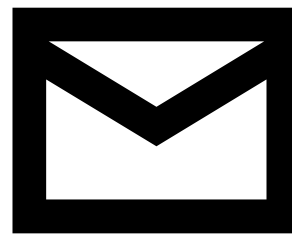
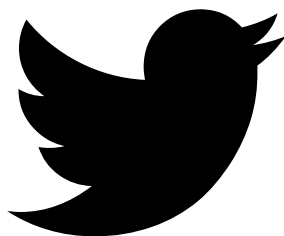


ECONOMY 4 HRS AGO

Playing the incentives game: Are Texas' economic development wars a zero-sum deal?



Jill Cowan, Economy Writer



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The Economic Arms Race: This story is the first in an occasional series exploring how taxpayer money is fueling economic development — a phenomenon that has transformed North Texas. It was produced after months of research and reporting as part of the Dallas Morning News' Idea Lab fellowship, a collaboration with the University of Texas at Austin's school of journalism.

Long before Amazon touched off a frenzy among cities competing for the 50,000 jobs the Seattle mammoth promises to bestow on one lucky metropolis, there was Rockwell Collins and there was Richardson.

The defense contractor — which, in the spring of 2007, employed about 450 people in Richardson's booming telecom corridor — wanted to expand. Local officials wanted the company to do that in Richardson, and they began putting together a modest package of financial incentives to assist.

First, though, they found out they had competition. Not from California, not from Chicago or Atlanta, but from a neighboring city.

“Unfortunately, Plano has decided to mimic Frisco with a strategy of indiscriminate buying of companies,” one Richardson official [wrote in an email](#) obtained by *The Dallas Morning News* as part of an effort to better understand how cities in Dallas-Fort Worth vie for jobs using grants and tax breaks.

“This could be a fairly expensive border war,” another had warned.

Richardson managed to hang on to Rockwell Collins — but only after the city responded to the threat of a competing bid with an extra [\\$400,000 grant](#).

A decade later, that’s not an eye-popping figure in a nation where states and cities spend \$45 billion to \$90 billion a year to lure companies to their communities, [according to two](#) of the relatively few attempts to put a dollar figure on what experts have described as a ballooning phenomenon.

But in Texas, where local officials have wide latitude to offer companies incentives with little involvement from the state, uncounted sums of tax dollars are fueling everything from local skirmishes like the one that played out over Rockwell Collins to the potential multibillion-dollar offer that observers say could be necessary to win over Amazon.

Across Texas, municipal economic development corporations paid out \$139 million in 2015 in grants, tax rebates and rent subsidies to businesses, according to the most recent [report](#) from the Texas Comptroller of Public Accounts. That’s up 53 percent from 2007.

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And those sales tax-funded corporations are just one possible weapon in Texas cities' incentive arsenals.

Any city can agree to property tax breaks or grants of its own, and the state doesn't track those. Meanwhile, Gov. Greg Abbott's office can sweeten local deals by dipping into the state's "deal-closing" [enterprise fund](#), which has doled out more than [\\$482 million to companies](#) since being formed almost 15 years ago.

As the ante rises from millions to billions for the nation's highest-profile economic development prizes, critics argue tax incentives are the least efficient way to boost local economies, shortchanging taxpayers in favor of what are often the world's biggest and richest companies.

"If you said all Texas cities could double or triple the size of their incentive budgets or allocations, what would that really do?" said Nathan Jensen, a government professor at the University of Texas at Austin and a critic of tax incentives. "Would it really generate more jobs or would it just double the price of incentives?"

Proponents of incentives, however, say the alternative is worse: Getting left behind.

'Economic development' in the spotlight

Earlier this year, another set of officials in the nation's fourth-largest metro area were worried about being overshadowed by their neighbors.

It was January, and Robert Sturns smiled at the crowd of suited real estate workers gathered under the geodesic dome of Fort Worth's Casa Manana Theatre. A [report](#) commissioned by the city had concluded that Fort Worth — the nation's [16th-biggest city](#) — had been falling into "an increasingly weak position towards the City of Dallas and aggressive suburbs throughout the metro area."

Hackles were raised. Sturns, the city's economic development director, was unapologetic.



Brandom Gengelbach (left), executive vice president of economic development for the Fort Worth Chamber of Commerce, and Robert Sturns, director of economic development for the city of Fort Worth, were among speakers taking part in the 2018 Tarrant County Commercial Real Estate Forecast in January. (David Woo/Staff Photographer)

“If we’re going to create a community where everybody can live, work and play, we have to bring jobs back to the city,” he told the audience.

The solution? Spend more money on economic development and get Fort Worth noticed as something more than Cowtown by the same people looking at Collin County as an ideal place to park their corporate jobs.

Until recently, the work of recruiting business has largely been done by an expanding class of economic development professionals behind closed doors.

Late last summer, Amazon blew those doors off by issuing metro areas a high-profile invitation to compete for its so-called HQ2 — a \$5 billion and 50,000-job project.

The scramble that ensued cast a harsh spotlight on the lengths to which officials will go to woo giant companies. States like Maryland and New Jersey offered Amazon tax-based incentives worth upward of \$5 billion.

And on the same day Sturns spoke to colleagues in Fort Worth, Amazon dropped a shortlist of 20 cities, including Dallas, sparking a fresh round of speculation that this kind of feverish public offering of multibillion-dollar incentive packages could be the new normal.

Advocates on both ends of the political spectrum implored officials to stand up to the tech Goliath. Prominent urbanist Richard Florida even started a [change.org petition](#) for an incentives non-aggression pact among the finalists.

But economic developers and elected officials say recruiting business is crucial for building vibrant cities where people can live, work and ensure that their children will be safe and well-educated.

Tax-funded incentives are like discounts at a department store — not government handouts, said Dale Craymer, president of the Texas Taxpayers and Research Association, a right-leaning tax policy think tank that counts many large, multi-state corporations as members.

“It’s no different than Target putting an item on sale,” Craymer said.

Companies, Craymer said, pay hefty property taxes as well as paychecks to their employees, who pay their own property taxes and support other businesses.

"It's no different than Target putting an item on sale."

And as long as any officials anywhere in the country are using incentives, economic developers say, others don’t have a choice.

“It’d be nice if we could all compete on our very own merits, ” said Carlton Schwab, president and CEO of the Texas Economic Development Council, a professional association for the state’s economic developers. “But absent some sort of national legislation that would disallow [the use of incentives] ... you’re going to have to play the incentives game.”

How much is too much?

But experts say elected officials don’t have the data they’d need to make informed decisions.

A 2015 survey by the University of Chicago’s Booth School of Business asked whether giving tax incentives to companies to locate in a given city generates tax benefits that outweigh the cost. Most experts were uncertain.

“I don’t see how anyone can have an opinion on this without data,” said [Richard Thaler](#), a professor of behavioral science and economics at Chicago Booth. “A \$1 tax break is worth it. \$100 billion not.”

Another Chicago Booth professor, Anil Kashyap, said in the [survey](#) that the competition between cities and states for jobs is “almost entirely zero-sum.”

Nevertheless, a recent [report](#) by the W.E. Upjohn Institute for Employment Research's Timothy J. Bartik found that the use of business incentives nationwide [tripled](#) from 1990 to 2015.

Experts say it's even harder to get a handle on the full scope of incentives here — and whether they're being used to just move jobs around within Dallas-Fort Worth.

A 2012 *New York Times* investigation found that Texas was the most generous with tax incentives, losing at least [\\$19.1 billion per year](#) in tax money to companies.

But the investigation didn't appear to include many local level incentives — like the ones Richardson offered Rockwell Collins in addition to the \$839,000 enterprise fund award, nor the dozens awarded by economic development corporations.

Jensen, the UT professor, said in order to make incentives worth it, politicians need to carefully tailor them to particular situations. More often, though, they just get into bidding wars.

“What they can do is offer as much as they can or match other offers, but that's generally not thought of as a very effective public policy,” he said.

D-FW vs. D-FW

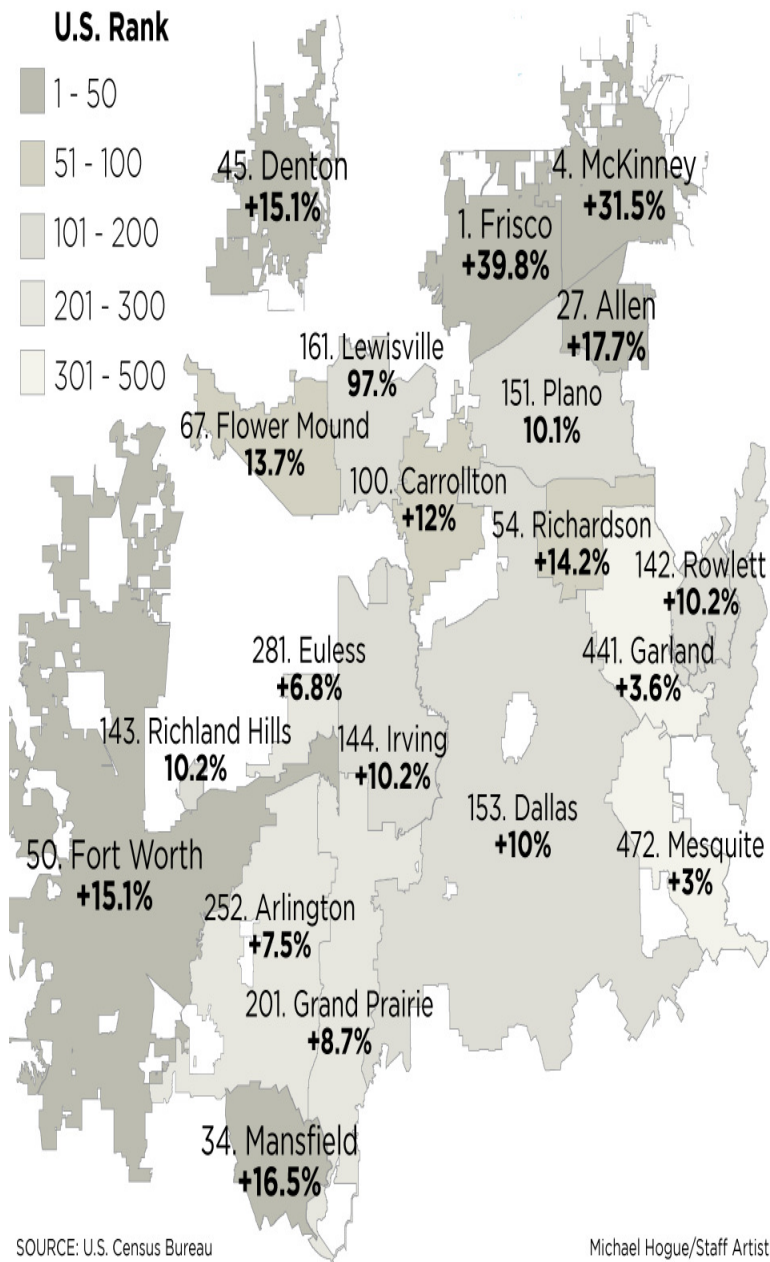
With regularly nation-leading job growth and a [nation-leading population boom](#) to match, there's a strong case to be made that Dallas-Fort Worth is the corporate recruitment capital of the country.

Since the recession, the flow of jobs and companies to North Texas has accelerated from a trickle to a deluge. By one [Dallas Regional Chamber](#) count, there were more than 90 relocations from 2010 to 2017 — moves that have propelled the region's growth.

Gov. Greg Abbott, in particular, has claimed [D-FW's](#) white-collar job growth as evidence of Texas' dominance over places like California, where he says painful costs of living and byzantine regulations have sent businesses fleeing.

Healthy competition within the region has helped North Texas snare the defectors, economic development professionals say. “A rising tide lifts all boats” has become a kind of mantra.

But within Dallas-Fort Worth, gains have been uneven. Affluent suburbs just north of Dallas have flourished, their populations growing at among the fastest rates in the country, while others haven't seen the glint of that kind of prosperity.



Population growth in D-FW cities from 2010 to 2016

Southern Dallas, a swath that has lagged for decades since [discriminatory government policies](#) made it harder to invest in the area, has continued to struggle to attract high-paying jobs.

Meanwhile, downtown Dallas has lost employers to new suburban campuses — often with the help of tax incentives from their eager new home cities.

Four years ago, 7-Eleven decided to move its headquarters from downtown Dallas to Irving, which agreed to give the company more than [\\$10.6 million in tax breaks](#) to do it.

Older, closer-in suburbs like Richardson and Plano have also seen companies relocate to newer cities, as NetScout Systems said it would last year. The tech firm [announced plans](#) to move its regional office from Plano to Allen, which offered the company incentives that included a 10-year, 50 percent rebate of [its city property taxes](#) and up to [\\$6 million in grants](#) to help build a parking garage and finish upgrading its new office.

Plano has managed to make some of the region's highest-profile scores — including [Toyota's North American headquarters](#) — without economic development sales tax money, although some question whether it'll be possible for the city to replicate that kind of success.

There's another city that observers more frequently point to as the region's shining example of corporate recruiting success.

That city is a place where glitzy sports palaces and upscale retail attracted more than 46,500 new residents from 2010 to 2016, making it the fastest-growing city in the country.

It has a stretch of commercial real estate along the Dallas North Tollway that has been dubbed "[the \\$5 billion mile](#)." It made its own [glossy video pitch](#) directly to Amazon, bucking the rest of the area's largely polite deference to a [regional effort](#).

That city is Frisco.

The game-changer

Late last year, Jim Gandy sat in a conference room at the Frisco Economic Development Corporation's headquarters with panoramic views of a parking lot, a sculpture garden and the empire of commerce he helped create where there was [once farmland and rolling prairie](#).

He recalled coming to Frisco in 1996, not long after the hamlet voted to become one of the state's earliest cities to take advantage of the economic development sales tax.

Since then, Gandy has become a bare-headed, friendly-eyed fixture in the region's business community. Developers have picked Frisco for massive office parks and he has helped land corporate residents from Jamba Juice to the Dallas Cowboys.

As other cities voted to create economic development corporations in attempts to catch up, Gandy's office consistently dominated the field. In 2015, his office doled out \$28 million in incentives from its overall budget of \$61 million — more than half of its total spending. Its Collin County neighbor, McKinney, spent a little less than \$1 million on incentives that same year.

Gandy shrugged off concerns that Frisco's aggressive business recruitment could make it harder for other cities in the region to get pieces of the action.

“Economic development is a competitive sport,” he said, “and every city is out to do the best it can.”

For the fast-growing cities in the area's northernmost reaches, that has meant trying to capture some of Frisco's magic.

In February, the bedroom community of Prosper announced it had nabbed Frisco's termed-out former mayor Maher Maso to head its economic development corporation, which in 2015 had revenues of just about \$1 million. City leaders hailed his hiring as a way to elevate Prosper's “economic development posture.”

Gandy, who was set to retire that month, said he wasn't exactly sure about his next gig, but it likely wouldn't involve working for another city.

Instead, he said, he might take his years of experience to the private sector.

“I've already been approached by some developers who would like to talk to me about helping them with their projects,” he said.

Already, his [LinkedIn page](#) lists a new job: President and CEO of JLG Investments, where he provides real estate and economic development consulting services.

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