Watch Your Assets

Exposing the misuse and abuse of the public commons

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Austin's Not-So-Smart Growth Subsidies

The City of Austin is doling out $117 million in publicly financed incentives to attract a select few businesses to the mushrooming metropolis. An analysis of the city's seven existing incentive deals reveals that the companies that receive these handouts account for a tiny fraction of the businesses that flock here, expand here or are born here. The costs of these deals typically outweigh the city's optimistic estimates of their long-term benefits.

State law allows cities to grant private businesses financial incentives to promote economic development.[1] City incentive agreements require recipient businesses to invest a certain amount of money or create a target number of jobs in the city's "desired development zone," which steers development away from the environmentally sensitive area west of the Mopac expressway.[2]

In return, the City gives a portion of the resulting city revenue to the new or expanded business. Typically Austin promises to rebate municipal taxes or fees or to donate infrastructure to the business through the city-owned Austin Energy electric utility.

In August, city development staff made a presentation to a subcommittee of the Austin City Council on existing incentive agreements. Council members wanted to review the effectiveness of this program. The presentation estimated that the city had committed itself to $80 million in development incentives. Yet a Texans for Public Justice review of the underlying agreements found that this estimate omitted at least $37 million of program costs, including subsidies from city-owned Austin Energy and rebates of city fees.

The total $117 million cost of the city's incentive deals is equal to the city giving away the average annual property-tax revenue for 128,635 homes.[3] The city says it must divert some public funds from such public assets as parks, libraries and public safety programs to entice private businesses to generate jobs and economic growth.

Yet the city counts torrid growth among its most urgent challenges and it even earmarked $5.4 million of its 2008 budget for managing this growth. For the foreseeable future, businesses will continue to invest in Austin en masse without a publicly subsidized handout. While depressed areas can make an argument for such incentives, does publicly subsidized growth constitute smart growth in the Live Music Capital of the World?

Development Happens—Without Handouts

The City of Austin has signed seven economic development agreements since 2001. Two of these agreements are for mixed-use projects that include some combination of residential, retail and major-employer developments. The city awarded the remaining five single-entity, or "firm-based", incentive deals to individual industrial or film-production companies. All seven incentive projects are located in the city's desired development zone.

The five single-entity incentive agreements that the city has signed since 2005 will cost the city an estimated $80.5 million and are supposed to create 1,400 jobs. Yet TPJ identified nine major instances during this same time period in which companies have come to Austin's desired development zone—or expanded there—without receiving special city handouts. Each of these projects will create an estimated 200 to 500 jobs apiece. In fact, the top seven of these projects will create an estimated 2,885 jobs—or twice what the city's five single-entity projects are supposed to create with massive public assistance.

The City of Austin's Single-Entity Economic Growth Agreements

Year Agreement Signed	Project	New-Job Targets	City's Estimated Cost* (Millions)	Austin Energy Incentives (Millions)	Fee Rebates (Millions)	Total (Millions)
2005	Advanced Tech. Development Facility	†100	$6.300	$1.0	NA	$7.300
2005	Home Depot Data Center	500	$6.700	$0.5	NA	$7.200
2006	Hewlett-Packard Data Center	140	$3.200	NA	NA	$3.200
2006	Samsung	500	$47.600	$10.6	*$4.6	$62.800
2007	Friday Night Lights	‡200	$0.080	NA	NA	$0.080
	TOTALS	**1,440**	**$63.880**	**$12.1**	**$4.6**	**$80.580**

† 100 new jobs must be created. In addition, ATDF must maintain the 225 jobs transferred from parent company Sematech.
‡ Agreement called for 200-700 jobs per episode.
*Includes $1.2 million in rebates offered for construction of water quality facilities.
Note: "City's Estimated Cost" is based on a presentation that city officials made to the City Council's Audit and Finance subcommittee on Aug. 28. That presentation omitted a $40,000 payment that the city will owe Friday Night Lights next year. The missing payment is included here.

Clearly the vast majority of the businesses that come to Austin or expand here do not need to be paid to do so. Most companies invest here because they are attracted to such factors as Austin's schools, workforce and quality of life. For the past two years *Expansion Management* magazine ranked Austin No. 1 in the nation as a desirable location for company expansions or relocations. Significantly, while *Expansion* ranked cities on such factors as schools, work force, infrastructure, healthcare, taxes and cost of living, incentive packages did not enter into this trade publication's equation.[4]

Major New Businesses In Austin That Didn't Receive Handouts

Company	Facility Type	Action	Year	Jobs Created
Blizzard Entertainment	PC-based gaming, call center	New	2007	500
Dell	Computer mfg./sales (Hdq.)	Expansion	2006	500
PRC	Call center	New	2006	500
PRC	Call center	Expansion	2007	450
Thumbtronix	Instrument development (Hdq.)	New	2007	400
PayPal	Online payment services	New	2007	300
Seton/RehabCare	Healthcare	Expansion	2006	235
Education Finance Partners*	Education loan program services	New	2007	200
Farmers Insurance	Insurance, call center	Expansion	2006	200
			TOTAL	**3,285**

Online game company Blizzard Entertainment, for example, decided to create 500 jobs in Austin because "it's a dynamic community with a well-established tech industry and a distinguished university," according to the *Austin Business Journal.*[5] The online-payment company Pay Pal plans to hire 300 Austin-area employees, including software engineers, product developers and risk managers. A company executive told the *Austin American-Statesman* that it chose Austin because it's cheaper than Silicon Valley and "its reputation as a great place to live…will help the company recruit workers."[6]

Australian music technology company Thumbtronix is moving its headquarters and 400 jobs here because it needs a place that understands computers and "the cultural and economic power of music," according to CEO Jim Plamondon. [7] "Austin stood alone."

Germany-based Wincor Nixdorf announced this month that it's expanding its Austin-based U.S. headquarters. The CEO of this banking and retail technology firm told the *American-Statesman* that this local expansion reflects the firm foundations of Austin's "computer-savvy society" and "access to rib houses and brisket."[8] Not only do businesses such as these "help keep Austin weird," they also arguably have more loyalty to the region than companies seeking the biggest incentive they can find.

The city's five single-entity incentive packages consist of some combination of rebates on property taxes and city fees, or subsidies on building and infrastructure costs. Last year the city awarded Korea-based Samsung a $60 million grant to develop a new semiconductor manufacturing plant in Austin. That year the city also awarded $7 million in incentives to Advanced Technology Development, the for-profit arm of Sematech, a non-profit high-tech research company. In 2006 the city also awarded a total of more than $10 million to Home Depot and Hewlett-Packard for new data centers.

The city has agreed to reimburse all of these companies except Hewlett-Packard for 100 percent of the city taxes that they pay on their real estate and on such personal property as computers, servers and phone equipment. Hewlett-Packard's agreement calls for the reimbursement of 40 percent of its total city taxes. Four of these firms also will receive rebates on city fees or incentives from Austin Energy.[9]

The city also awarded up to $80,000 in incentives to the NBC television show Friday Night Lights to shoot its second season in Austin (it shot the first season here without such incentives). If it shoots additional seasons in Austin the show could be eligible for additional payments of up to $45,000 per season, according to a city staff member.

Publicly Funding a Mall, Y'All?

The city's two mixed-use projects will cost the city almost $37 million. Backlash against incentives awarded in 2003 to a controversial mixed-use development known as the Domain recently focused a spotlight on the city's long-overlooked incentives program.

The City of Austin's Mixed-Use Economic Growth Agreements

Year Agreement Signed	Project	New-Job Targets	City's Estimated Cost (Millions)	Austin Energy Incentives (Millions)	Fee Rebates (Millions)	Total (Millions)
2001	Robertson Hill	NA	$13.2	$6.1	$1.0	$20.3
2003	Domain	1,100	$16.5	NA	NA	$16.5
	TOTALS:	1,100	$29.7	$6.1	$1.0	$36.8

Stop the Domain Subsidies, a coalition of more than 300 local businesses that oppose subsidies for the Domain shopping center in North Austin, has generated considerable flak in recent months over the city's retail subsidies. Coalition members say the city should not pay retail stores to come to Austin to compete against local shops that have created revenue and jobs here for years without taxpayer handouts. The group says that city estimates grossly underestimate the true costs of the Domain incentives, which take the form of property and sales tax breaks.

Stop the Domain Subsidies is leading a petition drive to propose a city charter amendment that would go before Austin voters in May. If approved, it would prohibit the city from subsidizing any new retail projects. City Council member Lee Leffingwell also is weighing proposals to restrict retail incentive agreements.

The only other mixed-use development that the city has signed is the Robertson Hill project in East Austin. Both of these projects involve the development of a blend of affordable housing and business projects. The Robertson Hill agreement requires its developer to try to land a major employer for that complex. As of February, the developer had yet to do so.

The Cost of Subsidized Growth

In a presentation to a City Council subcommittee in August, city development officials estimated that the city's existing incentive agreements will cost the city approximately $80 million over the next 20 years. Yet the city's records of these agreements reviewed by Texans for Public Justice suggest that the actual cost of these deals is closer to $117 million. The additional $37 million stems from three omissions in the city's presentation. City officials:

1. Completely neglected to mention one of its development agreements that will cost the city $20.3 million;
2. Failed to include an estimated $13.4 million worth of Austin Energy incentives and city fee rebates; and
3. Omitted half of the city's $80,000 in costs for another project.[10]

The city's presentation on its incentives program this summer neglected to mention the Robertson Hill incentive agreement. Signed in 2001 and taking effect last year, Robertson Hill is a mixed–use project for a tract along 11th Street just east of downtown. A city official recently told TPJ that the city excluded this project from its presentation because Robertson Hill originated as a zoning dispute. Whatever its origins, the city's Robertson Hill agreement is an incentive agreement governed by the same development provisions of the local government code as the six projects that the city did include in its accounting presentation. While city officials declined TPJ's request to provide cost estimates for Robertson Hill, the city appears to have committed itself in that agreement to at least $20.3 million in tax and fee rebates.

The city presentation this summer also failed to account for the many fee waivers and other incentives provided by city-owned Austin Energy. These incentives—including purchasing, installing and upgrading energy equipment—add an estimated $8.8 million to the cost of Austin's incentive agreements. The City also failed to include city fee rebates, which could cost the city up to $4.6 million.

The city calculates its return on incentive investments by estimating what property taxes (if any) and sales taxes it expects to collect as a result of the projects. For sales taxes, the city estimates what it expects to collect as a result of the local purchases made by both the company and its employees. Significantly, in three of the six cases that the city discussed in its August presentation, the city's estimated costs exceed the revenue that the city expects to take in as a result of the project.

Although city estimates indicate that the Hewlett-Packard, Domain and Friday Night Lights projects generate a net city surplus, the books for Friday Night Lights only balance because the city failed to account for half of its $80,000 in costs for this deal. When the city's neglected $40,000 payment for City Lights is factored back in, four of the city's six incentive projects cost the city more revenue than they generate.

The city estimates that the $16.5 million that it sinks into the Domain deal will generate almost $40 million in property and sales taxes for the city. Stop the Domain Subsidies questions this estimate, arguing that the city's actual cost for this deal will be $65 million. The city says for the Domain project it used net present value, which compares the current value of money with its future value. Stop the Domain Subsidies estimated the actual amount of payments for the project in gross dollars and found the costs of the project to be much higher than the city estimates.

For its five single-entity agreements, the city also estimated the increased revenues that the city-owned Austin Energy company will receive as a result of the new projects. Even with these juiced up numbers, however, just one of the five projects generates a revenue surplus for the city.

Austin Loses Money on Most of Its Single-Entity Development Deals

Project	Estimated Cost*	City's Estimated Return	Estimated Austin Energy Revenue	City's Total Estimated Return	City's Estimated Balance
ATDF	$7,300,000	$1,400,000	$1,400,000	$2,800,000	-$4,500,000
Home Depot	$7,200,000	$6,100,000	$910,000	$7,010,000	-$190,000
Hewlett-Packard	$3,200,000	$5,300,000	$6,300,000	$11,600,000	$8,400,000
Samsung	$62,800,000	$8,000,000	$43,100,000	$51,100,000	-$11,700,000
Friday Night Lights	$80,000	$70,000	$0	$70,000	$-10,000
				TOTAL:	**-$8,000,000**

*Includes Austin Energy incentives and fee rebates. Also include additional $40,000 for Friday Night Lights agreement.

A Change is Gonna Come?

The ballot referendum in May could put a stop to incentives for projects like the Domain, which allot city funds to help establish large retail projects. City Council member Lee Leffingwell also is considering opening all incentive deals for more public review before they are finalized.

As a steward for publicly funded projects, the city ought to reassess all of its economic incentive policies—not just the retail projects. Many large employers are choosing to locate in Austin because of all the city has to offer – quality of life, access to a top-tier university, good public schools, parks and libraries – without public money incentives. As the city continues to grow, it needs to invest more money in the public structures that make Austin an enticing place to live and work in the first place. While many cities now routinely dole out incentives, Austin is different. It should capitalize on its differences by managing its inexorable growth—rather than feeding it.

Some will rob you with a fountain pen. – Woodie Guthrie

"Watch Your Assets" is a Texans for Public Justice project.
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[1] See Chapter 380 of the Local Government Code.

[2] The "desired development zone" excludes the sensitive Hill Country area that recharges the Edwards Aquifer.

[3] In 2007 the average appraised value of an Austin home is $225,471 . "Home Values Rise and Tax Bills Shrink," *Austin American-Statesman*. Editorial Board. Sept. 21, 2007. The Austin area property tax rate for 2007-2008 is 0.4034 (per $100 tax valuation). The resulting average property tax bill for an Austin homeowner is $909.55.

[4] "These are the cities where business opportunity is greatest for growing companies," *Expansion Management*, Bill King. August 1, 2007.

[5] "Gaming giant sets new course for Austin," *Austin Business Journal*. A.J. Mistretta. March 16, 2007.

[6] "Pay Pal building a center in Austin," *Austin American-Statesman*, Lilly Rockwell and M.B. Taboada. July 11, 2007.

[7] Austin Chamber of Commerce press release. May 2007.

[8] "German company with love of barbecue expands in Austin," Shonda Novak. *Austin American-Statesman*. October 10, 2007.

[9] All of these agreements, last for 10 years except the one with Sematech, which has the option of extending its incentives deal up to 20 years.

[10] The city's presentation included one $40,000 payment to Friday Night Lights without mentioning that the city will owe the television show another $40,000 next year when it finishes this season of the show is in the can.