

# Breaks

Continued from Page 1

"We're looking real close," Bridgman said.

In some government circles, making such demands on corporations still is viewed as unwarranted, distasteful or counterproductive. Some cities do not even leverage as much influence as Texas state law allows from companies awarded tax breaks.

But strategies vary widely in the aftermath of a Michigan judge's surprise ruling that prohibited General Motors Corp. from closing a factory in a community where the automaker had accepted incentives.

More and more, cities are requiring a new level of accountability from companies that receive tax breaks. In these times of mass layoffs and plant closings, said one city official, it is time to conduct a "corporate census."

The City of Irving is reserving the right to do just that. If necessary, a team of auditors will be sent into GTE headquarters to determine whether employment has dropped below the level promised five years ago.

"We went into this with our eyes open," Bridgman said, "and we structured it so we wouldn't get hurt."

GTE officials offer no objection. They say the company still employs more than enough people in Irving — and will gladly document it.

But, company spokesman Richard Jones said, there seems to be a question whether the 1988 deal with City Hall required GTE to create — or maintain — a certain number of jobs.

"The issue is still kicking around," he said. "We're talking about a fairly significant amount of money."

In Fort Worth, city officials already have mobilized auditors to review every

tax break the city has granted and ensure that companies are holding up their end of the bargain.

Fort Worth has the distinction of granting the Metroplex's largest-ever tax abatement.

In 1989, American Airlines Inc. was promised no tax increase for 15 years if American would build an aircraft maintenance base and create some 2,000 jobs at Alliance Airport. Regular meetings with city staffers stopped more than a year ago after the project reached early employment projections.

Referring to the prospect of an audit, American spokesman Tim Smith said: "It's nothing that we'd be concerned about. I don't know what else we can tell them."

City Auditor Costa Triantaphilides said the unprecedented audit — due to be released next month — represents a sensible business practice for all local governments.

"Government shouldn't be taken for patsies," he said. "Whatever promises have been made, we look at that as a contractual responsibility."

The issue of corporate responsibility in tax abatement has been heating up ever since General Motors last month was blocked from closing its plant in Ypsilanti, Mich., in a ruling that GM is appealing.

Ironically, the Ypsilanti plant closing represented a reprieve for another aging GM plant — in Arlington.

Arlington city officials say that when they granted tax breaks to GM in 1989 and again in 1993, they reserved the option of retroactive taxation should the auto plant be closed.

City Hall spokeswoman Teresa Thompson said the city could recapture as much as \$1.5 million if the GM plant is mothballed.

"If we don't do that," Thompson said, "we're not protecting the public interest."

Such an option is required by state law

## The Metroplex's largest tax abatement projects

Company	Project	Location	Investment (estimated)	Abatement	Approved
American Airlines Inc.	Maintenance Base at Alliance Airport	Fort Worth	\$480 million	100% for 15 years	Aug. 1989
GTE Corp.	Telephone Operations Headquarters	Irving	\$225 million	25-40% for 15 years	Dec. 1988
J.C. Penney Co.	New Headquarters	Plano	\$150 million	25% for 15 years	Dec. 1987
Burlington Northern Railroad	New Headquarters	Fort Worth	\$142 million	75% for 10 years	Oct. 1991
EDS Corp.	New Headquarters	Plano	\$140 million	25% for 10 years	Nov. 1990
National Semiconductor Corp.	Expansion and Modernization	Arlington	\$120 million	30-100% for 10 years	Feb. 1992
General Motors Corp.	Expansion and Modernization	Arlington	\$97 million	50 - 100% for 10 years	Dec. 1989 - Feb. 1993
TRW Inc.	Office Complex	Allen	\$75 million	20% - 100% for nine years	Dec. 1992
White Rock Marketplace	Shopping Center Renovation	Dallas	\$26 million	25% for 10 years	Nov. 1990
MCI Telecommunications Corp.	Office Complex	Richardson	\$26 million	25% for three years	Feb. 1989

SOURCE: the cities

whenever local government grants tax breaks. Texas reportedly is one of few states that mandate recapture clauses, also known as "claw-backs."

Economist Bernard Weinstein of the University of North Texas said the threat of punitive action is the most important protection government has in tax abatement deals.

"It puts companies on notice," Weinstein said.

Not every community, however, has a method for enforcing such deals. Not every community wants one.

City of Plano finance director Jim Forte said he believes that Plano's tax breaks have been justified by a general increase in economic activity for the growing northern suburb.

Plano has granted nine tax breaks, including one for J.C. Penney Co.'s new headquarters and another for EDS Corp.'s new headquarters.

Asked if the city verifies that companies have created as many jobs as promised, Forte said: "Real answer? No, we don't. I don't know that it's an exact science."

Other city officials call it unreasonable to prohibit companies from imposing layoffs or making other business decisions just because they have received tax breaks.

The City of Lancaster granted tax breaks to Wal-Mart Stores Inc. and Frozen Food Express Industries Inc. based on the promise that each company would employ just five people.

Jim McAuley, economic development director for Lancaster, said the community offers incentives to attract business investment — not jobs.

"Those numbers are just really insignificant," he said.

Bill Keffler, assistant city manager of Richardson, said demanding that companies make long-term business commitments would involve "a new level of negotiations."

Richardson has approved tax breaks for MCI Telecommunications Inc. and Fujitsu Ltd. — companies that Keffler said he is certain have "a solid commitment" to the community.

"Granted, a company could move and take its employment out," he said. "But we would hope that other companies would occupy those facilities."

A spokeswoman for the Texas attorney general's office said there is no method for assuring that cities use the required recapture clause.

Scott Joslove of the Texas Municipal League said he was surprised that some communities might not avail themselves of the protection.

But, he said, it could be that city officials feel they cannot afford to assume a tough negotiating posture with companies offering to bring economic development to town.

He pointed out that businesses do not have to contend with the threat of recapture in other regions of the country.

"Some communities have to put more on the table," he said.

The situation has given rise to some unusual deals in the Dallas area.

The City of Farmers Branch, for example, essentially has swapped retailer Pace Membership Warehouse Inc. property tax revenue for sales tax revenue.

The city will waive property taxes if Pace's new store generates at least \$6 million a year in sales tax revenue, or \$600 million a year in sales. If the store's sales do not stack up, the tax breaks are lower, too.

According to Norma Nichols, the city's development director: "We feel like all the safeguards have been put into place."

In granting tax breaks to TRW Inc., the City of Allen's only concern was that the company would improve property values in Allen by purchasing and expanding an abandoned plant.

City development director David Pitstick said City Hall would not object if TRW wanted to "lay off everybody and write us a check."

Similarly, the City of Mesquite awarded tax breaks to AT&T Co. for a plant expansion without requiring any job creation at all.

Mesquite development director Billy Thompson he was surprised to find no mention of jobs in the 1989 deal. He said he had not reviewed the matter in quite a while.

"I haven't been back to AT&T," he said. "It would seem like it would be a good business practice to keep close tabs on it."