

City Revenue Sources

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Where Do Cities Get Their Money?

- Property Taxes – 35%
- Sales Taxes – 23%
- Franchise Fees – 6 %
- Permits/Fees – 8%
- Transfers from other funds – 2%
- Court Fines – 1%
- Interest Earnings – <1%
- Federal/State Grants - 1%
- Other Sources – 22%

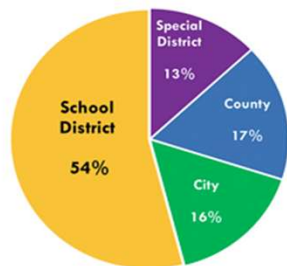


Property Taxes

- Tax Rates
 - Home Rule Cities - \$2.50 per \$100 of assessed value
 - General Law Cities
 - Type A - \$1.50 per \$100 of assessed value
 - Type B - \$0.25 per \$100 of assessed value
 - Type C – Depends on the size of the city
- Two ways to increase property tax revenue:
 - Increase tax rate
 - **S.B. 2** challenges and flexibility
 - Expand tax base through economic development incentives

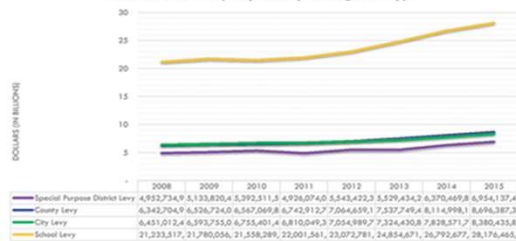


Property tax pie chart



Source: Texas Comptroller of Public Accounts, 2015 property Tax Levies

Growth of the Property Tax by Taxing Unit Type



Sales Taxes

- Sales tax for general revenue
 - Can be spent on anything other than payment of debt
 - Adopted by election
 - May be any increment of 1/8 of 1 percent as long as it doesn't violate 321.021(f) (local cap at 2%).
- Sales taxes for dedicated purposes
 - Can only be spent for specific purposes: economic development, street maintenance, crime control and prevention, property tax relief, etc.
 - All must be adopted by election



Sales Taxes

- What about sales taxes on online sales?
 - *South Dakota v. Wayfair* (2018)
 - Texas implementation of *Wayfair*
 - October 1, 2019
 - **H.B. 1525** (2019) – Marketplace collection
 - **H.B. 2153** (2019) – Single Local Use Tax



Comptroller rule TAC 3.334

- Glenn Hager drafted new rules to take effect in October 2021, sourcing sales tax to the location of the buyer rather than the place of business of the seller
- Some cities lose, some win. The effect on certain 380 agreements of some cities is profound. TML is deeply and passionately neutral on this.
- Ongoing lawsuits, most notably Round Rock; current injunction against implementation of the rule. This situation is evolving; watch our legislative update for developments.



Expanding the Tax Base

- TML Economic Development Handbook
- Economic Development
 - More than incentives
 - Quality of Life – public safety, transportation infrastructure, education, health care, parks, arts, libraries, etc.
- City Planning
 - Impact of annexation and property tax reforms?
 - Density and “value per acre.”



Expanding the Tax Base Incentives Offered by City Council

- Property Tax Abatement
 - Tax Code Chapter 312 (set to expire 2029)
 - Only affects increase in appraised value
 - 10-year maximum term
- Tax Increment Financing
 - Tax Code Chapter 311
 - Business pays full taxes
 - Revenue earmarked for improvements.



Expanding the Tax Base Incentives Offered by City Council

- Sales Tax Abatement
 - Three methods of abating sales taxes:
 - Neighborhood Empowerment Zone – LGC Ch. 378
 - State Enterprise Zone – Gov't Code Ch. 2303
 - 380 Agreements
- 380 Agreements
 - Local Government Code Chapter 380
 - Broadest economic development tool



Sec. 380.001, LGC

- (a) The governing body of a municipality may establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. ...



Expanding the Tax Base

Incentives offered by EDC/MDD

- Economic Development Corporation
 - Chapters 501-505 of Local Government Code
 - Dedicated Sales Tax
 - Authorized projects for Type A EDC vs. Type B EDC
 - Type B EDC in city under 20k very broad uses
- Municipal Development District
 - Chapter 377 of Local Government Code
 - Dedicated sales tax
 - More flexibility than Type B EDC



Other Revenue Sources – Other Taxes

- Hotel Occupancy Taxes
 - Tax Code Ch. 351
 - Two-part test for how tax revenue can be spent:
 - Part One: Does the expenditure put heads in beds?
 - Part Two: Is the expenditure authorized by statute?
- Venue Taxes
 - LGC Ch. 334
 - Imposition or increase of various types of taxes to support sports and community event venues, convention and civic centers, authorized projects of an EDC, parks and recreation systems, or watershed projects



Other Revenue Sources - Fees

- Franchise Fees (Right-of-way rental fees in Rev. Man.)
 - Fees paid by utilities for use of city right of way
- Impact Fees
 - LGC Ch. 395 - imposed against new development to generate revenue for funding or recouping the costs of capital improvements resulting from the development
- User Fees and Regulatory Fees
 - User fee example – swimming pool, recreation center fee
 - Regulatory fee example – building fee, drainage fee



Municipal Court

- City must operate a court
- Court Fees
 - Local consolidated court fee of \$14 on most misdemeanor dispositions
- Municipal fines
 - Money penalty for offenses created by state statute or municipal ordinance.



Other Revenue Sources - Assessments

- Public Improvement Districts
 - LGC Ch. 372
 - Fees paid by the beneficiaries of a certain public improvement, instead of by every citizen
- Street Assessments
 - Transportation Code Chs. 311 and 313
 - Fees paid by adjoining landowners to share in cost of street improvements



More Information

- TML Revenue Manual
- TML Economic Development Handbook
- Call or email TML Legal
 - (512) 231-7400
 - legalinfo@tml.org

