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CITY REVENUE SOURCES AND ECONOMIC DEVELOPMENT



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Where Do Cities Get Their Money?

Property Taxes 41%	Sales Taxes 29%	Franchise Fees 7%
Permits/Fees 10%	Transfers from other funds 2%	Court Fines 1%
Federal/State Grants - 1%	ARPA 4%	Other Sources 6%



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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

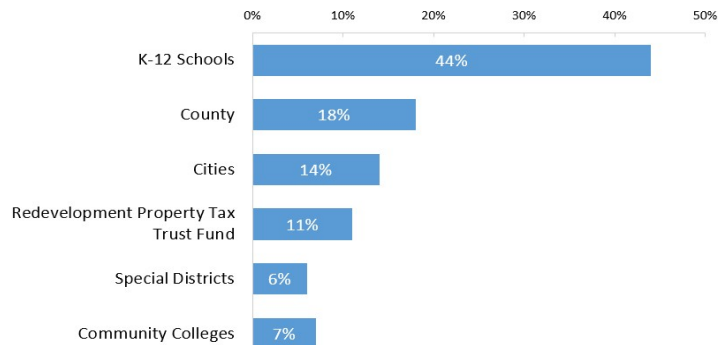
Two ways to increase property tax revenue:

- Increase tax rate
 - **Chapter 26, Tax Code**, challenges and flexibility
- Expand tax base through economic development incentives- stay tuned



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Property tax bar chart Fiscal year 22-23



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Sales Taxes

Sales tax for general revenue

- Can be spent on anything other than payment of debt
- Adopted by election, repealed by election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



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Sales Taxes

- What about sales taxes on online sales?
 - *South Dakota v. Wayfair* (2018)
 - Texas implementation of *Wayfair*
 - 86th Regular Legislature 2019 (HB 1525; HB 2153)
 - Sec. 151.0242, Tax Code: Requires a marketplace seller to collect tax
 - Sec. 321.203: provides that the tax revenue goes to the municipality in which the sale is consummated
 - Sec. 151.0595, Tax Code– Single Local Use Tax



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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 but a court has enjoined enforcement.

Some cities lose, some win. The effect on certain 380 agreements of some cities is profound. Nothing really happened on this during the legislative session- all this is playing out in the rulemaking sphere.



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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



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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



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Municipal Court



Court Fees

Local consolidated court fee of \$14 on most misdemeanor dispositions. A city must operate a municipal court to assess this fee.



Municipal fines

Money penalty for offenses created by state statute or municipal ordinance.



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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



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Expanding the Tax Base

TML Economic Development Handbook	Includes various economic development tools for local governments
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Economic Development	More than incentives
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Quality of Life – public safety, transportation infrastructure, education, health care, parks, arts, libraries, etc.

City Planning	Impact of annexation and property tax reforms?
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Density and “value per acre.”



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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



Loc. Gov't Code § 380.001

Sec. 380.001. ECONOMIC DEVELOPMENT PROGRAMS. (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.



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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



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More Information

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

