

TEXAS ECONOMIC DEVELOPMENT COUNCIL

# The Type A and Type B Economic Development Sales Tax

A Discussion with the Seguin City Council

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# About the TEDC...

## Who We Are



Established in 1961



Approximately 930  
members  
representing over  
600 communities



Largest state  
association of  
economic developers  
in the nation



Governed by a  
30-member Board  
and a 9-member  
Executive Committee

# About the TEDC...

## What We Do



**EDUCATION/  
PROFESSIONAL  
DEVELOPMENT**



**RESOURCES/  
PUBLICATIONS**



**ADVOCACY**



**CONFERENCES  
/ NETWORKING**



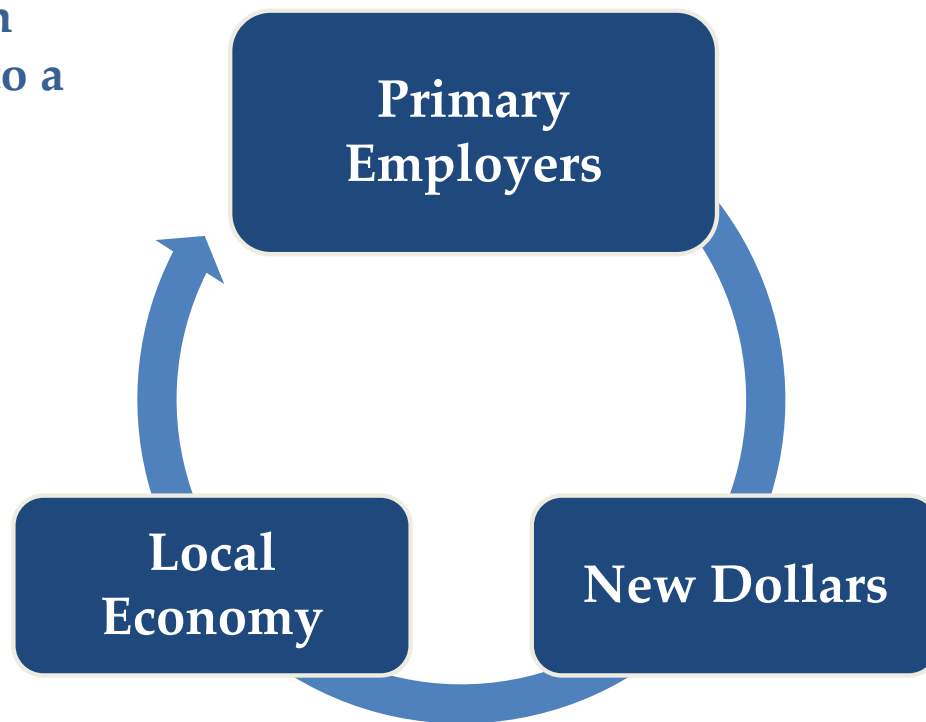
**AWARD  
PROGRAMS**

## Our Conversation Today Will Focus On...

- How Does Economic Development Work
- What are Primary Jobs, the Multiplier Effect and Non-Primary Jobs
- An Overview of Type A and Type B Corporations
- Comparing Type A & B EDCs

# How Does Economic Development Work?

...it is the process by which new dollars are infused into a local economy by primary employers...



# What are Primary Jobs?

Primary jobs produce or sell their products or services on a regional, state, national or international basis.

Manufacturing



Professional Services



Distribution & Warehouse



# Examples of Seguin's Primary Employers



**CATERPILLAR**



vitesco  
TECHNOLOGIES



**Tyson**

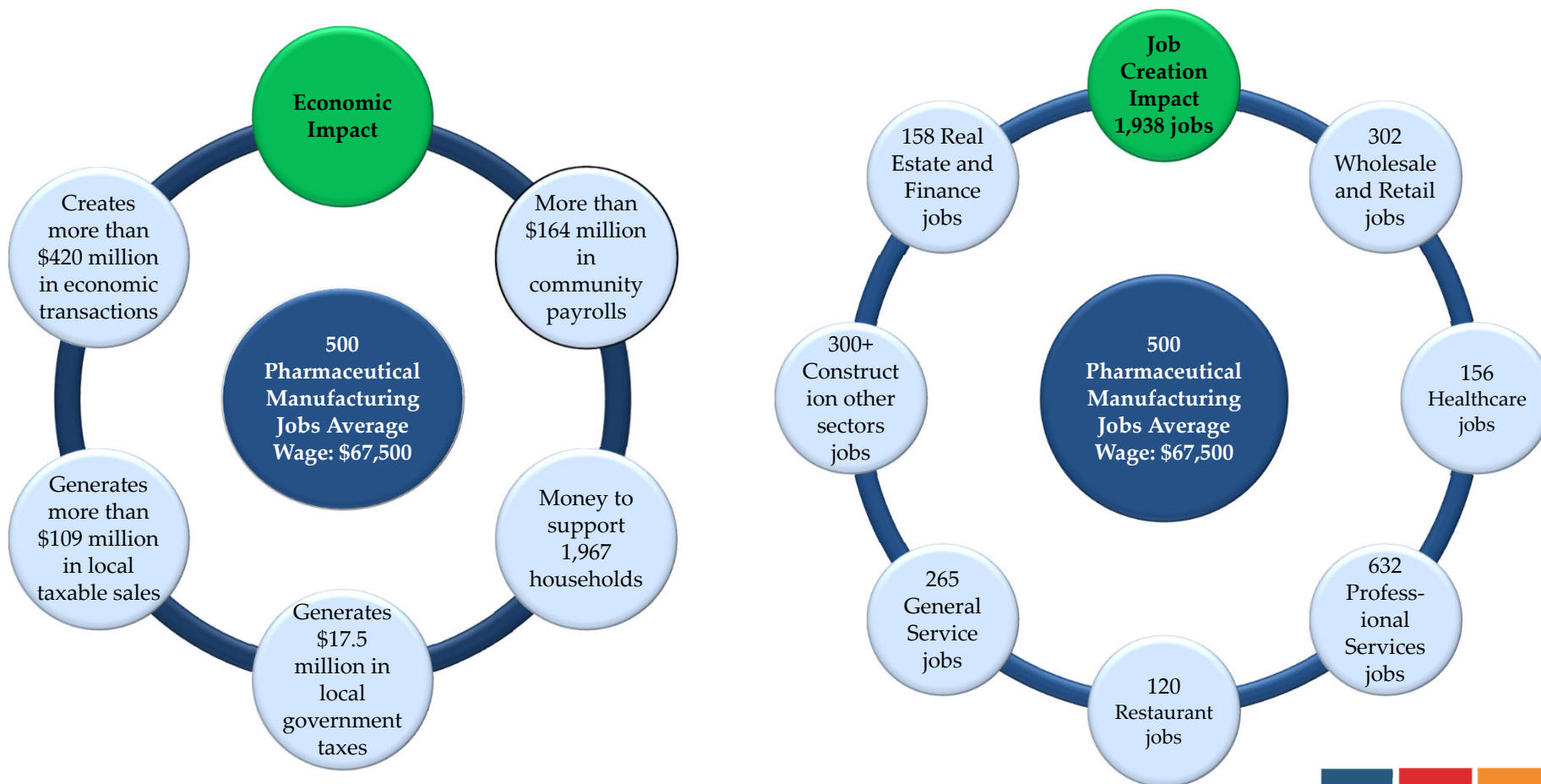
## In 2003, the Texas Legislature required most Type A or Type B projects to create or retain primary jobs

### What is a Primary Job according to the Texas Local Government Code?

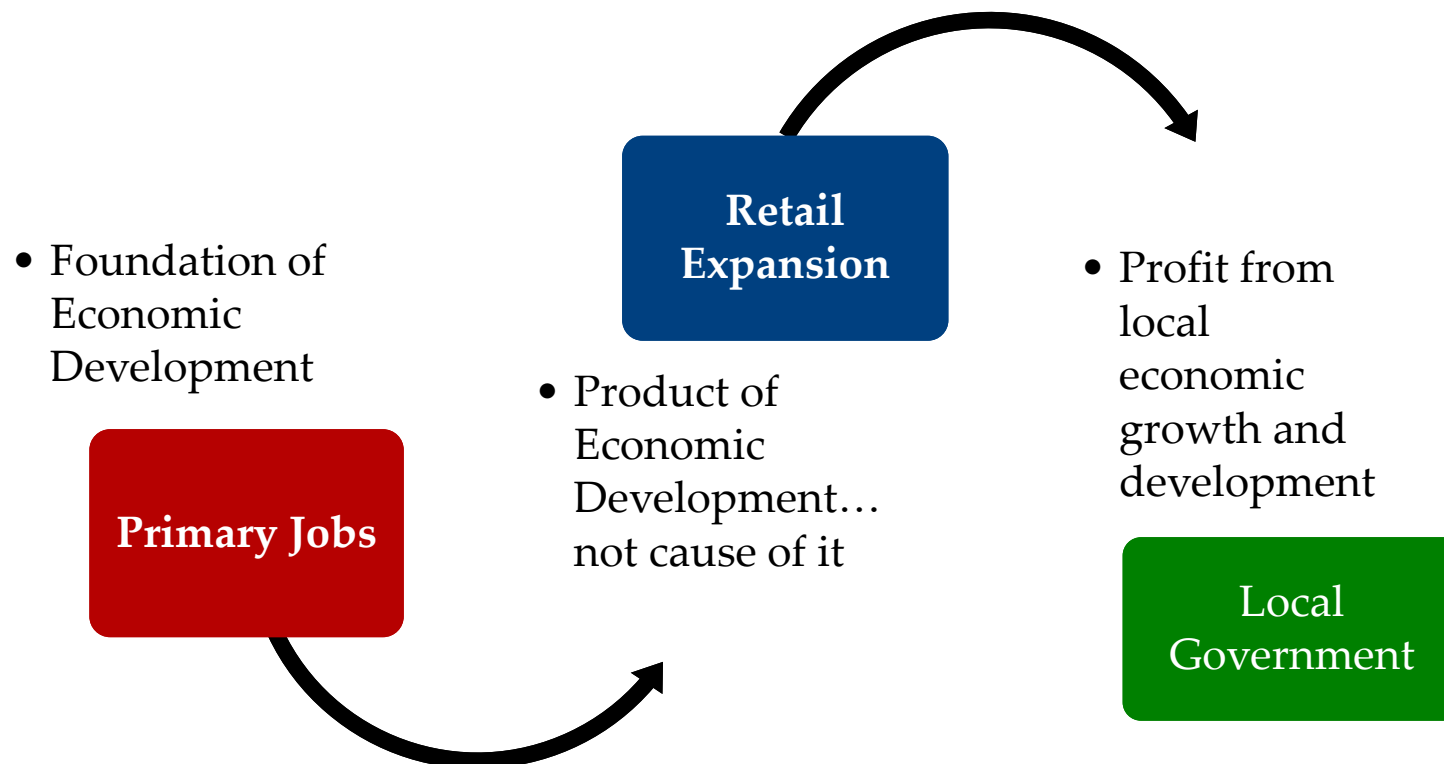
The term **PRIMARY JOB** means

- a job that is... 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
- is included in one of nearly sixteen (16) NAICS sector codes

# Primary Jobs Drive the Multiplier Effect



# Primary Jobs Stimulate the Flow of Money



# What Are Non-Primary Jobs

Non-Primary jobs are jobs created in the local area and are the result of a certain level of economic development.

Grocery Stores



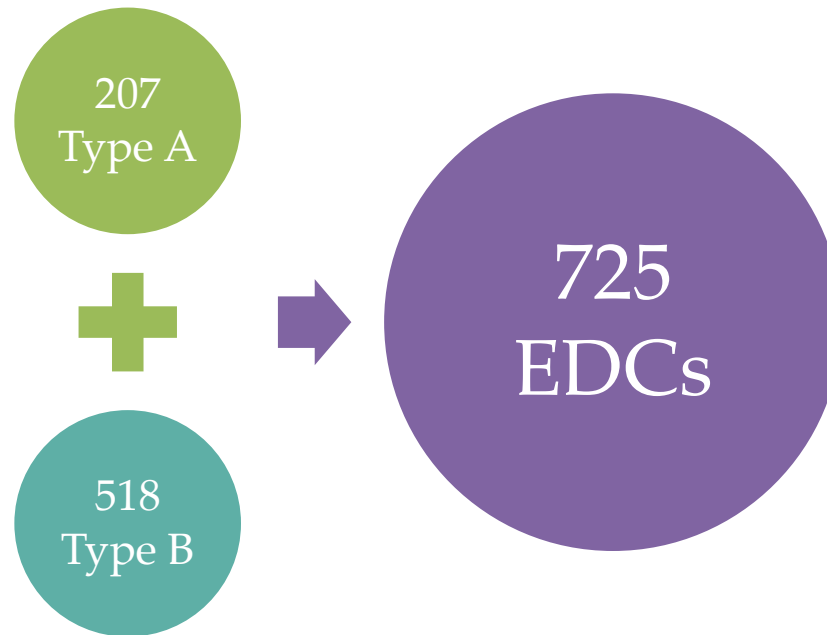
Service Stations



Restaurants



# In Texas, Economic Development is a Decidedly Public Enterprise



Although there are more Type B EDCs, 72 % are small communities of 20,000 population or less

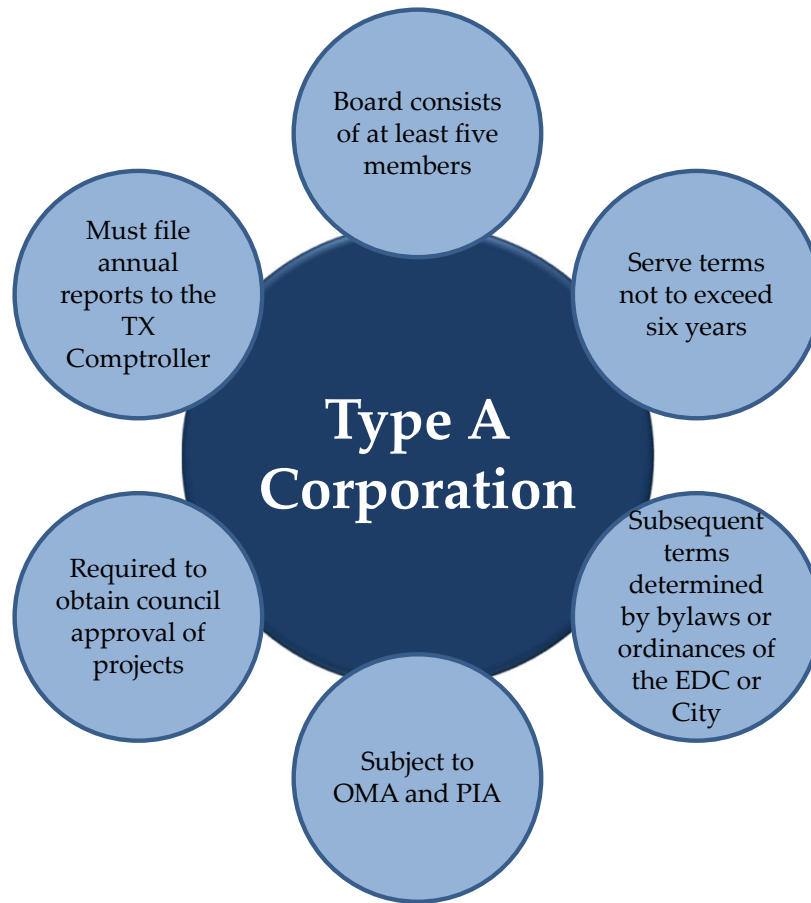
# History of Type A (formerly 4A) Legislation



In 1989, legislative leaders, with the input of the TEDC, (then TIDC) envisioned a tax that would help Texas communities ramp-up their economic development efforts.

- Originally, the tax was intended to help small to medium-sized Texas cities compete for new business investment
- Type A was designed to create primary job economic development organizations
- Since 1989 the ED Sales Tax Law has been amended 70 times; however, only 10 times since 2005.

# An Overview of Type A Corporations



# Type A Corporations CAN Fund...

Currently, Type A corporations may fund the following projects which must create or retain primary jobs



Manufacturing and industrial facilities



Distribution centers



Research and development facilities



Small warehouse facilities



Military facilities



Primary job training by institutions of higher education



Recycling facilities



Regional and national corporate headquarters [Tex. Loc. Gov't Code §§ 501.101 and 504.103.]

# Type A Corporations CAN Fund...

Currently, Type A corporations may fund the following projects which must create or retain primary jobs



Job training classes



A general aviation business airport which is an integral part of an industrial park



Certain targeted infrastructure



Port related facilities



Career center not located within taxing jurisdiction or a junior college district



Development, improvement, maintenance commuter rail, light rail, or motor buses

# Other Permissible Type A Projects?

## Sec. 501.103. Certain Infrastructure Improvement Projects.

In this subtitle, “project” includes expenditures that are found by the board of directors to be required or suitable for infrastructure necessary to promote or develop new or expanded business enterprises, limited to:



1) streets and roads, rail spurs, water and sewer utilities, electric utilities, or gas utilities, drainage, site improvements, and related improvements;



(2) telecommunications and Internet improvements; or



(3) beach remediation along the Gulf of Mexico.  
[Tex. Loc. Gov't Code § 501.103.]

# Type A and Retail....



**If a Type A corporation wishes to assist with retail development, the Type A corporation may provide economic development assistance in the following areas:**

- Section 501.103 – targeted infrastructure
- Section 504.105 – promotional expenditures
- Section 501.162 – job training classes

# Type A Corporations CANNOT Fund...



**TRANSPORTATION**



**SOLID WASTE**



**GENERAL  
WATER & SEWER  
SERVICES**



**AIR & WATER  
POLLUTION  
CONTROL**



**DIRECT  
FINANCIAL  
INCENTIVES FOR  
RETAILERS/CIVIC  
CLUBS/SERVICE  
ORGANIZATIONS**



**TAX  
ABATEMENTS,  
380  
AGREEMENTS**

# History of Type B (formerly 4B) Legislation



The Texas legislature created Type B corporations in 1991 which broadened the scope beyond traditional economic development approaches to community development purposes.

# Type B Corporations CAN Fund...



EVERYTHING Type A EDCs can fund

Water Supply facilities with a special election

Quality of Life Improvements



- Parks
- Professional and amateur sport and athletic facilities
- Tourism and entertainment facilities
- Affordable housing
- Other improvements or expenditures to promote new or expanded business activity or retain primary jobs

# Type B Corporations CANNOT Fund...



Build Learning Centers (libraries)



Municipal Buildings



K-12 Educational Facilities



If over 20,000 population, provide direct incentives to retail



## Some Observations About Type B EDCs...



Few Type B EDCs are strong players in traditional economic development initiatives

As a Type B EDC, they are subject to the pressures of doing non-economic development type projects or are tightly controlled at the city level

## A Few Strong Type B EDCs include...

### New Braunfels

- Type B EDC shares some proceeds to fund traditional ED efforts with Chamber of Commerce

### San Angelo

- Approx. 30% of funds go to traditional ED efforts and are implemented by their Chamber of Commerce

### Conroe

- Operates in a traditional sense
- Much of its revenue goes to infrastructure to support primary job development

# Comparing Type A & Type B EDCs

Type A	Type B
A corporation which administers the sales tax	A corporation that administers the sales tax
Has Articles of Incorporation and Bylaws	Has Articles of Incorporation and Bylaws
Boundaries = City Limits	Boundaries = City Limits
Tax can be 1/8, 1/4, 3/8 or 1/2 of sales tax	Tax can be 1/8, 1/4, 3/8 or 1/2 of sales tax
<b>5 Member Board</b> – appointed by City Council	<b>7 Member Board</b> – appointed by City Council

# Comparing Type A & Type B EDCs

Type A	Type B
All expenditures authorized require approval by City Council	All expenditures authorized require approval by City Council
Quorum – Majority of entire membership	Quorum – Majority of entire membership
<b>Public hearings are not required</b> 2 separate readings are required by City Council if <b>project expenditure is \$10,000 or more</b>	<b>At least one public hearing is required</b> unless project is defined under Subchapter C of 501 of the LGC and <b>if city pop. is under 20,000</b>
60 day waiting period to expend funds following first public notice of a Type B project only	60 day waiting period to expend funds following first public notice

# Comparing Type A & Type B EDCs

Type A	Type B
<b>For economic development purposes</b>	<b>For economic development and community development</b>
Projects that create or retain primary jobs plus certain targeted infrastructure to promote new or expanded business	Projects that create or retain primary jobs plus certain targeted infrastructure to promote new or expanded business and projects to <b>enhance sports, entertainment, tourist, convention and park purposes and events</b>

# Why Local Control is Important for Economic Development



The degree to which local leaders, institutions, and governing bodies can make independent or autonomous decisions about the governance and operation of their community and its citizens.

# The Texas Economic Development Control is PRO



**BUSINESS**



**PUBLIC  
INVESTMENT**



**LOCAL CONTROL**

# Questions? Comments...

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