

## 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
- Ways to impact property tax revenue:
  - Adjust tax rate
    - **S.B. 2** (2019)
  - Expand tax base through economic development



## Sales Taxes

- Sales tax for general revenue
  - Can be spent on anything other than payment of debt
  - Adopted by election
  - Used to be set at 1% - no higher and no lower. Not anymore due to **H.B. 157** (2015).
- 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
  - Cannot exceed 2% total cap



## Sales Taxes

- What about sales taxes on online sales?
  - Remote Sellers
    - *South Dakota v. Wayfair* (2018)
    - State legislation and comptroller rules
    - Destination sourcing
  - Non-remote Internet Orders in Texas
    - Rule 3.334 – Internet orders not received at place of business of seller
    - Sourced to location where fulfilled or destination
    - Delayed effect



## Expanding the Tax Base

- 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
  - 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 Rebates**
  - Three methods of rebating 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



## 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
- 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
  - Fees paid by utilities for use of city right of way
- Court Fees
  - Local Consolidated Court Fee
- 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



## 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
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