

Economic Development for Cities

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What is Economic Development?



First things first

Initial Considerations for Municipal Attorneys

- Philosophy behind City economic development
 - Politics
 - Is “incentives” a bad word?
- Pros / Cons
- Good advice?
 - Be aware that not everyone agrees cities should do “economic development” especially with tax dollars provided by “competitors”

Is the State 'For' or 'Against'

- **“Maintaining a business-friendly climate has historically included the use of economic incentives, a favorable regulatory environment and competitive tax structures, but more recently high quality of life indicators have played a significant role.”**
 - House Select Committee on Economic Competitiveness, March 2018

General categories of Economic Development used by Cities

- Tax Abatements
- Economic Development Corporations
- Tax Increment Financing (“TIRZ”)
- Sales Tax Rebates
- “380” Agreements
- Public Improvement Districts
- Municipal Development Districts

Property Tax Abatement

- Detailed legal process to enter into agreement spelled out in Tax Code Chapter 312
- Only affects increase in appraised value
- 10-year maximum term
- “Controversial” economic development tool
- What about other taxing entities?

Tax Increment Financing and “TIRZ”

- Chapter 311 of the Tax Code
- Typical: “Zone” is created and “base tax value” is established
- The “incremental” tax increase (or agreed upon parts thereof) is used to finance public improvements within the Zone
- Due diligence on part of city is necessary
- Different taxing entities can pay different percentages into increment fund

Economic Development Corporations

“Sales Tax” Corporation

- Funded by dedicated sales tax revenue
- Type A vs. Type B EDCs
 - Type A EDCs cannot spend on retail economic development; primarily fund projects that attract “primary jobs”
 - Type B EDCs can fund commercial and retail projects in cities under 20,000 in population or less than \$50,000 in annual tax receipts.
 - Both may spend on infrastructure that promotes business, including retail.

Sales Tax Abatement

- Three methods:
 - Neighborhood Empowerment Zone
 - State Enterprise Zone
 - Grant under Ch. 380 of Local Government Code

380 Grants

(or “what if I just want money?”)

- Broad economic development tool
- Allows grants or loans of public funds or personnel
- Must adopt a “program” before entering agreement
 - What is a “program”? - Good question!
- Limitations

Municipal Development Districts

- “Enhanced” Type B EDC
- MDD sales tax may be levied in ETJ
- MDD board consists of 5 members

Practice Pointers

- Always check for “updates” to the authorizing law – including AG opinions
- Don’t feel obligated to re-invent the wheel

Resources & Questions?

- 2020 Economic Development Handbook – TML

<https://www.tml.org/185/Economic-Development-Handbook-2020>