City Revenue Sources and Economic Development

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Where Do Cities Get Their Money?

41%	29%	7%	10%
Property Taxes	Sales Tax	Franchise Fees	Permits / Fees

2%	1%	1%	6%
Transfers from Other Funds	Court Fines	Federal / State Grants	Other Sources

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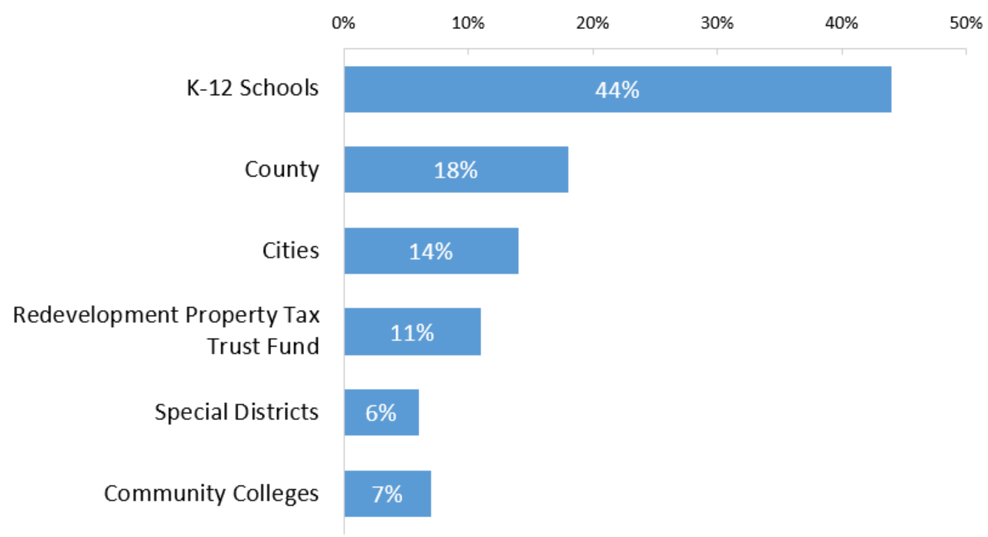
Property Taxes

Tax rates	Two ways to increase revenue
Home rule cities: \$2.50 per \$100 valuation General law cities: Type A \$1.50; Type B \$0.25 Type C depends on city size	Increase the rate within Tax Code rules, hearings, and elections Expand the taxable base through economic development incentives

No-new-revenue rate
Raises roughly the same revenue as last year on current values.

Voter-approval rate
Generally allows 3.5% more revenue, with limited flexibility for smaller cities.

Property Tax Bar Chart — Fiscal Year 22–23



Key point: Cities are usually a small portion of the total property tax bill.

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Sales Taxes

Sales tax for general revenue	Sales taxes for dedicated purposes
Can be spent on anything other than debt payment. Adopted by election, repealed by election. May be any 1/8% increment up to 2%.	Can only be spent for specific purposes: economic development, street maintenance, crime control, venue projects, or property tax relief. All require voter approval.

Comptroller Rule TAC 3.334

Current takeaway	Received at a Texas place of business	Not received at a Texas place of business
The rule change that would alter local sales-tax sourcing for many internet orders is not in effect for now.	Placed in person, or not fulfilled at a Texas place of business: source to where the order was received. If fulfilled from a Texas place of business: source to fulfillment location.	Fulfilled at a Texas place of business: source to fulfillment location. Otherwise, source to the ship-to location.

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Other Revenue Sources — Other Taxes

Hotel occupancy tax (HOT)	Venue 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?	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	Paid by utilities for use of city right-of-way; calculation depends on statute and service type.
Impact fees	LGC Ch. 395 allows cities to recover infrastructure costs created by new development.
User and regulatory fees	User fee example – swimming pool, recreation center fee Regulatory fee example – building fee, drainage fee

General rule: a fee offsets a service or regulatory cost; a tax raises general revenue.

Municipal Court

Court fees	Municipal fines
Local consolidated court fee of $14 on most misdemeanor dispositions. A city must operate a municipal court to assess this fee.	Generally for offenses created by state statute or municipal ordinance. Use restrictions vary, especially for traffic offenses.

Traffic-fine revenue from state-law violations must support roads, bridges, culverts, and traffic-law enforcement.

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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

Expanding the Tax Base

Development tools	Beyond incentives	Quality of life
Statutes authorize grants, loans, tax tools, and local-government programs.	Infrastructure, permitting, broadband, and certainty often matter as much as cash.	Public safety, transportation, education, health care, parks, arts, libraries, and cultural fit.

Central question: What makes people want to choose this community?

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Expanding the Tax Base

Property Tax Abatement	Tax Increment Financing
• Tax Code Chapter 312 (set to expire 2029) • Only affects increase in appraised value • 10-year maximum term • Database reporting (2023)	• Tax Code Chapter 311 • Business pays full taxes • Revenue earmarked for improvements

Tax abatement delays taxation on new value; TIF captures new value to pay for public improvements.

Expanding the Tax Base

Three methods of abating sales taxes

Neighborhood Empowerment Zone	State Enterprise Zone	Chapter 380 Agreement
LGC Ch. 378; waives fees and enters sales-tax rebate agreements, generally up to 10 years.	Gov't Code Ch. 2303; requires state approval and targeted economic-distress criteria.	LGC Ch. 380; broad economic development tool with database reporting.

Most flexible: Chapter 380 agreements — but safeguards, public purpose, and recapture provisions matter.

Loc. Gov’t Code § 380.001

“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.”

Short chapter, big practical impact.

City-Created Entities Offering Incentives

Economic Development Corporation	Municipal Development District
• 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	• 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

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