

A Study to Describe the Attitudes and Perceptions of Texas Municipal
Officials on the Effectiveness of Tax Abatements and Incentives

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Chapter 1: Introduction

Since 1985, cities, counties, and school districts in Texas have abated over \$80 billion worth of taxable property.¹ Many taxpayers, politicians, and analysts claim that this abated revenue could be used for municipal infrastructure and that abatements are nothing more than corporate welfare. Proponents, however, believe that abatement is a useful economic development tool that allows municipalities to compete with one another and increase the local tax base. Proponents also maintain that any abated property and the revenue lost is more than made up through new jobs and other spin-off benefits.

But, while many administrators propose that abatements are a necessity in the competitive field of economic development, most firm literature reveals that abatements are of limited importance to relocating corporations. Surveys show that corporations place more importance on factors such as quality of life (Reese and Malmer, 1994: 115) and transportation access. Despite this literature, Texas municipal officials continue to offer support for supply-side property tax abatements, rather than demand-side policies such as small-business support.

Some of the most common explanations for the continued use of property tax abatements is political necessity and that cities cannot trust other cities not to use them. Other common explanations include competition with other cities for economic development opportunities and

¹ The "Property Redevelopment Act, adopted in 1981, allows a taxing unit to enter into an agreement if a city council or commissioners court designates an area as a reinvestment zone and establishes guidelines and criteria governing the agreements by the taxing unit.

the fear that other cities will use abatements to lure away firms or give them the necessary edge to draw new industry. At least one author claims that abatements allow city officials to actively support economic development without an apparent diversion of budgeted funds from other local government services, creating the perception to taxpayers that property tax abatement to businesses cost the local government nothing. (Nunn, 1994: 574) Public officials can often "claim credit" for the fact that hundreds of jobs will be created as a result of an abatement, regardless of how much each job costs for each dollar abated. In addition, many cities propose that they must utilize abatements in order to remain competitive in the economic development field. If not, a city that does offer an abatement may lure the corporation away.

In 1981, Texas made it legal for cities, counties, and school districts to participate in abatement. When the Texas economy began to crash in the mid- to late 1980s, most officials and residents expressed little concern over the granting of abatement. But, many opponents began to express dismay over the abatement process once the economy began to rebound.

Purpose

Although administrators, managers, and municipal policymakers continue to offer property tax abatement and other incentives, social science literature continues to offer evidence that such incentives do not play a major role in luring relocating firms and corporations to a locale. (Ledebur, 1990: 575) A recurring question in most professional literature is why do local officials continue to offer abatement and incentives when

surveys clearly reveal that quality of life, transportation access, and other factors play a much larger role in a firm's initial decision to locate. While surveys do reflect the feelings of corporate executives, very few seek the opinions of the officials who actually administer the abatements.

According to Burnier (1992: 114), "very little systematic information exists on how public officials think about local economic development and how they make policy decisions in that realm." This study addresses a gap in the literature. The purpose of this study is to describe the attitudes of 60 Texas public officials on the granting of property tax abatement.

Chapter Summaries

This section is included to provide the reader with an overview of each chapter and the respective purpose. Chapter Two, Literature Review, provides a historical perspective of the property tax. In addition, the chapter defines amenity-based programs and specific tax incentives, including supply-side and demand-side incentives. The chapter also summarizes the three categories used in this study which are prevalent in current professional literature: economic, political, and location considerations. The chapter then provides an overview of current and possible penalty impositions that cities impose on corporations not meeting abatement requirements. In addition, the chapter provides an overview of alternatives to tax abatement. The chapter concludes with a purpose statement and the conceptual framework of the project.

Chapter 4, Regional Setting, provides a brief overview of current abatement practices in Texas. In addition, the chapter provides information on the cities chosen for study. Chapter 5, Legal Setting,

provides a review of the legal authorization in Texas for granting abatements. The chapter provides a description of the "Property Redevelopment and Tax Abatement Act," constitutional authority, and a review of legislation affecting abatement. Chapter 6, Methodology, describes the methodology used for this research project. First, it provides an overview of descriptive research and reasons that survey research is used. In addition, the chapter describes the sampling procedures, statistics, and operationalization. Chapter 7, Results, describes the results of the survey in table format. Chapter 8, Conclusion, provides a brief overview of the results and discusses the possibility for further research.

Chapter 2: Literature Review

This chapter is designed to provide a theoretical foundation for this research project. The literature provides a means to examine the attitudes of municipal officials about property tax abatement. Specifically, the literature review provides a framework to examine three controversial aspects that surround property tax abatement: economic, political, and location factors. While most expert opinion argues that public officials' hold specific views on these factors, empirical evidence does not exist to support the contentions of journal authors.

The literature review that follows provides the theoretical basis for empirically examining the views of municipal officials on economic, political, and location factors regarding property tax abatement. A historical perspective of the property tax, however, is necessary before discussing abatement and the controversial factors found in current articles.

The Property Tax: A Historical Perspective

In the United States, the property tax was initially imposed on selective classes of wealth easily identifiable in an agrarian economy. Traditionally, the tax was assessed only on the owners of large tracts of land and based on the amount of land, improvements, and cattle. Property tax rates were levied at so many cents per unit (in rem), rather than as a percentage of value. (Peterson and Strachota, 1991: 93)

During the early to mid-nineteenth century, the property tax evolved into a general tax applied uniformly to most varieties of property

as a percentage of value (ad valorem). Units of government began taxing new forms of wealth such as business inventories. The ad valorem form of property taxation allowed governmental units to broaden the overall tax base to fund government services.

Since colonial times, the property tax has been the major revenue source for local governments whether the valuation method was based in rem or ad valorem.² (Peterson and Strachota, 1991: 85) From 1957 to 1988, the overall dollar amount of property tax revenues increased from \$12.4 billion to \$127.2 billion nationwide. According to Strachota and Peterson (1991: 86), property tax collections accounted for 74.1 percent of local taxes collected nationwide in 1988. Census data from 1988 shows that over 80,000 local governments and special districts impose a property tax in the United States. (See table 2.1)

Table 2.1
Property Tax Imposition Distribution

Governmental Unit	Type of Unit or Service
3,042 counties	Including what are known as boroughs and parishes
19,200 municipalities	cities, towns, and villages
16,691 townships	multifunction units that generally lie outside incorporated municipalities
14,721 school districts	provide only educational services and are independent of county or municipal unit
29,532 special districts	perform one function, such as fire protection, sewer service, mosquito control, toll roads, or parks

Source: Peterson, John E. and Dennis R. Strachota, ed. *Local Government Finance: Concepts and Practices* (Chicago: Government Finance Officers Association. 1991): 91.

² After the Great Depression of the 1930s, state **imposition** of the property **tax** was reduced sharply and the tax became primarily a local revenue **tax**.

According to Peterson and Strachota (1991: 100), a primary reason for the wide use of the property tax is revenue stability. The dollar amount produced by the property tax in any single year is calculated as the product of the property tax rate and the property tax base. While the rate is determined by the legislature, the base is determined by the taxing unit through assessment procedures. The accuracy of the assessment depends, in part, on the frequency values are assessed and the degree to which assessed values capture changes in market values resulting from economic growth. The property tax will increase in direct proportion to the growth in market values. (Peterson and Strachota, 1991: 100) In this circumstance, the property tax will generate a stable revenue stream for the tax unit.³

While local governments can normally depend on a stable revenue stream, Peterson and Strachota suggest that the property tax is a unitary elastic revenue source. (1991: 101) A unitary elastic revenue source means that if a local government relied extensively on the property tax, the unit would always face a fiscal gap as the economy grew, since the demand for services is income elastic but property tax revenues are not.⁴ This fiscal gap would create constant pressure on local officials to increase the property tax rate. While local governments often offset the need to increase property taxes by instituting sales tax and user fee increases,⁵ property tax abatement can be viewed by taxpayers as a

³ A stable revenue stream and the availability of other taxes such as user fees often allows a governmental unit to forgo the collection of property taxes in order to spur economic development.

⁴ This means that as income decreases, demand for services increases.

⁵ Although local governments have begun to rely on sales tax revenues and user fees, the unpredictability of revenues from the sales tax and user fees makes the property tax a much more

detriment to the ability of government to pay for services such as police, fire, and streets. The sheer magnitude of the tax and the controversial issues that surround abatement has led many taxpayers to claim the property tax as unfair.

While the property tax remains the largest revenue source for local governments, the tax is also the most criticized. A 1977 Advisory Commission on Intergovernmental Relations (ACIR) poll found that 45 percent chose the local property tax as the least fair. (Peterson and Strachota, 1991: 86) One explanation for the low opinion rating of the property tax is the sheer magnitude, as represented by the billions of dollars collected each year. An additional complaint is that tax rates tend to rise more often than other taxes since local governments often set the rate at a level needed to balance the budget. A final complaint is that property tax bills may rise even though a taxpayer's cash position does not increase since it is a tax on accumulated value, rather than on current economic flows. The above situation can produce tax bills very high in relation to a taxpayer's current income. Peterson and Strachota (1991: 86) suggest that the issues above often lead taxpayers to question the fairness of the property tax as a major revenue source for local governments.

The issue of fairness led to property tax revolts in several states, including California in the mid-1970s. California's Proposition 13 severely limited the amount that municipalities could finance their budgets from property tax revenues. The proposition resulted in major budgetary

stable form of income to finance municipal government.

reforms and forced municipalities to reexamine their financing structures. Due in part to the revolts in the 1970s and 1980s, the annual growth rate of the property tax dropped to 5.5 percent in 1985 compared to a 10.6 growth rate in 1973. (1991: 89) But, by 1988 the property tax rebounded with an annual growth rate standing at 8.3 percent.

While property tax revolts on the local level are normally spurred by taxpayers concerned with ever-increasing property tax assessments, revolts can also be initiated by voters concerned with financing large conglomerates with taxpayer funds. Grassroots opposition to property tax abatements played a major role in unseating an incumbent Cleveland mayor in 1977. (Nunn, 1994: 580)

According to Nunn (1994: 580), "citizens and analysts do not necessarily hold tax abatements in high esteem." Tax abatements are often seen as welfare to the rich and an unjustifiable subsidy to businesses. Although abatements have been highly publicized over the past two decades, the incentives can be traced back to the early 20th century.

Amenity-Based Programs: A Beginning

Efforts to attract corporations from one state to another using abatements and other incentives can be traced back to Mississippi in 1936. (Comptroller of Public Accounts, 1994: 134) At that time, Mississippi's Balance Agriculture with Industry (BAWI) began to successfully recruit manufacturing branch plants from high-cost Northern states by promoting the low cost of labor and land of the state. BAWI

offered amenities such as direct financing and grants raised through tax-free bonds, training, and tax abatements.

Mississippi's recruitment strategy was soon replicated by other Southern states hoping to recruit relocating firms from the Northeast. The strategy, often referred to as "smokestack chasing," continued during the post-World War II period and into the 1970s. Soon after the initiation of BAWI, Northern states began to replicate this model fearing erosion of the local tax base. The premise of programs such as BAWI is that interstate tax differences matter to relocating corporations.

Research shows that interstate and intrastate tax differences do affect economic growth but in different respects. The Comptroller report (1994: 136) reflects that economic growth is much more sensitive to tax changes in intra-metropolitan cases. Firms locating within a particular state will examine taxes much more closely than those relocating from outside the state.

States and municipalities, however, continue to focus efforts on the attraction of relocating firms rather than assisting in the birth of new firms. Although it can be argued that luring firms from one location to another results in a zero-sum game, Bartik (1991: 206) maintains that state and local economic development policy which promotes tax incentives is not a zero-sum game. The author believes that "competition for economic development among state and local governments probably enhances the efficiency of the U.S. economy." (Bartik, 1991: 206) Widespread economic development subsidies may encourage national employment expansion, the ultimate goal of economic development policy.

The consensus of most literature, however, suggests that cities and states focus efforts on the creation of new firms, or start-ups, rather than simply offering incentives to relocating corporations.⁶ (Reese and Malmer, 1994: 115) Current literature does not determine the reason local officials continue to fund relocating corporations rather than providing "seed" funds to prospective business owners in the region is not available.

Tax Incentives

In professional literature, tax incentives are organized into one of two comprehensive categories: demand-side and supply-side.

Demand-side incentives, a term borrowed from the field of economics, "emphasize demand factors in the market as a guide to the invention of policy." (Reese and Malmer, 1994: 116) Commonly, municipal policy will be developed according to the needs of a community. If a community need exists for small business support, officials may be inclined to develop policy with an emphasis on providing small business loans or creating incubators.

These policies are designed to promote growth throughout the local market and are traditionally characterized by an entrepreneurial spirit where the start-up of new firms is usually the goal of a state or municipality. Examples of demand-side incentives include the establishment of business incubators, the provision of venture capital,

⁶ A 1981 study by the Advisory Commission on Intergovernmental Relations (ACIR) concluded that interstate competition for industry wastes resources and results in a zero-sum game.

research and development, incentive targeting, and small business support. (1994: 116)

The second category of incentives, supply-side, have traditionally been used to attract relocating corporations to an area. Rather than assisting in new business start-ups, cities who use supply-side incentives develop policies which emphasize luring existing companies to the region through the use of financial incentives. Supply-side incentives emphasize using public funds to lure new capital with the hope of creating a "demand" for jobs. Supply-side incentives include tax incentives such as enterprise zones, infrastructure investment, and land and site development.

Supply-side incentives are often criticized for allowing only private companies to benefit by the transfer from one region and one incentive to another. Reese and Malmer (1994: 115) state:

Policies designed to improve the local human-capital base and promote the development of high-technology firms and general quality of life have a greater impact on growth in per capita than supply-side efforts to reduce costs to firms.

Nunn (1994: 584) suggests that most cities and states began to shift from supply-side to demand-side incentives in the 1990s. Many cities have traded in "highly speculative" supply-side policies for demand-side policies that invest in people and improve the fixed assets of a city.

According to Reese and Malmer (1994: 116), however, empirical analysis of local economic development activity does not reflect a clear shift to demand-side incentives. In fact, these authors believe that supply-side incentives are still very widespread. They find no shift in

development policy among municipalities. Tax abatements continue to be one of the most widely used economic development tools, according to Reese and Malmer. (1994: 116)

Reese and Malmer (1994: 117) found that in a small sample of Michigan cities, over 80 percent use supply-side industrial tax abatements. In addition, the authors found that property tax abatements ranked first among 57 different economic development techniques in terms of usage among these cities.

One of the most common and controversial supply-side incentives utilized by cities is the property tax abatement. Through enabling legislation, states allow cities to forgo collection of property taxes for a certain period if a company locates within an enterprise zone.⁷ A municipality will often require a company, through a contractual agreement, to provide a certain number of skilled labor positions.

In a contractual agreement, cities may exempt a corporation from paying any property taxes the first year that they locate in an enterprise zone. A corporation may then be required to pay only 20 percent of the appraised value the second year, 50 percent the third year, and so on, until finally the company is paying property tax on the full appraised value but not until several years after the initial start-date. Most companies are appraised at the original assessed value of the property. Although property values may have increased dramatically in five years, companies will still pay only the original assessed value. In many cases, counties and

⁷ Texas: for example, requires that a business locate within an enterprise zone before they will be granted a tax abatement. Most municipalities are allowed to create a limited number of enterprise zones within the city limits. See Vernon's Texas Codes Annotated, Tax Code, Chapter 321.

school districts will join a municipality in abating property taxes to a particular company to entice a corporation to a region.

The abatement of taxes continues to be one of the most widely used and criticized forms of economic development policy among municipalities. Although criticized in scholarly articles, Nunn claims that municipal officials continue to praise the economic value of abatement. (1994: 574)

Economic Considerations

The professional literature often presupposes that municipal officials offer property tax abatement because economic benefits may be gained. According to Burnier (1992: 14), public officials offer property tax abatement to corporations because of the belief that incentives are an effective tool in attracting industrial development. In addition, Burnier suggests that most public officials seek to increase the economic vitality of a municipality. Abatements are a viable way to entice corporations to a region and provide additional jobs. The lack of empirical evidence, however, does not support the author's contention about public officials' beliefs concerning the economic effectiveness of property tax abatements. Do public officials believe the abatement of property taxes is an effective tool in creating jobs in the community?

A national study of economic development programs conducted by the International City Management Association (ICMA) found that city planners and administrators perceive tax abatement strategies as powerful instruments for business development. (Nunn, 1994: 574) In fact, the study suggests that many administrators defend the abatement of

property taxes citing jobs and the revenue collected in succeeding years as a necessary initial sacrifice of property tax revenues. Although a national study suggests that municipal officials believe abatements are worth the initial economic sacrifice, the ineffectiveness of abatements is widely documented.

Nunn suggests an initial concern about most municipal abatement policy is that few cities properly calculate the number of jobs necessary to justify abatements. (1994: 576) The United States General Accounting Office (GAO) conducted an audit of Department of Housing and Urban Development's urban development action grant (UDAG) program and found that projected jobs exceeded actual jobs in more than two-thirds of the projects. In addition, the audit concluded that the more jobs a project expected, the less likely it was to have reported meeting that expectation.

While UDAG grants were designed to generate private investment activity including job creation and tax enhancement, 43 percent of the 1,263 projects examined reported lower private investment than expected. While city administrators may suggest that multiplier effects such as sales taxes or local income taxes outweigh the initial loss of property tax revenue, the GAO audit found that annual tax revenues from the projects also fell short of expected revenues by 31 percent.

Wolkoff (1992: 341) suggests that few policymakers take a close accounting of the costs and benefits of running an aggressive economic development policy. The author suggests that even if administrators are willing to take a close accounting, the officials are unable to conduct the natural experiments that would allow them to observe what would have happened if no development programs or incentives had been used. If

abatements have not been proven effective, why do public officials continue to offer the incentives?

Wolman (1988: 24) suggest three explanations for the continued use of abatement in local government. First, the author suggests that officials simply do not know about firm literature that disclaims abatement effectiveness and are encouraged by firms to believe that incentives matter. Second, Wolman (1988: 24) suggests that public officials offer abatement for the symbolic content as well as the supposed economic benefit. And third, officials' offer abatement not because they believe incentives will affect firm location but only because other communities are offering them. The suggestion by Wolman that symbolism is important to public officials presupposes that political considerations may also be important in offering abatement.

Political Considerations

In cities that may be experiencing economic decline, there is tremendous pressure on public officials to do something. Feiock (1992: 50) suggests that in this environment, visible policies such as luring a large manufacturer with a tax abatement provides political benefits for whoever can claim credit for it.

Nunn (1994: 574) suggests that abatements do allow city officials to actively support economic development without an apparent diversion of budgeted funds from other local government services. According to Nunn (1994: 574), this creates the perception among taxpayers that property tax exemptions are costless. Public officials can create this

apparent diversion while taking credit for luring a firm to the location and providing needed jobs.

Incentives given out in ad-hoc fashion can often provide public officials with the opportunity for credit claiming. The symbolic opportunity is ideal for elected officials to win votes for the next campaign. According to Bachelor (1994: 603-604), positive political outcomes for public officials include the credit that may be claimed for success, the symbolic value of responding to community concerns, perceived improvements in the business climate, and increased popularity with voters. Although political favor may be won by officials, the opposite may also be true,

Political costs may be incurred whether or not a firm relocates because officials may be criticized for being too generous with a particular business. While political favor may be won or lost, the responsibility of municipal officials is to decide the proper course of development policy for the city.

Spindler and Forrester (1993: 43) suggest the degree of political risk associated with economic development policy is a function of whether policy is concealed or visible. Public officials are inclined to favor policies with low public visibility to avoid direct competition for resources.

According to Spindler and Forrester (1993: 43):

Policies that benefit a political regime and that can be implemented routinely provide a measure of environmental certainty. Economic development policies that do not have visible costs and are supported by the political regime will be favored.

Spindler and Forrester (1993: 39) suggest that the political risk associated with economic development decisions is salient since the

environment is uncertain and the net effects of economic development policy cannot be determined over the long run. In this respect, risk becomes a political question that is determined by the officials involved. The uncertainty and competition of economic development decisions is even suggested as a viable explanation for the widespread use of incentives. (1993: 39)

Only a limited number of corporations will expand or relocate in any state or locality heightening the scarcity of firms. States and local governments adopt incentives in order to remain competitive. Most policymakers have incomplete knowledge about the level of incentive that must be offered to entice corporations to a region. Conversely, corporations have the information, and information provides the firm with the bargaining power to negotiate incentives. A firm may threaten to locate elsewhere if a city does not provide the necessary incentive. Spindler and Forrester (1993: 40) suggest that uncertainty among officials may be reduced by simply offering incentives sought by industry and not questioning what is actually needed to recruit industry. The authors contend that most officials simply provide the incentive requested by the corporation believing that the corporation locating in the region is a victory in itself.

While authors' presuppose that it is politically necessary for a public official to appear active in the economic development field, empirical evidence does not support the presumptions. An additional presumption is that corporations place primary importance on the incentives to locate in a certain area.

Location Considerations

An additional presumption among some journal authors is that municipal officials believe industrial corporations view the availability of incentives before any other factor in deciding to locate to a particular area.⁸ Empirical evidence shows that corporate executives examine factors such as quality of life and transportation access prior to incentive availability. (McGuire, 1986: 371) But, do public officials' realize that corporate executives do not place a heavy emphasis on abatement availability)? Again, empirical evidence documenting municipal officials' beliefs is not available.

The effects of abatement and incentives on the location choices of a corporation is actively debated in political circles. While survey research indicates the limited importance of abatement, political subdivisions continue to offer incentives utilizing outdated economic models. (Spindler and Forrester, 1993: 30)

One of the earliest models was popularized by American economist Edgar Hoover. (Dabney, 1991: 325) Agglomeration theory is based on the understanding that many manufacturing industries require the movement of bulky materials to a point of production. Hoover theorized that firms would naturally move to an area in close proximity to one another in order to reduce costs. A steel mill, for example, that required large amounts of coal would locate near raw materials to reduce transportation costs. The agglomeration of corporations would result in an enterprise zone in which close proximity was of primary importance.

⁸ See Joint Center Report. 1980 and McGuire, 1986.

Dabney (1991: 327), however, claims that as markets began to disperse into suburban locations, agglomeration became less advantageous. Agglomeration benefits in enterprise zones were increasingly seen as inadequate since major businesses began moving to suburban locations due to the increased costs associated with enterprise zones such as property taxes, income taxes, union wage rates, and costs associated with crime such as high insurance. Many corporations now consider moving their facilities to lower-cost locations that have fewer of the costs associated with enterprise zones.

With the increased costs associated with agglomeration theory, most states and local governments now rely on the economic development policies based on a locational model. According to Spindler and Forrester (1993: 29), the "locational model is based on the assumption that government policies can affect the locational decisions of business and industry." The location model rests on the assumption that locational decisions by firms are rational choices made on the basis of the cost of factors and production and implies a causal relationship between the costs of identified factors of production and locational decisions by corporations.

The locational model rests on the assumption that those making locational decisions seek to maximize the competitive advantage of the firm and profits. Government policies are implemented to offset location-specific costs to industry. According to Spindler and Forrester (1993: 30), the assumption is that government incentives can affect industry location by lowering the cost of the factors of production.

Spindler and Forrester (1993: 30) suggest that the most common approach to U.S. economic development is to offer policies that minimize firm cost. Policies are sought that modify the locational decisions of firms by supplying various incentives to make local factors of production competitive with other locations. The authors suggest that governments attempt to lower the cost of labor, land and capital by offering property tax abatements.

The historical linkage between location theory and development policies rests on two assumptions. (Spindler and Forrester, 1993: 31) First, lowering the land, labor, and capital costs will attract new industry, but raising taxes and other costs will deter it. The authors suggest, however, that studies have found economic growth to be positively correlated with high taxes. Many corporations believe that higher taxes lead to a higher standard of living in the community. In addition, the authors suggest that low taxes may not be as attractive to businesses because the firm may be required to supply what would otherwise be supplied by the government. In addition, industry is rarely initially attracted to a location because of economic development policy. Spindler and Forrester (1993: 31) suggest that other determinants preempt government incentives in the timetable decision of corporations.

The second assumption of locational theory is that tax revenue lost by tax abatement used to encourage development will be more than replaced by the new tax revenue generated by employment and other factors. Spindler and Forrester (1993: 32) suggest that when economic development policy attracts industry, it tends to come at a very high price.

Governments tend to undervalue the costs of development when using the locational model. Spindler and Forrester conclude (1993: 32):

Most current research generally concludes that tax incentives are not very effective in changing locational choices. Generally, incentives may be effective when a business is deciding in which specific areas to locate once the choices have been reduced to a small handful of options in a contiguous geographic area.

A 1980 report by the Joint Center for Urban Studies of MIT and Harvard University (Joint Center Report, 1980: 2) surveyed 60 managers from Fortune 500 companies about the location process. The researchers concluded that tax rates have little effect on a corporation's decision to locate. Although research indicates that abatement is ineffective in luring a corporation to an area, cities continue to offer the incentives to firms. Many authors believe that if a city uses abatement, officials should implement penalties to insure contract compliance.⁹

Penalty Impositions

Many cities and states now impose penalties on corporations that do not meet specific benchmarks. Most municipalities require a corporation to create a certain number of skilled labor positions in order to continue receiving the abatement. Once a corporation fails to meet specific guidelines, contractual provisions allow a municipality to legally impose penalties. According to Alan Peters (1993: 328):

⁹ See Peters, 1993 and Nunn, 1994.

There is a widespread feeling in American policy circles that competition among states and localities for new private investment has become too intense, with the result that the various subsidies and incentives that localities offer to lure investment their way have become too extravagant. The imposition of various sanctions on publicly subsidized firms that do not achieve specified performance goals has recently been proposed as one way of controlling the excesses of economic development policy.

Peters (1993: 329) suggests that clawbacks are one way to impose controls on the provision of subsidies. Clawbacks require a publicly-subsidized firm that does not meet agreed-upon goals to pay back a portion of the subsidy the company receives. The author states that a firm is normally given an incentive for relocation or expansion on the written understanding that the firm will either create or retain a certain number of jobs or make some compensating payment.

Although clawbacks are a viable way of imposing controls on corporations, they are certainly not the only measure available to a municipality. In addition to clawbacks, a municipality may also rescind a contract and simply cancel the subsidy. In addition, a municipality may recalibrate to make subsidy adjustments reflect business conditions. (Nunn, 1994: 585) A city may also impose financial penalties charging for nonperformance or relocation.

A visible case in which penalties were a factor occurred in 1982 and involved the City of *Duluth v. Triangle Corporation*. The city of Duluth signed a contract with the corporation stipulating that Triangle would not move any equipment financed by tax-exempt industrial bonds. Only one year later, Triangle cut their workforce in half and moved the majority of their equipment from Minnesota to a location in South Carolina. Duluth

sued the corporation and the court ordered Triangle to return the equipment to Minnesota. One year later, however, an appeals court overturned the lower courts ruling and allowed Triangle to keep the existing equipment in South Carolina. Although contractual penalties are being used by more cities, the cases between the city of Duluth and Triangle Corporation shows that even court action is no guarantee against relocation. Some authors propose alternatives to abatement in light of the criticism and noted ineffectiveness of the incentives.¹⁰

Alternatives to Tax Abatement

Several conceptual and practical approaches to tax abatement exist. (Nunn, 1994: 584) **(See Table 2.2)**

Table 2.2 Approaches to Abatement Reform

Conceptual		Practical
Free market/laissez faire	->	No public intervention
Volunteeristic	->	Interjurisdictional agreements
Incentives to shape behavior	->	Fiscal federalism incentives
Litigation	->	Judicial intervention and activism
Law/legislation	->	Legislation prohibition

Source: Nunn, Samuel. "Regulating Local Tax Abatement Policies." *Policy Studies Journal* 22 (1994): 584.

Nunn (1994: 584) suggests that, conceptually, no intervention is necessary because the use of tax abatements is a nonmandatory local option for cities. Cities would be free to offer abatement depending on the activity of the market for new business locations. In addition, localities could continue to engage in economic development gamesmanship, but

¹⁰ See Nunn, 1994; Morse and Farmer, 1986.

only after converting supply-side development incentives to demand-side incentives like investing in physical capital investment. Nunn (1994: 584) believes, however, that "cities are unlikely to convert to demand-side policies because they would involve the direct political costs of raising taxes or cutting existing services.

Volunteeristic agreements are an additional approach to reform of tax abatement. Tax abatement can be limited by using collective agreements and interjurisdictional compacts. Cities within the same region can collectively pool tax resources and use the property tax base as a common fund pool. According to Nunn (1994: 585), tax base and revenue sharing is successfully used in the St. Paul-Minneapolis area, the Meadowlands in New Jersey, and the Dayton region in Ohio. The author suggests, however, that fiscal equalization would not alter the fundamental rules of the development game: cities would still offer tax abatements.

An additional approach is to create a variety of incentives that may change the abatement behavior of local officials. Nunn (1994: 585) suggests that fiscal federalism is a viable way to alter the behavior of public servants. The strategy of withholding federal funds from cities that use tax abatements was successful when the threat to suspend federal highway funds persuaded states to raise the drinking age to 21 in the early 1980s.

Aside from fiscal federalism, Nunn suggests that recisions, clawbacks, and other penalties are ways to prevent the overuse of tax abatement. In addition, cities may also require corporations to buy performance bonds that guarantee economic development benefits.

Litigation is an additional option for cities. Municipalities have the option to allow the judicial system sort out the use of abatement. But, as suggested earlier in the court case *City of Duluth v. Triangle Corporation*, court action offers no guarantee against municipal economic suicide.

A final conceptual approach to abatement is federal prohibition of tax abatements through legislation. Morse and Farmer (1986: 235) suggest that "since many states fear unilateral withdrawal of tax abatements even though they recognize their ineffectiveness, national legislation to prohibit these incentives may be necessary." Although business firms would vehemently oppose such legislation, Nunn (1994: 586) maintains that the impact would be minimal since property taxes are not a major concern for relocating firms.

Although federal prohibition is theoretically possible, it is highly unlikely. Business interests would oppose legislation and economic development has largely been decentralized since the Reagan era. Nunn (1994: 586) suggests that "reform at the grassroots level of individual cities may be the only truly effective way to envision the elimination of local tax abatements." Taxpayers may voice their disapproval over certain policies by simply not reelecting incumbents who granted costly abatements.

While both conceptual and practical approaches to tax abatement exist, Nunn believes that reform is highly unlikely. Since prohibition of abatement is unrealistic, Ihlanfeldt (1995: 340) recommends that tax incentives should be part of a comprehensive program which incorporate both supply-side and demand-side policies. In addition, the author believes that incentives should be available to any corporation that

satisfies certain eligibility criteria and not to just specific firms. Ihlandfeldt (1995: 342) suggests that specific incentives are generally not provided to small companies and create an unlevel playing field among businesses in the region.

Ihlandfeldt (1995: 342) also recommends that performance evaluation methods be adopted so that a city can periodically monitor costs and benefits of each tax incentive. Evaluation methods allow a city to determine if a corporation is providing the number of jobs as required in the abatement agreement. Too often, cities consider the fact that a corporation located in the area proof that they are fulfilling the contractual agreement.

Conceptual Framework

This literature review provides the necessary context to empirically examine the controversial issues that surround property tax abatement. Issues that surround property tax abatement include economic, political, and location factors.

The purpose of the research project is to describe the attitudes and perceptions of Texas municipal officials about the issues surrounding the use of property tax abatements. Three categories are used in this study - **economic factors, political factors and location factors** - as a guide in collecting and organizing data. In professional literature, these three categories continually arise as primary issues in the study of property tax abatements. Economic, political, and location factors are chosen primarily because they appear to be the most widely documented issues in the current literature concerning property tax abatements.

Although economic, political, and location are factors that appear across the board and in all areas of the country, this project focuses specifically on Texas municipal officials. To provide a complete and thorough discussion requires that this project examine the legal aspects associated with property tax abatement in Texas.

CHAPTER 3: LEGAL SETTING

Purpose

The purpose of this chapter is provide a legal setting of tax abatement. Since 1981, Texas cities, counties, and school districts have been allowed to abate property taxes to lure companies to a region. This chapter outlines the changes that have taken place over the past 16 years.

Legal Setting

On November 3, 1981, Texas voters approved a constitutional amendment authorizing the use of property tax abatement as an economic development tool. According to Article 8, Section 1-g(a) of the Texas Constitution:

The legislature by general law may authorize cities, towns, and other taxing units to grant exemptions of other relief from ad valorem taxes on property located in a reinvestment zone for the purpose of encouraging development or redevelopment and improvement of the property.

The Property Redevelopment and Tax Abatement Act¹¹ governs the use of tax abatement in Texas. (Interim Report on Economic Development Incentives, 1996: Appendix Six) Current law authorizes tax abatement for new, expanded, or modernizing businesses. Local jurisdictions may grant full or partial exemptions in real and/or personal

¹¹ The Property Redevelopment and Tax Abatement Act is found in V.T.C.A., Tax Code, Chapter 321.

property for up to ten years. Only the value of any improvements made since an agreement is executed is eligible for tax abatement.

Tax abatement is only allowed in reinvestment zones which are geographic areas designated by a city or county for the purpose of granting a tax abatement. Zones are no longer required to be located in economically distressed areas, as required by the original 1981 Act. The original Act not only limited abatement to blighted in areas, but also authorized abatement for up to fifteen years, authorized abatement only on real property, authorized abatement of existing values, and required county, school, and special district participation in municipal tax abatements.

In 1983, the Legislature amended the Act to impose a penalty on school districts that rejected abatements. School districts that rejected abatements were required to grant the same abatement for twice as long.¹² In 1987, the Legislature made several key changes to the Act. One of the key changes eliminated the requirement that reinvestment zones be located in blighted areas. Other changes authorized school districts to opt out of municipal or county abatements without penalty, restricted abatements to new value only, and required local governments to adopt written guidelines.

In 1989, the 71st Legislature authorized special districts to opt out of municipal or county abatements without penalty, decreased the maximum tax abatement term from fifteen to ten years, authorized tax

¹² For example, if the City of Dallas offered a company an abatement for five years, the school district could participate for those years or if they refused, the district would have been required to offer the abatement for ten years.

abatement for tangible personal property, created a central registry of tax abatement and reinvestment zone agreements housed with the Texas Department of Commerce, and provided that tax abatement was subject to the Sunset provisions in 1985. In 1993, the Legislature required the Comptroller to include the value of property subject to a tax abatement when calculating a school district's wealth.¹³ The argument was that school tax abatements take away vital resources from public schools. Many opponents of tax abatement argue that businesses should pay school taxes and that abatement undermines public education by eroding a school district's tax base. In one school district, 62.6 percent of the taxable value of one school district was removed from the tax roll due to abatement.

In 1995, S.B. 345 created a new state tax incentive program providing tax refunds to companies that receive municipal and/or county, but not school tax abatement. The bill also increased the number of provisions that must be contained in tax abatement agreements. H.B. 2065 authorized taxing jurisdictions to grant non-identical abatement terms in enterprise zones.

The most recent changes to the Property Redevelopment and Tax Abatement Act include the passage of H.B. 1526 by the 75th Legislature in 1997. A major provision of the bill requires taxing entities to perform a cost-benefit analysis of any abatement granted. In addition, the bill transferred administration of the central administration from the Texas Department of Commerce to the Texas Comptroller of Public Accounts.

¹³ This change was a product of the 1993 school finance law (S.B. 7)

The Property Redevelopment and Tax Abatement Act now requires a community to meet four basic requirements before becoming eligible for a tax abatement. First, the community must adopt a resolution stating the intent to participate in a tax abatement. Second, the community must adopt guidelines and criteria. Third, the city council or county commissioners court must designate a reinvestment zone by local ordinance resolution. And fourth, the city or county must develop a cost-benefit analysis.

CHAPTER 4: REGIONAL SETTING

Purpose

The purpose of this chapter is to provide a regional setting for the project. This includes providing a background of the Texas setting, including figures on the amount of abatements that have been granted along with the dollars lost as a result of abatement.

Regional Setting

Since 1981, Texas has allowed cities and counties to grant abatements for the purpose of spurring economic development. During the 1980s, the practice of granting abatements sparked little controversy. The drop in oil prices in the mid-1980's left many Texas communities facing cuts in services and an abandonment of infrastructure projects. According to Tucker (1997: 69), if "local governments could lure new businesses by giving them a break on their property taxes, or use the abatements to encourage an existing business, more power to them."

According to figures from the Texas Comptroller of Public Accounts, Texas counties granting tax abatements took more than \$10 billion of property value off the tax rolls in 1996. (Tucker, 1997: 69) The average county participating in abatement gave up \$51, 354, 254 in assessed value. Texas cities lost almost \$3 billion in property tax revenue because of abatements with the average city losing approximately \$13,587,182. The large losses in property tax is not surprising to many analysts. According to the *Directory of Incentives for Business Investment and Development in the United States*, Texas remains at the top of the list

in foregoing property taxes to corporations in the name of economic development.

According to Tucker, more abatements (239) were executed in 1994 than any other year. The second most active year was 1995, when 202 abatements were initiated. According to the Texas Department of Commerce, city-led abatement agreements account for three of every four tax abatements executed historically. A typical tax abatement in Texas lasts approximately seven years. A tax abatement is limited to 10 years. In addition, most abatements are aimed toward an industrial project that will generate \$2.3 million in capital investments. (Tucker, 1997: 70)

According to Tucker, abatements are not subsiding, even though criticism has increased over the past few years. (Table 3.1)

Table 3.1
Number of Abatements Executed

Year	Abatements Allowed
1990	109
1991	134
1992	108
1993	87
1994	239
1995	202*

• Estimated

Source: Tucker, Chris. "Tax Abatements: Give Me a Break." *Texas Business* (July 1997): 70.

Although many corporate leaders maintain that incentives are of little importance in location decisions, opponents of tax abatement believe that corporations seek abatement first and foremost because of tax advantages. Bland (1989: 162) states, "taxes are usually frozen at their

predevelopment level for a specified number of years (usually 10 to 15), after which the property is assessed and taxed at the prevailing rate." The frozen tax level allows corporations to benefit by paying a small amount of property tax in the 10 to 15 year period. Bland (1989: 162) believes that this increases developers' after-tax profits, making the development site a much more attractive investment opportunity. In 1989, thirty states authorized the use of abatement by local governments. Many states limit the type of industries that may qualify for abatement. In Texas, however, industries that qualify for abatement must no longer be located in blighted areas. The \$80 billion in assessed value lost since 1985 reflects the ability of local governments to freely award abatement. Bland (1989: 163) points out that in 1987, the Texas legislature amended the state's tax abatement law and expanded the definition of qualifying business. According to Bland (1989: 163), the new definition includes any area that would:

be reasonably likely as a result of the designation to contribute to the retention or expansion of primary employment or to attract major investment in the zone that would be a benefit to the property and that would contribute to the economic development of the city or town.

A recurrent problem with abatement is the underassessment by central appraisal districts in Texas counties. Although a city may abate land, building, and other costs in the amount of \$6 million, the central appraisal district may only appraise the property at \$3 million. The underassessment of property by central appraisal districts and the lack of

municipal control in the assessment process causes the city to lose thousands of dollars once the property returns on the tax roll.

The increasing number of abatements granted since 1990 provides a meaningful reason to examine the attitudes of public officials in Texas. Are public officials' in favor of using these controversial economic development tools? The next chapter reviews the methodology utilized to examine the attitudes and perceptions of Texas municipal officials on tax abatement.

CHAPTER 5: METHODOLOGY

This research project is a descriptive study and uses survey research as the primary method of data collection. The chapter describes the role of descriptive research, explains why the survey instrument was chosen to satisfy the project, reviews the measurement techniques used in the project, and describes the population for the project.

Descriptive Research

According to Babbie (1992: 91), a "major purpose of many social scientific studies is to describe situations and events." The researcher first observes and then describes what is observed. Babbie states that scientific descriptions are more accurate and precise than casual descriptions. One example of descriptive research is the U.S. Census. (Babbie, 1992: 91) According to Babbie, the goal of the census is to describe accurately and precisely a wide variety of U.S. population characteristics.

Descriptive research is appropriate for studying Texas municipal officials' attitudes concerning tax abatement. In conducting the study, the survey instrument is used to determine the attitudes of officials.

Research Design

Babbie (1992: 282) states that survey research is appropriate to make descriptive studies of large populations. Babbie (1992: 282) also recognizes that the advantages of a "self-administered" questionnaire...are economy, speed, and lack of interviewer bias." In

addition, the possibility of anonymity and privacy encourage more candid responses on sensitive issues. Survey research also allows for gathering information from populations that would otherwise be cost-, time-, or distance prohibitive. Yin (1994: 6) states that survey research should be used when answering who, what, where, how many, or how much questions. In addition, no control is required over behavioral events in conducting a survey. Yin (1994: 6) states that surveys focus on contemporary events.

While surveys do afford economy and speed, scholars point out several flaws in the research design. According to Babbie, a survey instrument can contain artificial questions. Babbie also cautions that participants may provide superficial responses. The flaws, however, of survey research may be overcome through careful consideration and planning of the actual survey instrument. Flaws are overcome by linking the survey questions to the literature. Babbie (1992: 278-279) summarizes several strengths and weaknesses of survey research.

Strengths

- Useful in describing the characteristics of a large population;
- Make very large samples feasible;
- Flexibility; and,
- Standardized questionnaires have an important strength in regard to measurement in general.

Weaknesses

- Inflexibility;
- Subject to artificiality;
- Seldom deal with the context of social life;
- Lack of validity; and
- Often represent the least common denominator in assessing people's attitudes, orientations, and circumstances.

Babbie (1992: 279) states that "survey research is generally weak on validity and strong on reliability." The artificiality of the survey instrument may put a strain on validity. The available responses in the survey instrument include strongly agree, agree, no opinion, disagree, or strongly disagree. Babbie (1992: 279) states that people's opinions on issues seldom conform to these responses. The survey response is an approximate indicator of the respondents feelings and is considered valid since no "real" definition of officials' attitudes is available. Since a standardized survey is sent to each of the 60 city officials, the survey is considered reliable. The question in the particular survey are also carefully worded to prevent predisposed feelings on each subject increasing the reliability of the survey instrument.

The survey instrument does provide characteristics of the 60 mayors or representatives of Texas' largest municipalities. Careful consideration is taken to insure that questions posed to the respondents were genuine and linked to current literature. In addition, the 60 largest municipalities in Texas are chosen since those cities have the most opportunities to grant tax abatements. In addition, these mayors and representatives have the most exposure in granting or not granting tax abatement to corporations.

Operationalization

The conceptual framework of this project encompasses several working categories including economic, political and location considerations. The survey questions are derived from a combination of

author's perceptions and attitudes about municipal officials and property tax abatement taking the three above factors into consideration. The questionnaires correspond to the following generalized categories as stated in the conceptual framework as follows:

Questions 1-5	=	Economic Factors (Table 4.1)
Questions 6-10	=	Political Factors (Table 4.2)
Questions 11-15	=	Location Factors (Table 4.3)

Questions one through five in the survey instrument represent economic considerations. **(See Table 4.1)** In addition, the items are linked to particular economic factors such as job creation, erosion of the local tax base, attracting industrial development, supply-side policies, and tax abatements resulting in a zero-sum game.

Table 4.1
Economic Factors

Descriptive Categories Economic Factors	Questionnaire Items	Source
attract industrial development	Q1 I believe tax abatements and incentives are an effective tool in attracting industrial development	Burnier, 1992: 14
job creation	Q2: I believe job creation is the primary goal of municipal economic development.	Ihlanfeldt, 1995: 339
supply-side policies more effective than demand-side	Q3: I believe supply-side policies such as tax abatements are more effective in attracting industrial development than demand-side policies such as small business loans.	Reesc and Malmer, 1994: 115
erode the local tax base	Q4: I believe tax abatements erode the local tax base.	Nunn, 1994: 576,
tax abatements result in a zero-sum game	Q5: I believe supply-side policies such as tax abatements result in a zero-sum game in which corporations simply move from one city and one incentive to another.	Bartik, 1991: 206

Questions 6 through 10 represent political factors. (See Table 4.2)

In addition, the items are linked to particular political factors such as taxpayers looking favorably upon the granting of tax abatements, political advantages, abatements as giveaways, abatements offered because other cities do so, and abatements as politically necessary to appear active in economic development.

Table 4.2
Political Factors

Descriptive Categories	Questionnaire Items	Source
taxpayers look favorably upon the granting of abatements	Q6: I believe that most taxpayers look favorably upon the granting of property tax abatements	Nunn, 1994 580
significant political advantages	Q 7 I believe luring a large corporation to the community has significant political advantages for a municipal official	Feiock, 1992 50
administrators view abatements as "giveaways"	Q8: I believe most municipal administrators view property tax abatements as "giveaways" to corporations. but necessary to compete with neighboring communities.	Bachelor, 1994: 603-604
abatements offered because other cities do so	Q9: I believe the primary reason abatements are offered to corporations is because other cities also make them available.	Nunn. 1991: 575
politically necessary to appear active in economic development	Q10: I believe it is politically necessary to appear active in the field of economic development.	Bachelor, 1994: 603-604

Questions 11 through 15 represent location factors. (See Table 4.3) In addition, the items are linked to particular location factors such as taxpayers looking favorable upon the granting of tax abatements, quality of life factors, narrow list of possible locations, distrust of other cities, and corporate executives viewing incentives before any other factors.

Table 4.3
Location Factors

Descriptive Categories	Questionnaire Items	Source
Location Factors primary factor in locating	Q11: Generally, I believe industrial corporations view the availability of abatements as a primary factor in deciding to locate in a community.	Joint Center Report, 1980: 2
quality of life factors	Q12: I believe most corporations view quality of life and other factors before considering abatements.	McGuire, 1986: 371
narrow list of possible locations	Q13: I believe tax abatements are a major factor only after a corporation has narrowed their possible list of locations to a small number of cities.	Spindler and Forrester, 1993: 31
do not trust other cities	Q14: I believe most municipal officials offer tax abatements because they do not trust other cities not to do so.	Nunn, 1994: 575
corporate executives view incentives before other factors	Q15: I believe most corporate executives view incentives before any other factor in deciding to locate in a particular area.	Dabney, 1991: 326

Survey Instrument

The survey instrument (Appendix B), is a self-administered questionnaire designed to reveal Texas public officials' attitudes on the effectiveness of tax abatement. The survey instrument allowed respondents to make assessments of three separate categories - economic, political, and location factors. Each category contained five

questions and provided a Likert-type scale for officials to respond. The Likert-type scale contained five items coded as follows: Strongly agree=5, Agree=4, No Opinion=3, Disagree=2, Strongly Disagree=1. A mean totaling 3 provides an interpretation of neutrality. Any mean over 3 would provide agreement of the statement, while any mean under 3 would indicate disagreement with the statement.

The survey instrument contains 15 items and began with a cover page that served as a letter of introduction and explained the purpose of the survey. The survey was pretested by four employees at the Texas Comptroller of Public Accounts who have a background in municipal government. Each of those testing the survey found the cover letter and the survey instrument clear and concise.

The survey was mailed on September 15, 1997. A self-addressed, stamped envelope was included and respondents were asked to return the survey by October 15, 1997. Of 60 surveys mailed, 34 were returned reflecting a 56.7 percent return rate. A second mailing was not completed since over 50 percent were returned.

In this study, one survey was sent to each mayor or mayor's representative of the 60 largest Texas municipalities. Although small to medium-size cities are more aggressive in recruiting businesses, the author determined to survey the largest cities because the mayors' availability to scholarly information. According to Babbie, the selection process is referred to as purposive sampling. Babbie (1992: 230) states,

Occasionally, it may be appropriate for you to select your sample on the basis of your own knowledge of the population, its elements, and the nature of your research

aims: in short, based on your judgment and the purpose of the study.

Statistics

Simple descriptive statistics are employed to quantify the survey results. Each statement is analyzed, and the frequency, percentage and mean of the responses are calculated for each statement. The mean determines the overall perception of each statement concerning abatement as reflected in the next chapter.

CHAPTER 6: RESULTS

Chapter 6 discusses the survey results (See Tables 6.1, 6.2, **6.3**), the response rate, data tabulation, and an overall summary. The three areas - economic, political, and location factors - are discussed at length. The survey results focus on mayor's or a representative's perception of abatement in the three different focus areas as noted in the conceptual framework. The most significant issues are identified and discussed within this chapter.

Survey Results

On September 15, 1997, survey instruments were mailed to the mayors of the 60 largest Texas municipalities (See Appendix C). Since the population is the 60 largest Texas municipalities, as shown by the 1990 U.S. Census, mayors and representatives originate from a wide area of the state. The initial response rate of 56.7 percent was considered adequate to proceed with data tabulation and interpretation. According to Babbie (1992: 267), "a response rate of at least 50 percent is adequate for analysis and reporting." A rating on a scale of 1 to 5 is used to interpret the Likert-type answers provided by respondents as follows: Strongly Agree = 5, Agree = 4, No Opinion=3, Disagree = 2, Strongly Disagree = 1.¹⁴

¹⁴ The frequency distribution cells which produced an N of 5 or less could not be appropriately calculated and are noted by N/A.

Economic Considerations

In economic considerations (**See Table 6.1**), respondents agreed that tax abatement is effective in attracting industrial development. Over 97 percent (N=33) of respondents agree or strongly agree reflecting a mean rating of 4.26. The finding indicates that authors' presumptions in current professional literature is correct that municipal officials believe abatement is an effective tool. The second question shows similar results. Most respondents agree that job creation is the primary goal of tax abatement strategy. Over 76 percent (N=26) of respondents agree or strongly agree resulting in a mean rating of 3.94. On the same question, over 18 percent (N=6) of respondents disagree or strongly disagree with the statement concerning job creation as the primary goal. The third statement infers municipal officials believe that supply-side policies are more effective than demand-side policies. Reese and Malmer (1994: 115) criticize supply-side policies, such as tax abatement, and believe that demand-side policies are more effective in creating economic growth. 56 percent (N=19) of respondents agree or strongly agree that supply-side policies are more effective than demand-side policies such as incubators and small business loans. 15 percent (N=5) disagree or strongly disagree with the statement, while 29 percent (N=10) indicate no opinion. The mean rating for the third question is 3.47. The fourth statement questions whether respondents agree or disagree that tax abatement erodes the local tax base. 73 percent (N=25) of respondents disagree or strongly disagree with the statement resulting in a mean rating of 2.24. This indicates that most officials believe that while property taxes are abated, other spin-off benefits outweigh the initial loss of revenue. Statement five

is whether tax abatement results in a zero-sum game. 80 percent (N=27) of respondents disagree or strongly disagree with the statement.

The first five statements concerning economic considerations indicate that municipal officials do support tax abatement and disagree that they result in a zero-sum game or erode the local tax base. A majority of officials agree that supply-side policies are more effective than demand-side policies. In addition, most officials either agree or strongly agree that tax abatement is an effective tool in attracting industrial development.

Table 6.1
Summary of Findings

Economic Considerations	Percent Distribution/N Mean Rating		
attract industrial development 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	96% NIA NIA	= 33 = 0 = 1 N= 34	4.26
job creation 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	76% 6% 18%	= 26 = 2 = 6 N=34	3.94
supply-side policies more effective than demand-side 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	56% 29% 15%	= 19 = 10 = 5 N=34	3.47
erode the local tax base 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	18% 9% 73%	= 6 = 3 = 25 N=34	2.24
tax abatements result in zero-sum game 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	9% 12% 80%	= 3 = 4 = 27 N=34	2.15

Political Considerations

In political considerations (See Table 6.2), a majority of respondents disagree or strongly disagree, 56 percent (N=19), that "taxpayers look favorably upon the granting of tax abatements. While 26

percent (N=9) agree or strongly agree with the statement, 18 percent (N=6) of respondents were neutral.

On statement two, "I believe luring a large corporation to the community has significant political advantages for a municipal official," 59 percent (N=20) of respondents either agree or strongly agree reflecting a mean rating of 3.26. On the same statement, 33 percent (N=11) of respondents disagree or strongly disagree with the statement.

On statement three, "I believe most municipal administrators view property tax abatements as "giveaways" to corporations, but necessary to complete with neighboring communities," respondents were split indicating a mean rating of 3.06. On the statement, 53 percent (N=18) of respondents agree or strongly agree with the statement, while 44 percent (N=15) disagree or strongly disagree with the statement.

On statement four, "I believe the primary reason abatements are offered to corporations is because other cities also make them available," 74 percent (N=25) of respondents agree or strongly agree with the statement reflecting a mean rating of 3.79 percent. 12 percent (N=4) of respondents disagree or strongly disagree with the statement.

On statement five, "I believe it is politically necessary to appear active in the field of economic development," over 85 percent (N=34) of respondents either agree or strongly agree indicating a mean rating of 4.12. 3 percent (N=1) of respondents disagree or strongly disagree with the statement and 12 percent (N=4) were neutral.

**Table 6.2
Summary of Findings**

Political Considerations	Percent Distribution	Mean Rating
taxpayers look favorably upon the granting of abatements 5= SA/4 = Agree 3= No Opinion 2= Disagree11 = SD	26% = 9 18% = 6 56% = 19 N=34	2.71
significant political advantages 5= SA/4 = Agree 3= No Opinion 2= Disagree11 = SD	59% = 20 9% = 3 33% = 11 N=34	3.26
administrators view abatements as "giveaways" 5= SA/4 = Agree 3= No Opinion 2= Disagree11 = SD	53% = 18 NA = 1 44% = 15 N=34	3.06
abatements offered because other cities do so 5= SA/4 = Agree 3= No Opinion 2= Disagree11 = SD	74% = 25 15% = 5 12% = 4 N=34	3.79
politically necessary to appear active in economic development 5= SA/4 = Agree 3= No Opinion 2= Disagree11 = SD	85% = 29 12% = 4 NA = 1 N=34	4.12

Location Considerations

The third set of questions (See Table 6.3) focus on location factors that surround tax abatement. The first statement, "Generally, I believe

industrial corporations view the availability of abatements as a primary factor in deciding to local in a community," resulted in a mean rating of 2.85 indicating a split in attitudes. 44 percent (N=15) of respondents agree or strongly agree with the statement, while 53 percent (N=18) disagree or strongly disagree with the statement.

The second statement, "I believe most corporations view quality of life and other factors before considering abatements," resulted in a mean rating of 3.65 indicating that the majority of respondents agree with the statement. 74 percent (N=25) of respondents agree or strongly agree with the statement. 12 percent (N=4) of respondents were neutral, while 15 percent (N=7) disagree or strongly disagree with the statement.

The third statement, "I believe tax abatements are a major factor only after a corporations has narrowed the possible list of locations to a small number of cities," received a mean rating of 4.03 indicating that most respondents agree with the statement. 89 percent (N=30) of respondents agree or strongly agree with the statement.

The fourth statement, "I believe most municipal officials offer tax abatements because they do not trust other cities not to do so," received a less favorably mean rating of 3.03 percent. While 41 percent (N=14) agree or strongly agree, 24 percent are neutral, and 32 percent disagree or strongly disagree with the statement. A wide majority do not distrust their neighboring cities as suggested in previous literature.

The fifth statement, "I believe corporate executives view incentives before any other factor in deciding to locate in a particular area," received a lower mean rating of 2.15. 80 percent (N=27) of respondents disagree or strongly disagree with the statement.

**Table 6.3
Summary of Findings**

Location Considerations	Percent Distribution	Mean Rating
primary factor in locating 5= SA14 = Agree 3= No Opinion 2= Disagree/1 = SD	44% = 15 NIA = 1 53% = 18 N=34	2.85
quality of life factors 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	74% = 25 12% = 4 15 % = 7 N=34	3.65
narrow list of possible locations 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	89% = 30 9% = 3 NIA = 1 N=34	4.03
do not trust other cities 5= SN4 = Agree 3= No Opinion 2= Disagree/1 = SD	41% = 14 24% = 8 35% = 12 N=34	3.03
corporate executives view incentives before other factors 5= SN4 =Agree 3= No Opinion 2= Disagree/1 = SD	12% = 4 9% = 3 80% = 27 N=34	2.15

CHAPTER 7: CONCLUSION

The importance of assessing municipal official's attitudes on the effectiveness of tax abatement and incentives is important. While current professional literature presupposes that municipal officials have opinions on several different levels, survey research is simply not available to provide empirical evidence. Although not inclusive, this research project does provided insight into economic, political, and location considerations.

Summary

As shown in Table 7.1, the mayor or mayor's representative have strong feelings concerning abatements on several different economic aspects. Respondents do believe that tax abatement is effective in attracting industrial development with a mean of 4.26, and also believe that job creation is the primary goal of tax abatement with a mean of 3.94. Although not as supportive as the above statements, respondents do believe that supply-side policies are more effective than demand-side policies in creating economic development with mean of 3.47. In addition, respondents do not believe that tax abatement erodes the local tax base, mean of 2.24, or that tax abatement results in a zero-sum game, mean of 2.15.

Table 7.1
Summary of Economic Considerations

Attract Industrial Development	4.26	Agree
Job Creation	3.94	Agree
Supply-side Policies More Effective than Demand-Side	3.47	Agree
Erode the Local Tax Base	2.24	Do Not Agree
Tax Abatements Result in Zero-Sum Game	2.15	Do Not Agree

N = 34

As shown in Table 7.2, the mayor or mayor's representative have equally strong feelings concerning political considerations. Respondents do not support the statement that taxpayers look favorably upon the granting of tax abatements with mean of 2.71. Respondents do, however, feel that significant political advantages may be gained through tax abatement with a mean of 3.26. In addition, respondents feel that administrators view abatements as "giveaways" but necessary to compete in economic development with a mean of 3.06. And, most respondents believe that abatements are offered because other cities do so, mean of 3.79. And, most respondents believe that it is politically necessary to appear active in economic development with mean of 4.12.

Table 7.2
Summary of Political Considerations

Political Consideration	Mean Rating	Agree Do Not Agree
Taxpayers look favorably Upon the Granting of Abatements	2.71	Do Not Agree
Significant Political Advantages	3.26	Agree
Administrators View Abatements as "Giveaways"	3.06	Agree
Abatements Offered Because Other Cities Do So	3.79	Agree
Political Necessary to Appear Active in Economic Development	4.12	Agree

N = 34

Table 7.3 presents mayors or mayors representative's attitudes concerning location considerations. Respondents do not support the statement that abatement is a primary factor for a relocating corporation. Respondents do agree that quality of life and other factors are considered more important by corporations than available abatements with a mean of 3.65. Respondents also support the statement that corporations consider abatements only after they have narrowed the list of possible locations with a mean of 4.03. Respondents do support, by a small margin, the statement that abatements are offered only because respondents do not trust other cities not to do so with a mean of 3.03. Although they do not support the statement, respondents are actually near the mean, since 41.18 percent agree with the statement. In addition, respondents do not support the statement that corporate executives view incentives before

any other factors with mean of 2.15. The last statement does correspond with respondents support of the statement that quality of life and other factors are considered before abatement.

**Table 7.3
Summary of Location Considerations**

	Mean Rating	Agree/Do Not Agree
Primary Factor in Locating	2.85	Do Not Agree
Quality of Life Factors	3.65	Agree
Narrow List of Possible Locations	4.03	Agree
Do Not Trust Other Cities	3.03	Agree
Corporate Executives View Incentives Before Other Factors	2.15	Do Not Agree

N = 34

Further Research

It would be interesting to continue research into other areas of abatement and allow for a more comprehensive survey. The research appears to shed light on the attitudes of public officials and also contradicts, in many ways, the presuppositions held by professional articles as noted in the literature review. As noted by the survey results, officials appear to understand that corporations take into account such things as quality of life and other factors before considering abatement. In addition, it is interesting that officials appear to view abatements as giveaways but as necessary to compete with neighboring communities.

On the other hand, municipal officials do not support the statement that they do not trust other cities.

Additional research appears to be needed in the area of political benefits. What type and to what extent are political benefits gained by municipal officials by offering abatements. In addition, location factors appear much less important than economic factors due to the mean rating and the relatively closeness to 3 or neutral feelings. Although many important aspects are learned by the research presented, other attitudes of municipal officials could be explored.

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Appendix A

September 15, 1997

Name
City
Address
City, State Zip

Dear :

Thank you in advance for responding to the enclosed survey on property tax abatements. I am a graduate student at Southwest Texas State University and will graduate in December 1997 with a Master in Public Administration. One of the requirements for the degree is to complete an Applied Research Project.

My project involves gathering the attitudes and opinions of Texas municipal **officials** on property tax abatements and incentives. In order to complete this task, only sixty municipal **officials** have been selected for this survey.

I would be very appreciative if you would take the time to circle your response to each of the questions enclosed and **return the survey by October 5** in the enclosed self-addressed, stamped envelope. **All** survey answers will be held confidential and will be destroyed upon project completion.

Thank you in advance for the timely completion and return of the enclosed survey.

Sincerely,

Kevin McKethan
9723 Curlew Drive
Austin, Texas 78748

Appendix B

A Study to Describe the Attitudes and Perceptions of Texas Municipal Officials on the Effectiveness of Tax Abatements and Incentives

This questionnaire is designed to obtain specific information on Texas municipal officials' attitudes and perceptions concerning tax abatements and incentives.

Please circle the appropriate response:

SA=Strongly Agree A=Agree NO=No Opinion
D=Disagree SD=Strongly Disagree

-
1. I believe tax abatements and incentives are an effective tool in attracting industrial development.
SA A NO D SD
 2. I believe job creation is the primary goal of municipal economic development.
SA A NO D SD
 3. I believe supply-side policies such as tax abatements are more effective in attracting industrial development than demand-side policies such as small business loans.
SA A NO D SD
 4. I believe tax abatements erode the local tax base.
SA A NO D SD
 5. I believe supply-side policies such as tax abatements result in a zero-sum game in which corporations simply move from one city and one incentive to another.
SA A NO D SD
 6. I believe that most taxpayers look favorably upon the granting of property tax abatements.
SA A NO D SD
 7. I believe luring a large corporation to the community has significant political advantages for a municipal official.
SA A NO D SD

I believe most municipal administrators view property tax abatements as "giveaways" to corporations, but necessary to compete with neighboring communities.

SA A NO D SD

9. I believe the primary reason abatements are offered to corporations is because other cities also make them available.

SA A NO D SD

10. I believe it is politically necessary for a municipal official to appear active in the field of economic development.

SA A NO D SD

11. Generally, I believe industrial corporations view the availability of abatements as a primary factor in deciding to locate in a community.

SA A NO D SD

12. I believe most corporations view quality of life and other factors before considering abatements.

SA A NO D SD

13. I believe tax abatements are a major factor only after a corporation has narrowed the possible list of locations to a small number of cities.

SA A NO D SD

14. I believe most municipal officials offer tax abatements because they do not trust other cities not to do so.

SA A NO D SD

15. I believe most corporate executives view incentives before any other factor in deciding to locate in a particular area.

SA A NO D SD

Responses to the above questions will be held confidential.

Appendix C

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The Honorable Kirk Watson
City of Austin
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