



MEMORANDUM

To: Mayor Don Keil
Sequin City Council

Cc: Douglas G. Faseler, City Manager

From: Josh Schneuker, Director of Economic Development

Date: January 8, 2018

Re: Chapter 380 Agreement with Perry Homes, LLC.

City staff has been in dialogue with a consultant working on behalf of Perry Homes regarding an approach through a Chapter 380 Agreement that would generate new local sales tax revenues for the City of Sequin. Perry Homes currently pays state and local sales taxes to suppliers on "directly purchased building materials" such as lumber, trusses, doors, windows, brick, stone, appliances, hardware, etc. Texas law requires suppliers to collect and remit local sales taxes where they have "places of business" and receive orders; not where they deliver materials. The City of Sequin currently receives very little, if any, of the local sales tax for building materials that Perry Homes incorporates into new homes in Sequin, since those taxes are paid based on suppliers' places of business.

Per the terms of this proposed agreement, Perry Homes would partner with the City of Sequin and purchase building materials using a Texas Direct Payment Permit. This permit allows a Texas company to selectively self-assess and pay their own "use taxes" on purchases of taxable materials according to the location where the materials are "first used", as opposed to paying local sales taxes to suppliers according to the supplier's "place of business". Subject to Perry Homes purchasing building materials using a Texas Direct Payment Permit, and continued compliance of all terms within the proposed agreement, the City would agree to provide Perry Homes with an economic development grant in an amount equal to 75% of the City of Sequin's 1% Sales and Use Tax Receipts. The total sales tax rate for the City of Sequin is 1.5%. Of that rate, 0.25% is dedicated to Property Tax Reduction and 0.25% is dedicated to the Type A Economic Development Corporation. The 0.5% Sales Tax for Property Tax Reduction and Economic Development cannot be a Grantor in this agreement, so the Perry Homes economic development grant in an amount equal to 75% is shared from the remaining 1% of the City's Sales and Use Tax Receipts. Through the agreement both entities are essentially receiving a 50% share of the total sales tax collected, as Property Tax Reduction and the Type A Economic Development Corporation are paid in full without any grant required. The proposed agreement would be in place for a 10-year period, commencing February 1, 2018.

No grants are required to be paid to Perry Homes until the company self-assesses and pays state and local use taxes on behalf of the City of Seguin on a monthly basis and then sends semi-annual grant Requests to the City after the end of June and after the end of December (i.e. twice per year). Perry Homes is also required to include up to 6 confidential monthly use tax returns to the City, plus an invoice that computes the grant payment due on the "net local tax receipts" before any grant is due. Perry Homes will only compute grants due on the "net local tax" revenue received by the City; after reduction of the State's 2% administrative fee. Using all of this information, the local taxes received by the City from the Comptroller can be verified with amounts paid in Perry's Texas Direct Payment Permit tax returns. Grants are due only after all new local tax revenues have been received and verified.

If the City of Seguin:

1. Receives no local use taxes for a semi-annual period from Perry Homes or if,
2. Perry Homes sends no grant request to the City for a semi-annual period then,
3. No grant payments are due to Perry Homes, which results in no risk for the City to pay a grant unless local tax revenues have been received and all documentation has been provided. If Perry Homes does not perform, no grants are due.

Perry Homes has entered into identical agreements with a number of other cities such as Allen, Boerne, Frisco, Georgetown, and Rockwall. This approach appears to be a "win-win" scenario and requires no "up-front" or ongoing cost for the City. Staff is recommending approval of the resolution authorizing the City Manager to enter into a Chapter 380 Economic Development Agreement with Perry Homes, LLC.