

**Municipalities rely on a number of sources of revenue to support the services they provide their citizens. This guide is meant to help city officials understand common sources of funding, and assist with ideas for new sources of funding.**

### **Property Taxes**

For most Texas cities, property taxes are the primary source of revenue. Most cities with 5,000 people or less are limited to \$1.50/\$100, and those with 5,001 or more are limited to \$2.50/\$100.

The city's rate is set by ordinance each year before September 30 by the city council (not by the voters). The rate is determined by establishing the rate necessary to pay down the debts of the city that are to be repaid from property taxes, plus the amount needed for maintenance and operations.

### **Sales Taxes**

A city can, by election of the voters, adopt a 1% sales tax for the general fund. The city may also adopt, by election, optional additional sales taxes in fractions of a percent (up to 1%) for dedicated purposes, including:

- Crime Control
- Property Tax Relief
- Street Maintenance
- Economic Development

There is a 2% cap for the combined rate of all local governments. That includes Counties, Emergency Services Districts, and any other taxing entity besides the State.

### **Debts & Obligations**

*Anticipation notes:* An anticipation note is a debt instrument that a city may sell to finance construction of public works, the purchase of supplies, land, and rights-of-ways for public works, or to pay professional services, operating expenses, or to cover cash flow deficits.

*Bonds:* Bonds are a debt instrument through which the city promises to pay the bondholders a specified amount of interest for a specified length of time, and to repay the loan on the expiration date. Bonds are typically repaid by a pledge of city property taxes (General), a pledge of revenue from an income-producing facility, such as a utility (Revenue), or by a new bond that replaces or pays off outstanding bonds (Refunding). General obligation bonds need to be approved by voters, but revenue bonds do not.

### **Franchise Fees**

Cities can charge utilities for use (rent) of streets, utility poles, and other public land necessary to operate the utility. Franchise fees can be charged to gas, water, sewer, telecommunications, and electric utilities that occupy the public right-of-way. Some cities choose not to charge the franchise fee, as it can be passed through directly to the consumer.

### **Municipal Court**

Cities retain the revenue from fines for ordinance violations, traffic offenses, and state law Class C Misdemeanors collected in municipal court. However,

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cities are prohibited from collecting more than 30% of their revenue from traffic fines.

While most court costs are set with a significant portion going to the state, there are a number of fees that can be charged to offset the cost of operating a municipal court. For example:

- Building Security Fees: CPC §102.017
- Child Safety Fees: CPC §104.014
- Court Technology Fees: CPC §102.172
- Credit Card Fees: CPC §132.003
- Juvenile Case Manager Fees: CPC §102.0174

Law enforcement costs can be offset by felony forfeitures pursuant to CPC Ch. 59.

### Usage Related Fees

Some cities finance infrastructure by allocating specific assessments against the properties that benefit from the infrastructure.

- Drainage Fees: LGC §552.041
- Impact Fees: LGC §395.001
- Street Assessments: Transp. §311.095

A city can also charge people fees for use of city services, thus recouping some of the cost of providing the services.

- Internet Payment & Access Fees: LGC §132.007
- Public Information Charges: Gov't §552.261
- Park & Venue User Fees
- City Owned Utility Fees
- Rental payments
- Administrative fees for plats, permits, variances, or other authorizations

### Economic Development

With the adoption of various amendments to the Texas Constitution, economic development is now defined as a legitimate use for public funds. There are a number of statutes that allow cities to use sales and property taxes to finance economic development projects. For example:

- Hotel Occupancy Tax: Tax §351.002
- Municipal Development District (MDD) Sales Tax: LGC §377.101
- 4-A/4-B Sales Tax: LGC Ch 504 & 505
- Special Improvement District Fund Tax: LGC §372.021
- Chapter 380 Agreement: LGC §380.002
- Municipal Management District (MMD): LGC §375

### Miscellaneous

- Alcoholic Beverage Permit: TABC §11.38
- Cemetery Tax: H&S §713.006
- Coin-operated Machine Tax: Occ §2153.451
- Police Education Fund: Occ. §1701.157(a)
- Gifts: cities can accept money in the form of donations or grants, with the understanding that once given to the city it is treated like any other city asset and can only be spent in accordance with the budget
- Park Concessions: LGC §331.006
- Venue Tax: LGC §334.151

-DISCLAIMER-

This is an abbreviated guide. It is intended only as an *educational* resource and in no way constitutes legal advice. If you have any questions about a specific fee or tax, contact your city attorney.

**BOJORQUEZ**  
LAW FIRM, PLLC  
TexasMunicipalLawyers.com