

## BASICS OF CITY ECONOMIC DEVELOPMENT

- **What is Economic Development?**
  - Spending public money to attract and retain business.
  - More popular than ever as economy shifts from industrial and agricultural to service, information, and technology. Businesses are more moveable and fungible, creating competition by sites.
  - Legal barriers have been removed: Art 3, Sec. 52 was amended in 1987 to add 52-a, which allows economic development grants. Art. 8, Sec. 1 was amended in 1981 to allow disparate property taxes for economic development.
- **Tax Abatement** (Can city forgive all of taxable value?)
  - Only affects increase in value; baseline value is always taxable.
  - 10 year maximum term.
  - Can be granted to leased property.
  - City can tie abatement to x number of new jobs or increase in property value.
  - Can allow recapture of abated taxes if benchmarks not met.
  - Schools no longer can do tax abatement, but they can do tax caps under Ch. 313 of the Tax Code. Schools must get state approval.
- **Tax Increment Finance** (How can city help build infrastructure?)
  - Business pays full taxes; revenue earmarked for improvements.
  - Different taxing entities can pay different percentages into the increment fund.
  - Legal for schools, but they are reluctant to participate because state doesn't give them credit under school funding formulas.
  - Politically more popular than tax abatement because full taxes are paid.
- **Sales tax abatement?** (Why can't we get an outlet mall?)
  - Three methods—LGC Ch. 378 Neighborhood Empowerment Zone (NEZ), state enterprise zone, or 380 grant (see below).
  - NEZ also allows tax abatement, waiver of building and inspection fees.
- **Direct Ch. 380 Grants of Public Money** (Can city spend directly on business?)
  - Grants or loans of public funds or personnel.
  - Most broad and flexible ED tool.
  - Need to have a quid pro quo of some sort, a "program."
  - Think carefully before trying to use 380 to do something you can't do under other law; a 15-year property tax abatement, for example.
- **Land as Economic Development** (Can city give grant of property?)
  - Not included in Ch. 380.
  - State was suspicious of land as economic development tool in 1980's.

- Can't channel land through EDC either (except cities under 20,000 population).
- Maybe grant money through Ch. 380, but doesn't solve notice and bidding laws.
- Bottom line: getting city land to an economic development prospect is tricky.
  
- 4A and 4B Sales Tax
  - 4A can't be used for commercial or retail economic development anymore after HB 2912 in 2003. Can only be spent on projects that attract "primary jobs," typically old fashioned, blue collar economic development—industry, manufacturing, etc.
  - 4B can be used for commercial or retail if a) less than 20,000 population or b) less than \$50,000 a year in annual tax receipts. Otherwise must promote primary jobs.
  - General law city can't grant anything of value to EDC; home rule city can grant money, but not land.
  - 10% of either tax can be spent to promote the city.
  - Either may be spent on infrastructure that promotes business, including retail and commercial. Limited to streets, rail spurs, water and sewer, electric, gas, drainage, site improvements, telecommunications.
  - City has oversight—must approve projects and expenditures.
  
- Municipal Development District (4B sales tax on steroids)
  - Ch. 377 LGC: Any 4B project, plus convention centers, civic centers, and civic center hotels.
  - May be levied in ETJ; only municipal sales tax that can be.
  - Smaller board than 4B (5 vs 7 members); good for small cities that have trouble finding volunteers.
  
- Street Maintenance Sales Tax as an Economic Development Tax
  - Street maintenance tax is only optional sales tax that has effect of increasing general fund revenue.
  - Freed-up general fund revenue can be used on 380 grants without any of the strings attached to 4A/4B/MDD.
  
- Hotel Occupancy Tax (Can city spend its hotel tax money to attract the business?)
  - Hotel tax isn't an economic development tax, it's a tourism development tax.
  - Two part test—heads in beds, and one of seven statutory categories (convention centers, convention center registration, arts, historical preservation and restoration, advertising city, sports events for counties of 1 million or less population, tourist buses).
  
- State funding
  - Largely non-existent; Enterprise Fund helps some.