

# Understanding Chapter 313: School Property Tax Limitations

TEXAS TAXPAYERS  
**TTARA**  
AND RESEARCH ASSOCIATION

400 West 15<sup>th</sup> Street, Suite 400  
Austin, Texas 78701  
512.472.8838  
[www.ttara.org](http://www.ttara.org)

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# What is Chapter 313?

*Chapter 313 of the Tax Code is the Texas Economic Development Act, which allows school districts to offer **limited** and **temporary** property tax discounts for **certain new** investments in order to encourage them to build in Texas.*

# History of Chapter 313

- Schools previously had been able to offer traditional tax abatements, but this authority was effectively eliminated in 1993
- Texas, which had been the nation's top location for new industrial investments began falling in the rankings, and lost a key Intel project to Arizona
- Chapter 313 was enacted in 2001 in HB 1200: the *Texas Economic Development Act*
- Re-authorized, with amendments, in 2007, 2009, and 2011 (will expire December 31, 2022)

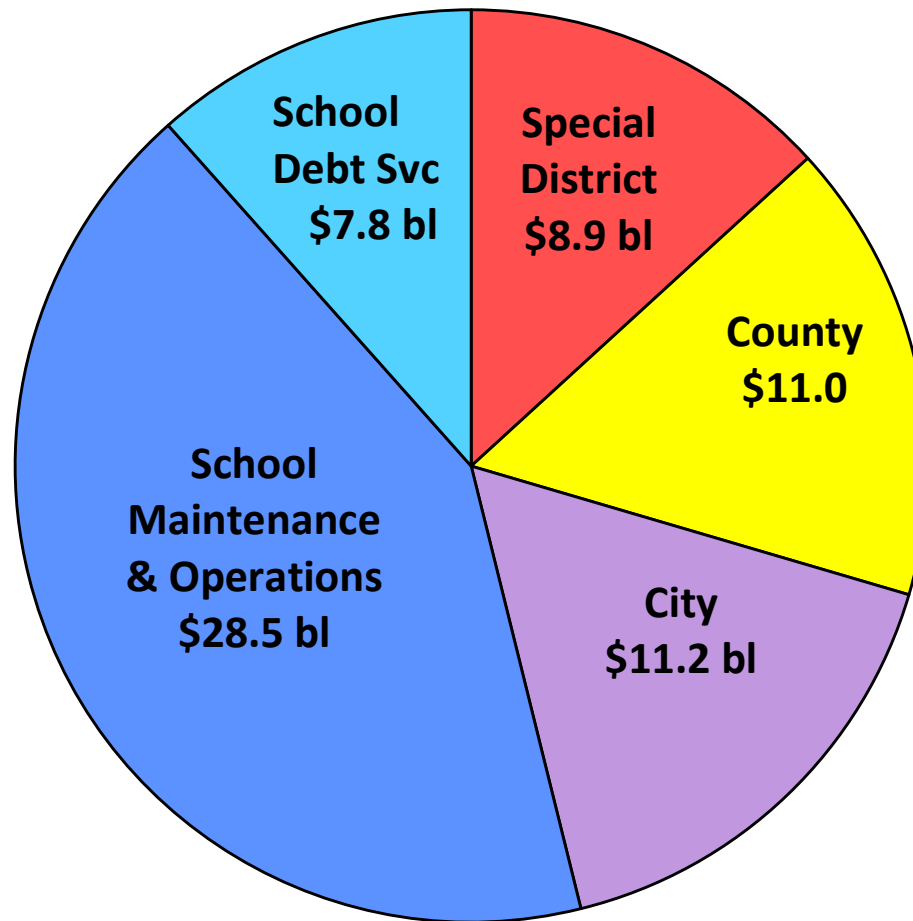
# Texas Property Taxes, 2019

In 2019, local governments in Texas levied \$67.3 billion in property taxes.

School property taxes for maintenance and operations accounted for 42 percent of the average Texas property tax bill.

Numbers may not add due to rounding.

Data from the Texas Comptroller of Public Accounts.



**Total 2019  
Property  
Taxes in  
Texas:  
\$67.3 bl**

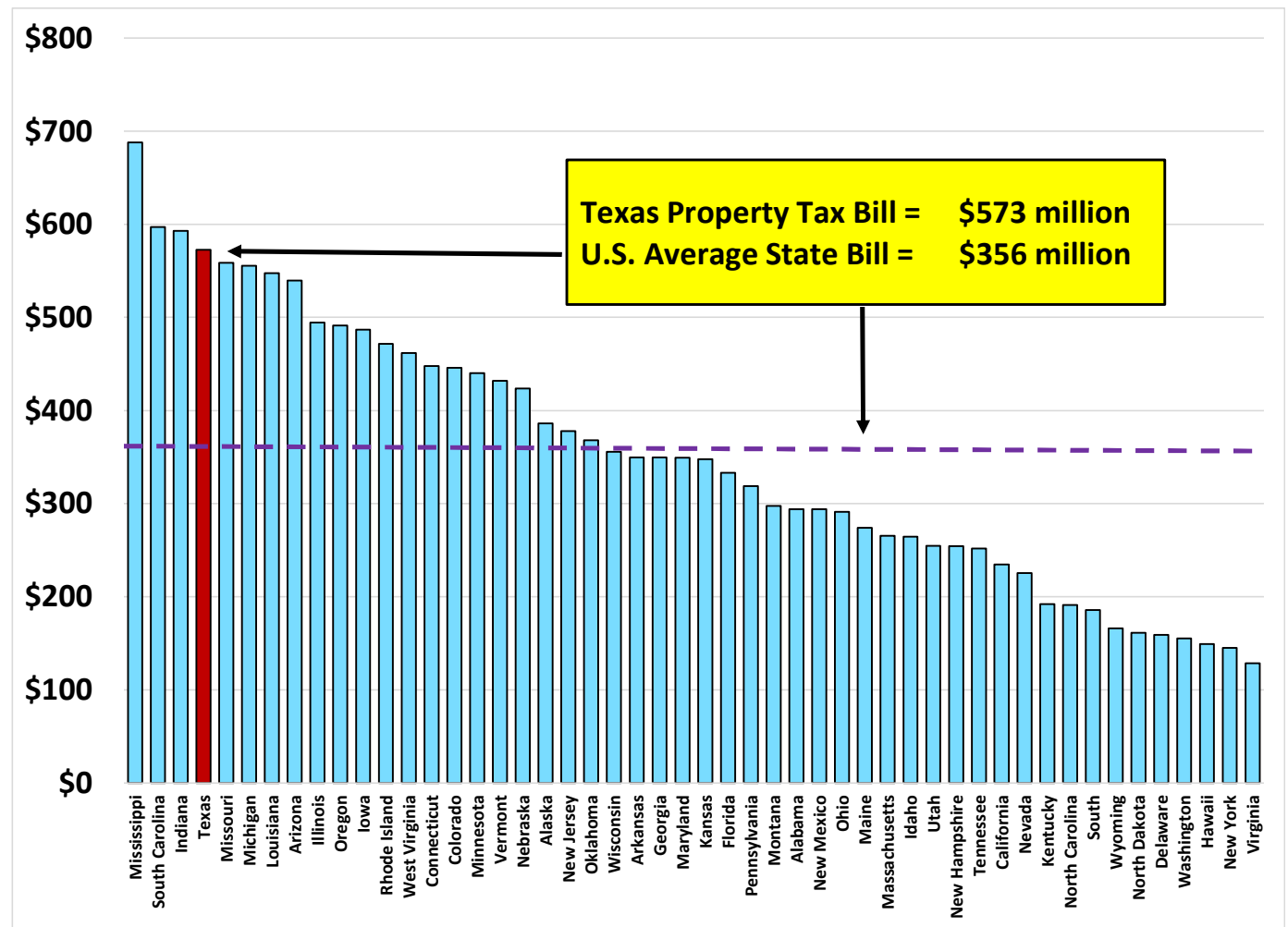
# How Does Texas Compare?

## 25 Year Property Tax Bill on a \$1 Billion Project

*Texas is a high tax state for business with property taxes much higher than other states.*

*A \$1 billion industrial project in Texas would pay \$573 million in property taxes over a 25-year lifespan — 61% higher than in the average state.*

*Adapted from Lincoln Land Institute and Minnesota Center for Fiscal Excellence's 50 State Property Tax Comparison Study for Taxes Paid in 2019, June 2020.*



# Key Elements of 313

- **New investment** can qualify for up to a ten-year limit on new taxable value for school maintenance and operations taxes
- Limit ranges from \$10 ml. to \$100 ml., depending on school district—amounts up to the limit must go onto the tax rolls
- Must create at least 10 or 25 new “qualifying” jobs (can be waived under certain circumstances)
- Limit applies only to M&O taxes (operations), not I&S (debt)
- Limit applies only to buildings, machinery & equipment, not inventories (taxes on which can be substantial)
- School districts typically demand supplemental payments (up to 40% of project’s tax savings) that are excluded from school finance formulas
- Schools also require “revenue protection payments” that may require additional payments relating to school finance formulas

## **313 Purposes (313.003 paraphrased)**

1. Encourage large scale capital investment
2. Create new, high-paying jobs
3. Attract new projects seeking to invest
4. Allow Texas to offer competitive incentives
5. Strengthen the Texas economy
6. Expand the property tax base of the state
7. Provide state and local officials with an effective economic development tool

# Who is Eligible? (listed in 313.024)

- Manufacturing
- Electricity generation using certain low emission technologies (including renewable electric generation such as wind and solar)
- Research and development
- Nuclear energy
- Computer centers in connection with any of these activities (unless receiving a sales tax exemption under 151.359 or 151.3595)
- Texas “priority project” (>\$1 billion investment)

# **Chapter 313 Process**

1. Applicant files Comptroller-prescribed form with the school district's governing board
2. School board may either:
  - Refuse to consider the application, or
  - Consider the application
3. If district decides to consider application, it is sent to Comptroller
4. Comptroller posts the application on-line and then reviews it to determine 1) eligibility, 2) economic, and 3) fiscal effects of the project (up to 90 days)
5. If yes to all 3 items, Comptroller issues certificate of finding
6. If certificate issued, school board may act on application
7. If approved, school district and applicant enter into a formal agreement, prescribed by the Comptroller

# **A Project Must Demonstrate to the Comptroller that:**

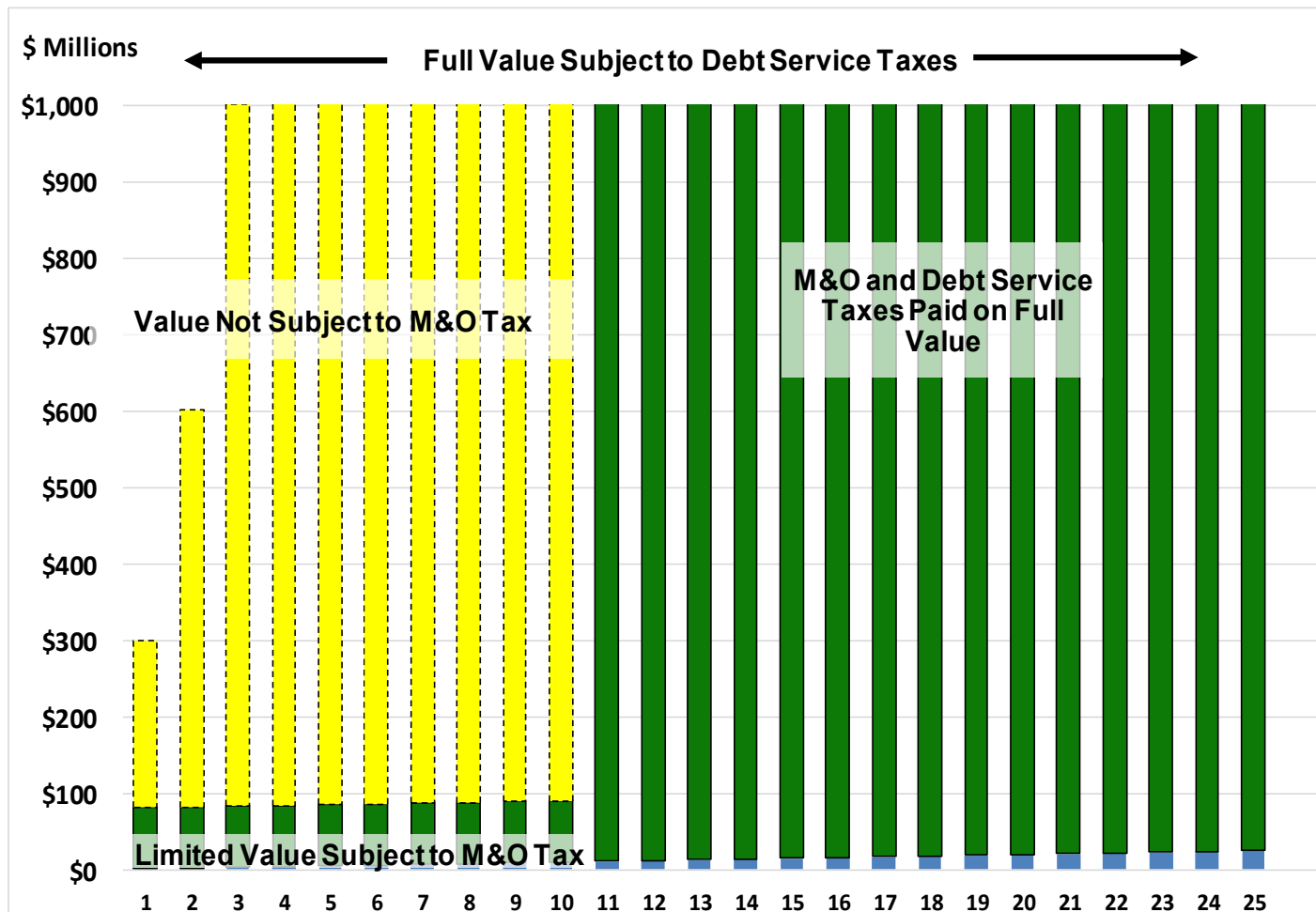
1. Over 25 years the project will generate more tax revenue than it will receive from the 313 limitation (313.026(c)1), and
2. The limitation on appraised value is a determining factor in the applicant's decision to invest (313.026(c)2).

# How Chapter 313 Works

*In this example, a \$1 billion project receives an \$80 million limitation from the school district.*

*Its M&O taxable value is \$80 million during the period of construction and the first years of operation (it pays on full value for debt service taxes).*

*Once the limit expires it pays tax on its full value.*



# **Falsehoods About State Cost of 313**

*The state budget fills in any gap in school taxes created by these giveaways by maintaining funding for a district's school-finance formulas*

Every Texan (formerly Center for Public Policy Priorities) in  
Wasteful School Property Tax Breaks Cost Texas Billions

*Revenue from state... taxes is diverted... to make up for the reduction in property taxes*

Texas Public Policy Foundation in Money for Nothing: An Introduction to Chapter 313 Abatements

# The Truth About 313s and State Aid

- The value that goes onto the tax rolls with a 313 limitation makes the district “wealthier.” Its **PROPERTY TAX COLLECTIONS INCREASE**
- Because the district is now wealthier, its **STATE AID IS REDUCED, saving the state money!!!**
- Once the 313 limit expires, the district collects even more property taxes resulting in deeper state aid cuts!

# 313 School Districts LOSE State Aid

## Finances During the Limitation Period

*In this example, a school district offers a temporary \$80 million limit for a \$1 billion project. The district has 5,000 students and is entitled to \$6,160 per student for **maintenance and operations** under state formulas—a total of \$30.8 million.*


Item	W/O 313 Project	W/ 313 Project	Difference
Tax Base	\$2.00 bl	\$2.08 bl	\$0.08 bl
M&O Tax Rate (per \$100)	<u>\$0.93</u>	<u>\$0.93</u>	<u>\$0.00</u>
Local Tax Collections	\$18.6 ml	\$19.3 ml	\$0.7 ml
Foundation Program Guarantee	<u>\$30.8 ml</u>	<u>\$30.8 ml</u>	<u>\$0.0 ml</u>
State Aid Makes Up the Difference	<u>\$12.2 ml</u>	<u>\$11.5 ml</u>	<u>(\$0.7 ml)</u>

# 313 School Districts LOSE State Aid

## Finances After the Limitation Period

*In this example, temporarily value limit for a \$1 billion project has expired and the project is fully valued and taxed . The district has 5,000 students and is entitled to \$6,160 per student for **maintenance and operations** under state formulas—a total of \$30.8 million.*

Item	W/O 313 Project	W/ 313 Project	Difference
Tax Base	\$2.00 bl	\$3.00 bl	\$1.00 bl
M&O Tax Rate (per \$100)	<u>\$0.93</u>	<u>\$0.93</u>	<u>\$0.00</u>
Local Tax Collections	\$18.6 ml	\$27.9 ml	\$9.3 ml
Foundation Program Guarantee	<u>\$30.8 ml</u>	<u>\$30.8 ml</u>	<u>\$0.0 ml</u>
State Aid Makes Up the Difference	<u>\$12.2 ml</u>	<u>\$2.9 ml</u>	<u>(\$9.3 ml)</u>

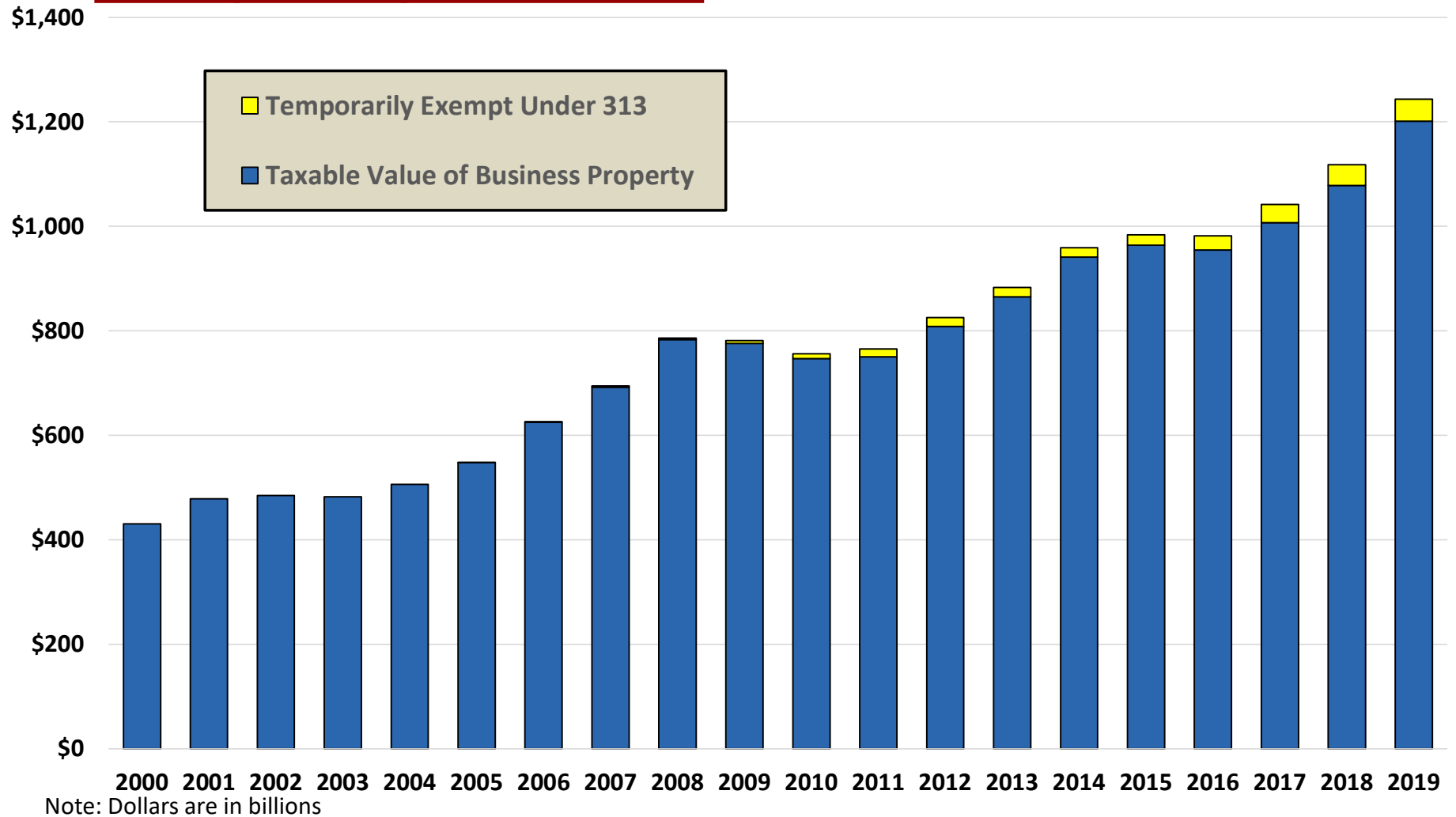
A blue circle highlights the \$1.00 bl difference in the Tax Base row. A blue arrow points from this circle down to another blue circle that highlights the (\$9.3 ml) difference in the State Aid Makes Up the Difference row. This visualizes that the \$1.00 bl increase in the tax base, when multiplied by the \$0.93 tax rate, results in a \$0.93 bl (or \$9.3 ml) increase in local tax collections, which is used to offset the \$9.3 ml deficit in state aid.

# Del Valle & Tesla: Sample Years

Item	No Tesla (Taxes on Existing Land)	Tesla During Limitation	Tesla After Limitation
Property Value (\$ ml)	\$5.1	\$80.0	\$395
Dell Valle M&O Tax Rate (2020)	\$0.927	\$0.927	\$0.927
M&O Taxes Paid (\$)	\$48,000	\$742,000	\$3,670,000

Additional Property Taxes Paid			
Del Valle I&S Tax Rate (2020)	\$0.33	\$0.33	\$0.33
Debt Service (I&S)	n.a.	\$1,368,000	\$1,385,000

# Chapter 313 & Texas Business Property Values



# Chapter 313 Transparency

Forms	Amount of Information		
	Pages	Questions	Supporting Schedules
<b>Application Forms</b>			
<b>Form 50-296A</b> Application for Appraised Value Limitation on Qualified Property	9	83	17
<b>Form 50-300</b> Application for Tax Credit on Qualified Property	1	7	3
<b>Agreement Forms</b>			
<b>Form 50-286</b> Texas Economic Development Act Agreement	29	n.a.	5
<b>Annual/Biennial Reporting Forms</b>			
<b>Form 50-772A</b> Annual Eligibility Report	5	50	n.a.
<b>Form 50-773A</b> Biennial Progress Report	2	35	1
<b>Form 50-287</b> Biennial School District Cost Data Request	1	n.a.	1
<b>Form 50-825</b> Job Creation Compliance Report	3	19	1

*Completed forms are available on the Comptroller's website.*

## **313: What's Not So Good**

- Transparency comes with burdensome and costly application and reporting requirements. Little can be done without hiring costly consultants.
- The net benefit of the average 313 agreement in a year a limitation is in effect amounts to only a 37% tax discount after netting out:
  - Debt service taxes paid (22%)
  - M&O taxes paid on limited value (8%)
  - School district supplemental payments (12%), and
  - School district revenue protection payments (21%).

# To Learn More

- *Understanding Chapter 313: School Property Tax Limitations and the Impact on State Finances*, by TTARA, at [ttara.org/resources/reports-and-briefs/](https://ttara.org/resources/reports-and-briefs/)
- *Report of the Texas Economic Development Act, 2021*, by the Comptroller of Public Accounts, at [comptroller.texas.gov/economy/local/ch313](https://comptroller.texas.gov/economy/local/ch313)
- [KeepTexasFirst.com](https://www.KeepTexasFirst.com)

# Key Points

1. Texas' high property taxes (particularly school) means Texas cannot compete for high-value capital investments without property tax incentives, such as 313
2. Chapter 313 expires in 2022. Absent reauthorization, the program will no longer be available.
3. American business is investing billions in new factories to build domestic supply chains. Failure to extend Chapter 313 means Texas will unilaterally disarm itself at the worst possible time!
4. Chapter 313 doesn't cost the state money. It makes the state money!

# Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

<b>Fiscal Issues &amp; Franchise Tax: Dale Craymer</b>	<b><u><a href="mailto:dcraymer@ttara.org">dcraymer@ttara.org</a></u></b>
<b>Sales, Property, &amp; Tax Admin: John Kennedy</b>	<b><u><a href="mailto:jkennedy@ttara.org">jkennedy@ttara.org</a></u></b>
<b>School Finance: Sheryl Pace</b>	<b><u><a href="mailto:space@ttara.org">space@ttara.org</a></u></b>
<b>Property Tax: Carl Walker</b>	<b><u><a href="mailto:cwalker@ttara.org">cwalker@ttara.org</a></u></b>
<b>Communications: Ryan Ash</b>	<b><u><a href="mailto:ryan@ttara.org">ryan@ttara.org</a></u></b>
<b>Office Manager: Betty Wranischar</b>	<b><u><a href="mailto:bwranschar@ttara.org">bwranschar@ttara.org</a></u></b>
<b>Membership: Cindy Ferguson</b>	<b><u><a href="mailto:cferguson@ttara.org">cferguson@ttara.org</a></u></b>

**(512) 472-8838**