

The Texas Economic Development Sales Tax

A Primer for Local Officials

2019 Update

Background

The economic development sales tax was created in 1989 to give smaller Texas communities the financial resources to create top-flight economic development programs. Today, the tax is the undisputed workhorse of local economic development efforts, serving as the backbone of economic development programs in more than 600 communities and 700 economic development corporations (EDCs) across the state.

During the 2019 legislative session, the TEDC once again successfully advocated against bills that would have eroded the main purpose of the economic development sales tax -- that is to help create primary jobs and enhance the overall economic vitality of communities.

Recent Changes to the Economic Development Sales Tax

HB 1588 by Rep. Will Metcalf and its companion bill, SB 450 by Beverly Powell, changed the due date for an economic development corporation's annual report to be filed with the Texas Comptroller from February 1 to April 1.

The TEDC successfully advocated against **HB 1221** by Rep. Patterson which would have greatly expanded the definition of "project" and authorized the Type A and Type B corporations to use their funds for general infrastructure and projects related to public safety. The bill also created a section for expenditures to pay for improving public safety facilities, public safety equipment and first responders.

In the nearly 30 years since the economic development sales tax was enacted, the legislature has resisted efforts to expand the law to non-economic development purposes.

With the passage of HB 157 in the 84th Texas Legislative Session, cities have the ability to structure their Type A and Type B sales tax to meet the needs and desires of how to fund their municipal government and economic development programs, thereby rendering the 86th Legislative Session HB 1221 moot. As evidenced in the annual reports filed by the Type A and B corporations with the Texas Comptroller, many EDCs already fund general infrastructure projects that support economic development. In 2017 EDCs funded over \$300 million in infrastructure projects.

Key Terminology

Economic Development Corporations (EDCs) are legal entities with the statutory authority to spend economic development sales tax dollars. The EDCs are city-chartered and governed by a city-appointed board of directors. EDCs are referred to as either "Type A" or "Type B" depending on the type of economic development sales tax uses approved by the local voters.

Chapters 501-501, Local Government Code is the section of the Texas law that contains the rules governing the uses of the economic development sales tax, including eligible uses of revenues and procedures that must be followed to enact the tax.

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1979 Development Corporation Act passed authorizing cities to create economic development corporations

1989 4A tax authorized to provide funding source for recruiting and retaining manufacturing and industrial projects.

1991 4B tax authorized for broader community development projects.

1997 State reporting requirement enacted. 4A corporations authorized to undertake 4B projects with voter approval.

1999 Allowable 4A and 4B projects expanded to include targeted infrastructure, job creation and retention, job training, and educational facilities.

2001 R&D facilities added as eligible projects. Training requirements established.

2005 Restrictions on retail incentives removed for certain communities. Certain sewer utilities, site improvements and military projects added as eligible projects. Call centers added to definition of primary jobs.

2007 Light or commuter rail, or motor buses added to eligible projects. Hangers, airport maintenance and repair and air cargo facilities, related infrastructure located on or adjacent to an airport added to eligible 4B projects.

2009 Statute re-codified into Local Government Code, effective 4/1/09.

2015 HB 157 passed authorizing a city to hold an election to reallocate sales tax revenue within the two percent local sales tax cap.

2019 Deadline to file annual reports with the Texas Comptroller changed to April 1.

Pursuant to the economic development sales tax law, most Type A projects must create or retain PRIMARY JOBS. Exceptions to this rule include business airports, port-related facilities, job training classes, career centers and certain infrastructure improvements that promote new and expanded business enterprises.

The economic development sales tax statute defines a PRIMARY JOB as a job: (1) available at a company for which a majority of the products or services of that company are ultimately exported to regional, statewide, national, or international markets, infusing new dollars into the local economy; and (2) included in one of the following sectors of the North America Industry Classification System (NAICS).

Eligible NAICS Codes

111	Crop Production
112	Animal Production
113	Forestry and Logging
11411	Commercial Fishing
115	Support Activities for Agriculture and Forestry
211 to 213	Mining
221	Utilities
311 to 339	Manufacturing
42	Wholesale Trade
48 and 49	Transportation and Warehousing
51	Information, excluding movie theaters (51213) and drive-in theaters (512132)
523-525	Securities, Commodity Centers, and Other Financial Investments and Related Activities; Insurance Carriers and Related Activities; Funds, Trusts and Other Financial Vehicles
5413, 5415, 5416, 5417 and 5419	Scientific Research and Development Services
551	Management of Companies and Enterprises
56142	Telephone Call Centers
92140	Correctional Institutions
928110	National Security

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Type A Eligible Projects

- Land, buildings, equipment, facilities, improvements, and expenditures that are for the creation and retention of primary jobs and suitable for the development, retention, or expansion of the following types of projects: manufacturing, industrial, research & development, recycling, small warehouses, distribution centers, regional or national corporate headquarters, closed or realigned military bases, and primary job training facilities by higher education institutions
- Job training classes and career centers (no primary job requirement)
- Business airport facilities and port-related facilities
- Clean-up of contaminated project sites (with a special election and specific ballot language)
- Infrastructure assistance to retail or commercial projects
- Business-related sewer utilities and site improvements
- Beach remediation in Gulf communities required or suitable to promote or develop new or expanded business enterprise
- Projects designed to attract new military missions, prevent the closure of existing missions, and redevelop a closed or realigned military base
- General airport facilities for communities located 25 miles from the US/Mexico border only
- Light rail, commuter rail, or motor buses
- Type B projects with voter approval
- The City of Port Arthur is authorized to use the tax on certain general infrastructure, job training and university housing projects
- Ownership of a certain project based in Hidalgo County

Type B Eligible Projects

- Everything authorized under Type A, including retail and commercial projects with the same restrictions
- Water supply facilities (with a special election and specific ballot language)
- Projects that improve a community's quality of life, including parks, professional and amateur sport and athletic facilities, tourism and entertainment facilities, affordable housing, and other improvements or expenditures that promote new or expanded business activity that create or retain primary jobs.
- Projects designed to attract new military missions, prevent the closure of existing missions, and redevelop a closed or realigned military base.
- Sewer or solid waste disposal facilities in Hidalgo County
- Direct incentives for retail in communities with fewer than 20,000 residents and certain land-locked cities
- Hangers, airport maintenance and repair facilities, air cargo facilities, related infrastructure located on or adjacent to an airport facility
- Airport facilities provided that the eligible municipality enter into an approved development agreement with an entity that acquires a leasehold or other possessory interest from the economic development corporation
- Rail ports, rail switching facilities, marine ports, and inland ports

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The Economic Development Sales Tax: Working for Texas

The economic development sales tax is the state's largest and most effective local revenue source for economic development. The best way to protect the tax for years to come is to use it with caution, care, and common sense.

The Texas Economic Development Council (TEDC) will continue to advocate, educate, and inform economic development professionals, local officials, and lawmakers on developments related to the tax, including best practices. The TEDC will continue to offer state-mandated training for local economic development officials, which provides the tools and knowledge needed to develop and implement effective economic development programs.

For More Information About the Economic Development Sales Tax

The Texas Municipal League (TML) publishes an Economic Development Handbook. This comprehensive document provides a legal and technical overview of Texas state and local economic development programs, including an extensive section on the economic development sales tax. Please visit <https://www.tml.org/185/Economic-Development-Handbook-2017>.

The Comptroller of Public Accounts (<https://comptroller.texas.gov>) provides extensive information on the economic development sales tax, links to relevant statutes, and a link to the online mandatory annual expenditure reporting form.

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