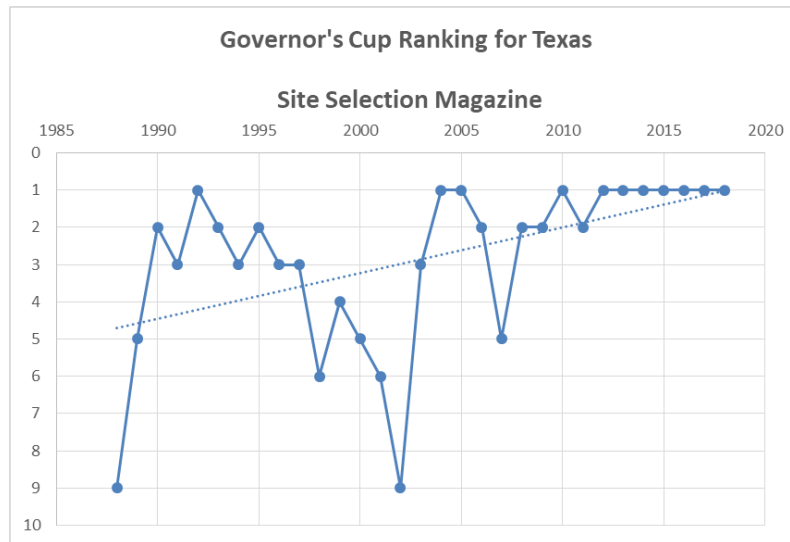


CHAPTER 313 HELPED TEXAS WIN THE GOVERNOR'S CUP 10 OF THE LAST 15 YEARS

The Governor's Cup is awarded by *Site Selection Magazine* each March to the State that has experienced the most new capital investments during the past year. It is the Oscar of economic development, and Texas is far and away the most frequent winner. The chart that follows illustrates Texas' rank among the states for each year since 1988. (Source: *Site Selection Magazine*)



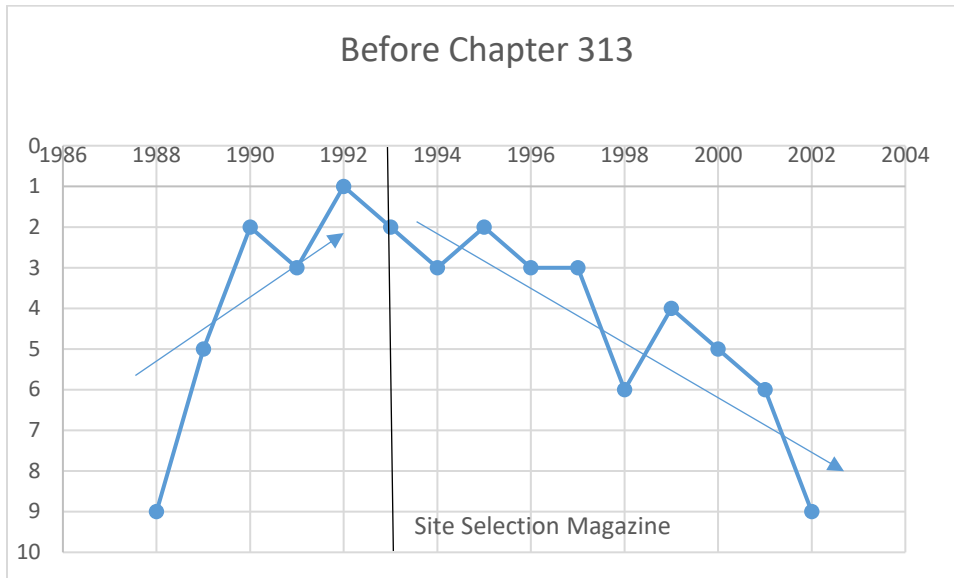
Texas' success in luring new investments to the state is the result of many factors. Conveniently located in the center of the U.S. with a moderate climate, we have become a super hub for every type of transportation. Our workforce and infrastructure are excellent, and we have plans in place to ensure adequate supplies of water, electricity, and bandwidth. We do not have a state income tax, and our regulatory environment is business friendly. There is much to like about Texas as a future home for your business. These conditions also contribute to the inbound migration of people to the Lone Star State.

The only major drawback for Texas as a site for locating a business is the business taxes. The lack of a state income tax means the state depends primarily on sales tax and property tax for the funds to provide basic services to our population. While Texas is a low-tax state for individuals, Texas is a high-tax state for businesses. The total estimated business tax rate in Texas is 5.6%. Only nine states tax at a higher rate, and Texas is 19% higher than the national average. State and local taxes are also growing in Texas at a 10.8% annual rate, the fifth highest rate of increase among the states. (Figure 3 and table 4, Source Ernst and Young)

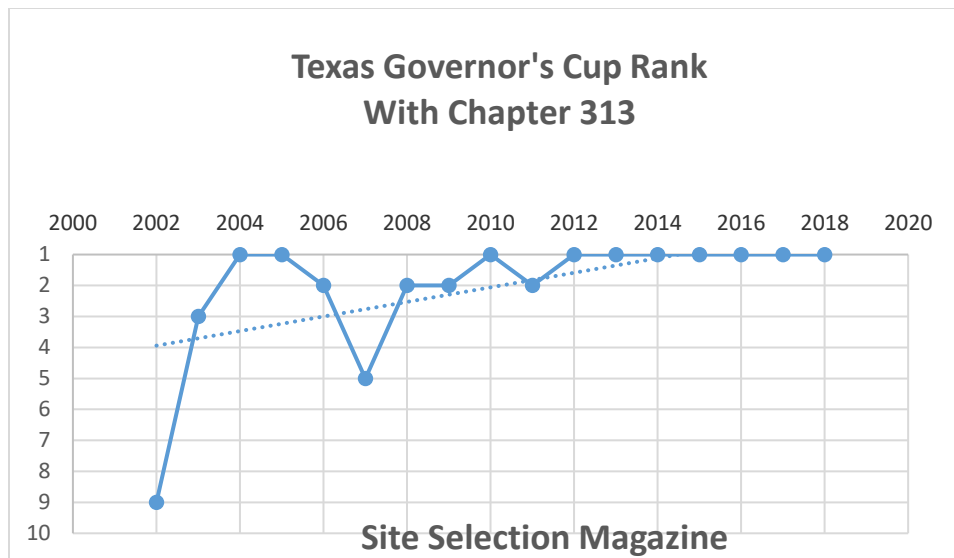
Part of the tax problem for Texas is the share of total state and local taxes paid by businesses. Texas businesses pay 62.3% of state and local taxes collected; that is 43% higher than the national average of 43.5%. Paying a higher percentage of state and local taxes might be understandable if businesses received a disproportionate share of government services. On the contrary, Ernst and Young found that Texas businesses ranked second highest among the states in taxes paid compared to services received. (Figure 6 and Tables 5 and 6)

TAX ABATEMENTS ATTRACT NEW INVESTMENTS

Texas' success in attracting new business investments has been, at least in part, the result of abating some part of property taxes for a limited period of time. School property taxes are the largest part of local property taxes. From 1987 to 2001, school districts could partially abate property taxes under Chapter 312 of the Texas Tax Code. However, in 1993, a change in the way school districts were funded virtually eliminated school district tax abatements. The practice was revived in January 2002 with the implementation of Chapter 313 of the Texas Tax Code. Texas' rank in the Governor's Cup illustrates the impact these tax abatements made on Texas' success in economic development especially when comparing the time periods before 1993, from 1993 to 2002 and after Chapter 313 became effective in 2002.



From 1988 to 1992, Texas rose from ninth place in the Governor’s Cup competition to the top spot. Once school financing methods virtually eliminated property tax abatements in 1993, Texas began to slide in the rankings all the way back to ninth place in 2002.



Since the Legislature created Chapter 313 in 2002, Texas has won the Governor’s Cup 10 out of 15 years, never finishing lower than fifth place.

FAILURE TO RENEW CHAPTER 313 MAY HAVE UNINTENDED CONSEQUENCES

Although this data does not purport a cause-effect relationship of Chapter 313 on economic development success in Texas, it does suggest that failing to renew Chapter 313 in some form may have the unintended consequence of significantly reducing the number of projects moving to Texas in the future. Knowing no potential for abatement existed between 1993 and 2002 may have caused Site Selection professionals to omit Texas as a possibility because of our high property tax on business capital investment.

It casts doubt on the hypothesis put forward by Dr. Nathan M. Jensen that the majority of companies relocating to Texas would have come without tax abatements. When the abatements went away, the economic activity dropped dramatically. When abatements returned, economic activity in Texas spiked. This data is more tangible than Jensen’s logic tied to supplemental payments to school districts which, by the way, are capped by statute.