



CITY OF MCKINNEY, TEXAS

Legislation Text

File #: 14-925, **Version:** 1

Consider/Discuss/Act on a Chapter 380 Economic Development Agreement between the City of McKinney and Landon Homes, LP

MEETING DATE: September 16, 2014

DEPARTMENT: City Manager

CONTACT: Barry Shelton, Interim Assistant City Manager

RECOMMENDED CITY COUNCIL ACTION: Approval of the agreement.

ITEM SUMMARY:

- Landon Homes has requested a Chapter 380 Economic Development Agreement to source the local use taxes on materials incorporated into homes in McKinney (based on tax rates at the job site) in exchange for sharing a portion of the new incremental local use taxes generated.

BACKGROUND INFORMATION:

- Staff was recently contacted by Doug Duffie, CPA, who proposed a Chapter 380 Agreement for sharing the use taxes his client (Landon Homes, LP) will pay for directly purchased building materials used in McKinney.
- The company must apply to the Comptroller's Office in Austin for a Special Use Tax Permit (Texas Direct Payment Permit). If approved for the permit, the company will self-assess and pay use taxes on the building materials they incorporate into realty rather than pay sales taxes on these materials to key suppliers (where the suppliers receive orders).
 - None of Landon's direct material suppliers have sales outlets in McKinney, so no local sales taxes on these materials are currently sourced to the City.
- Landon proposed receiving 80% of the 1% general city use tax and for the City to retain 20% of this tax as well as 100% of the incremental McKinney use taxes above the 1% general city use tax (EDC / CDC).
 - In total, McKinney will receive 1.2% of the 2% local use taxes while Landon will receive .8% of the 2% local use taxes generated.
- Landon Homes is not currently required to have a Texas sales/use tax permit since the company sells real property (ie: not taxable). A Texas Direct Payment Permit allows the company to source local use taxes on its direct materials to the city where the construction occurs. The company has conveyed that there are incremental system costs involved in implementing this approach since specific building materials are required to be tracked to each job for the appropriate local use taxes to be self-assessed and paid to the Texas Comptroller's

Office.

- The agreement deal points are:
 - The City shall pay Landon Homes 80% of the 1% General Fund use tax generated by the builder for the term of the agreement.
 - The City may terminate the Agreement if state or federal law renders the Agreement ineffectual or illegal.
 - The Agreement may be terminated if the Company suffers an Event of Bankruptcy or Insolvency.

FINANCIAL SUMMARY:

- Landon currently has approximately 150 undeveloped lots in McKinney, but the company considers McKinney a key city where significantly more undeveloped land / lots will be purchased in the future. Landon estimates that the total 2% McKinney local use tax that will be due on direct materials for the existing undeveloped lots will be roughly \$164,000.
- Under the terms of the proposed Chapter 380 agreement and for Landon’s existing undeveloped lots / land, McKinney would receive:

Use Tax Recipient - City	For Current 150 Lots	Estimate with 750 Lots
.2% of City Use Tax	\$16,400	\$82,000
.5% of EDC Use Tax	\$41,000	\$205,000
.5% of CDC Use Tax	\$41,000	\$205,000
Total City Receipts	\$98,400	\$492,000
Use Tax Landon Homes		
.8% of the City Use Tax	\$65,600	\$328,000

BOARD OR COMMISSION RECOMMENDATION:

- N/A