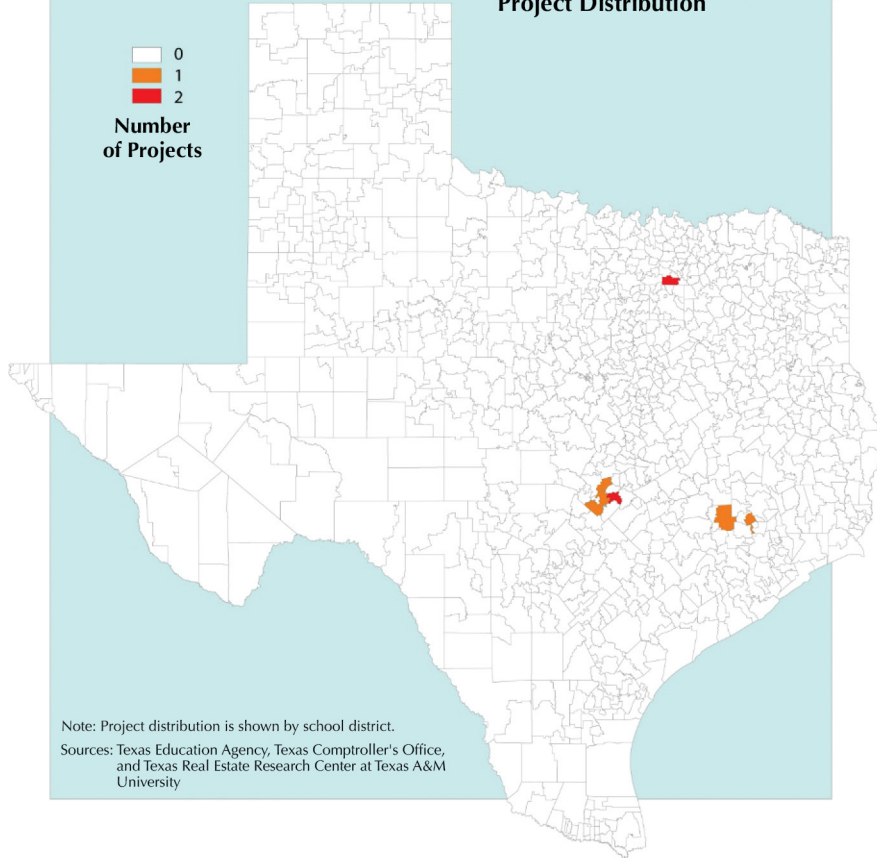
Map 4. Transportation Equipment Manufacturing Project Distribution



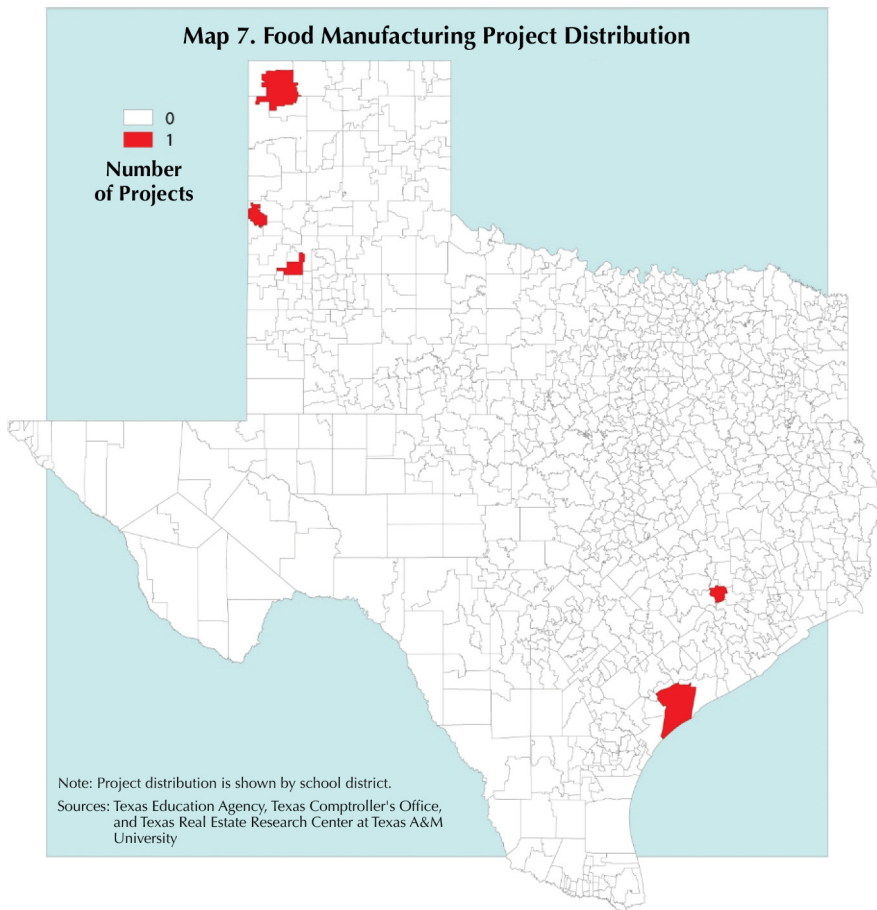
Map 5. Nonmetallic Mineral Product Manufacturing Project Distribution



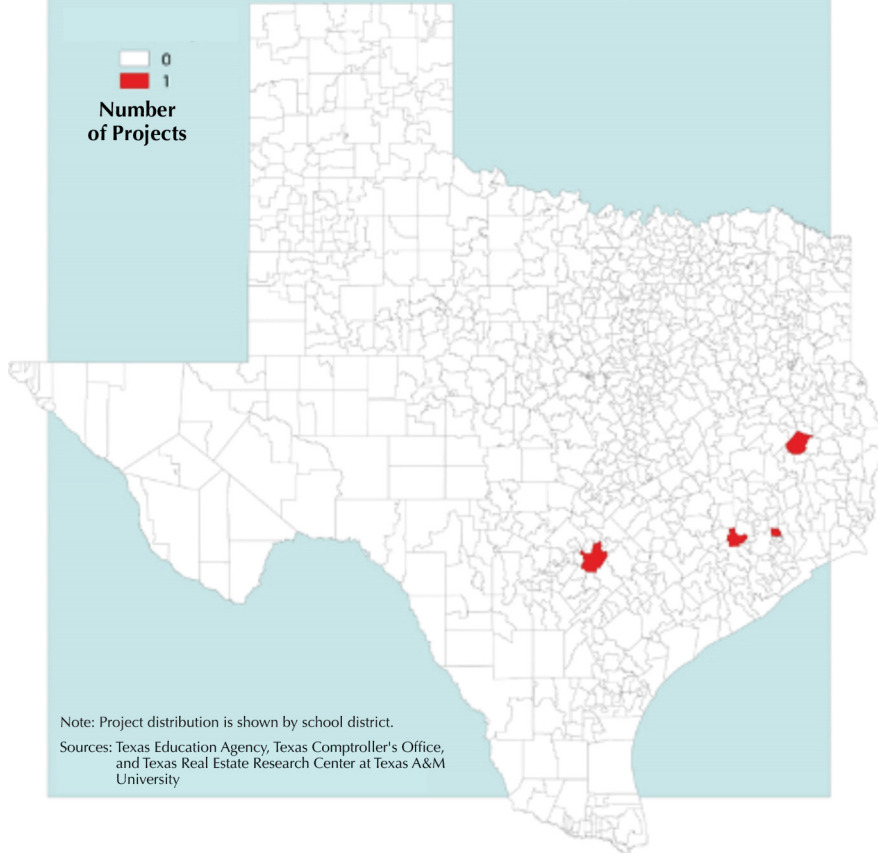
Map 6. Computer and Electronic Product Manufacturing Project Distribution



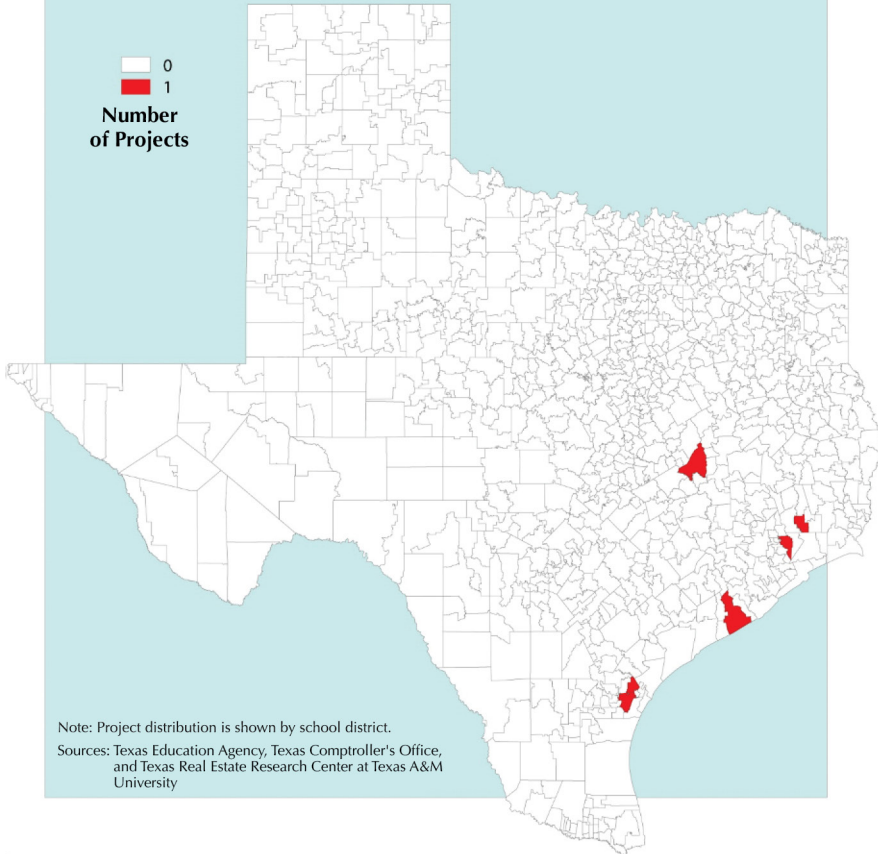
Map 7. Food Manufacturing Project Distribution



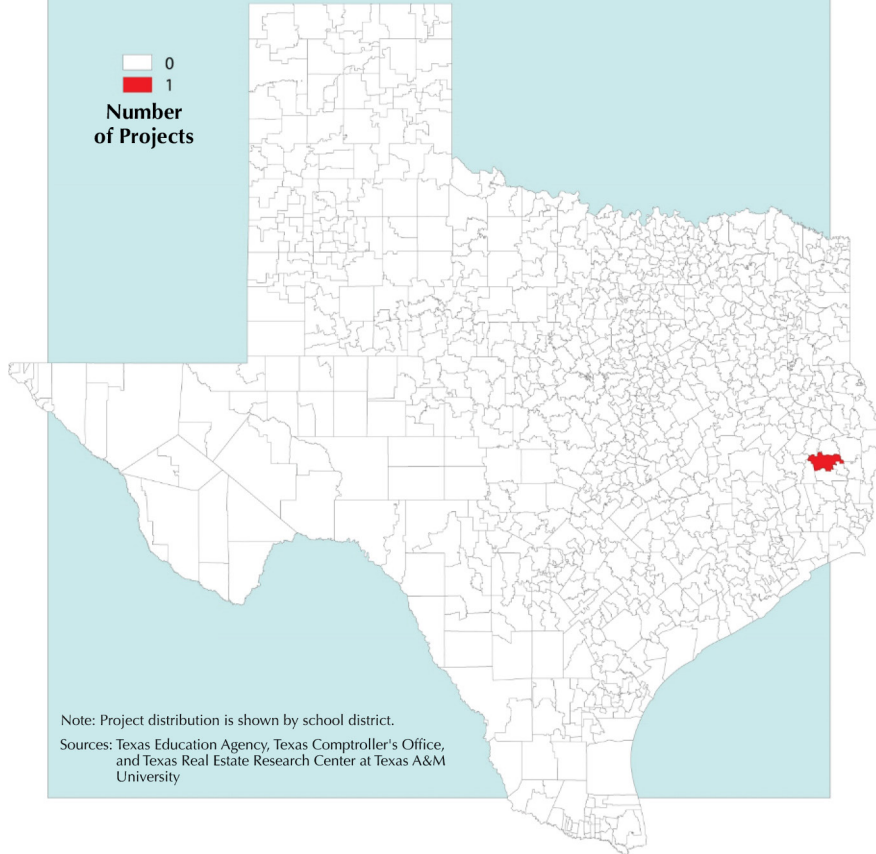
Map 8. Machinery Manufacturing Project Distribution



Map 9. Primary Metal Manufacturing Project Distribution



Map 10. Wood Product Manufacturing Project Distribution



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