

To the Mayor and Members of the City Council**February 15, 2022**

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**SUBJECT: OVERVIEW OF ECONOMIC DEVELOPMENT CORPORATIONS AND PROPOSED CREATION OF ECONOMIC DEVELOPMENT FUND**

The use of sales tax for economic development purposes and the creation of Economic Development Corporations has been one of the most popular tools used by cities to promote economic development activities for decades. Since the authorization for the local option tax took effect in 1989, more than 586 cities in Texas have levied an economic development sales tax. These cities have cumulatively raised in excess of \$573 million annually in additional sales tax revenue dedicated to the promotion of local economic development. Of these cities, 101 have adopted a Type A economic development sales tax, 367 cities have adopted a Type B economic development sales tax, and 118 cities have adopted both a Type A and a Type B sales tax.

In 1979, the Texas Legislature passed the Development Corporation Act of 1979 which allowed a municipality to create nonprofit development corporations that could promote the creation of new and expanded industry and manufacturing activity within the municipality and its vicinity. The development corporations operated separately from the municipalities, with boards of directors that would oversee their efforts. In 1989, the Texas Legislature amended the Act by adding Section 4A, which allowed for the creation of a new type of development corporation. The legislation provided that a Section 4A development corporation could be funded by the imposition of a local sales and use tax dedicated to economic development.

The proceeds of the Section 4A sales tax were dedicated by statute to economic development projects primarily to promote new and expanded industrial and manufacturing activities. This authority, known as the Section 4A economic development sales tax, was generally available to cities that were located within a county of fewer than 500,000 and that had room within the local sales tax cap to adopt an additional one-half cent sales tax.

In 1991, the Legislature authorized the Section 4B sales tax. This legislation authorized a one-half cent sales tax to be used by certain cities to promote a wide range of civic and commercial projects. In 1993, the Texas Legislature broadened the availability to any city that was eligible to adopt a Section 4A sales tax. In other words, most cities in a county of less than 500,000 could adopt either the Section 4A or the Section 4B sales tax if they had room in their local sales tax cap. As of 2020, at least 586 cities have either a Section 4A or a Section 4B sales tax for economic development.

Due to our population size, Fort Worth was not eligible to participate in the creation of a 4A/4B sales tax for economic development purposes. Historically, any economic development incentives provided to a project have been based on the new incremental taxes that the project generates for the City. Therefore, no upfront reductions in expenses could be provided to incent a project to locate in Fort Worth. Several other large cities face this same issue and have utilized a variety of tools including bond issuance to establish an economic development fund that could compete with the 4A/4B communities across the State.

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In 2020, the City of Fort Worth took steps to develop an Economic Development Initiatives Fund (EDIF) through the sale of land held by the Local Development Corporation. This property was not originally purchased with taxpayer dollars but rather was provided to the LDC several decades ago from the Fort Worth Chamber. A portion of those proceeds, totaling \$4.9 million were dedicated from the land transaction to initiate the fund. An additional allocation of \$1.0 million was provided by the LDC in 2021 from those same sale proceeds. In addition, the City Council included an allocation of \$2.0 million in the FY22 budget as an ongoing funding source for the program raising the overall fund balance to \$7.9 million of which just over \$2.0 million has been utilized to attract corporate recruitment clients. The majority of the current fund came from the one-time land transaction and no additional funds outside of the annual \$2.0 million budget allocation are anticipated.

As a comparison to other cities within the metroplex, the City of Dallas has allocated \$40.0 million in a bond package for economic development purposes as well as utilizing \$7.0 million in ARPA funding over a three-year period to fund the creation and operation of a new economic development corporation. The City of Arlington also recently established a new economic development corporation from a sales tax referendum that is estimated to bring in \$17.0 million annually to the organization. The table below highlights the level of economic development funding from municipalities across the State that we typically compete against for recruitment projects.

Municipality	Estimated FY22 Annual Funding	Economic Development Corporation?
Allen	\$11.0 million	Y
Arlington	\$17.0 million	Newly created
Austin	\$10.0 million	Hybrid
Dallas	\$2.4 million*	Newly created
Irving	\$3.6 million	Y
Fort Worth	\$2.0 million	N
Frisco	\$27.0 million	Y
McKinney	\$17.8 million	Y
Plano	\$9.4 million	Y

** Not including the \$40.0 million bond allocation*

We are also competing against other cities across the country that have significant funding for economic development purposes including Atlanta (approximately \$60.0 million annually) and Oklahoma City (approximately \$16.0 million annually). At the January 4, 2022 presentation on the Economic Development Strategic Plan Update, staff noted that one of the key policy recommendations from the plan was to strengthen our competitiveness by raising the level of our incentive fund. Staff proposed to Council that upon termination of our Tax Increment Financing (TIF) districts, we could allocate a portion of the tax rate from those new revenues going to the

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City into our EDIF pool of funding, while still providing tax rate relief to our citizens. This new potential annual allocation of funding, along with the \$2.0 million committed during the budget process, could raise the annual fund balance to \$15.0 million - \$18.0 million over the next 5 years, which would make us more competitive among our competing municipalities. These are new revenues flowing to the City, so there would be no financial impact to existing operations by dedicating funds from the expiring TIF's for this purpose.

An M&C will be placed on the February 22, 2022 agenda for City Council consideration with the recommendation to accept with Economic Development Strategic Plan Update along with the recommendation on strengthening the Economic Development Fund after the termination of Tax Increment Financing Districts. Staff will bring back specific policy recommendations on how the proceeds from the fund could be utilized for City Council approval. Acceptance of the recommendation does not bind a future Council as any allocation to the fund would have to be approved through the annual budget process. However, staff's intent is to provide long-term policy guidance and recommendations to City Council with respect to fund contributions for purposes of fund forecasting and program administration.

For further questions, please contact Robert Sturns, Director of the Economic Development Department, at 817-392-2663.

David Cooke
City Manager