


MEMORANDUM

To: Mayor and City Council Members

From: Douglas G. Faseler 
City Manager

Subject: Adoption of Sales Tax on Residential Gas and Electricity

Date: June 22, 2018

On April 1, 1968, the majority of the qualified voters of the City of Seguin voted to adopt a local sales tax and to use those revenues for the benefit of the City. Initially sales tax was applied to various items including residential gas and electric sales.

During the 1979 legislative session, the tax code was revised which exempted the taxation of receipts from the residential use of gas and electricity. However, the code also allowed cities that had adopted a local sales tax prior to October 1, 1979 the ability to re-impose local sales and use taxes on receipts from residential use of gas and electric. Based upon this allowance, many City Councils throughout the State voted to re-impose the application of sales tax on residential gas and electric customers immediately. At that time, the City of Seguin did not re-impose sales tax on residential gas and electric customer. However, commercial and industrial customers do pay the sales tax. Cities who adopted local sales tax effective October 1, 1979 or later cannot impose tax on residential use of gas and electricity. Since the City of Seguin initially adopted a local sales tax in 1968, is it eligible to re-impose the assessment of sales tax on residential gas and electric sales.

Presently there are currently 777 cities throughout the State that impose a sales tax on the sale of residential gas and electricity. Please see the attached list of cities. In this area, the cities of San Marcos, Schertz, New Braunfels, Luling, and Lockhart, currently impose a sales tax on the sale of residential gas and electricity. Annual projected revenues for the City of Seguin derived from imposing sales tax on these services are as follows:

	<u>City of Seguin</u>	<u>GVEC</u>	<u>Center Point</u>
General Fund Local Sales Tax	\$ 90,939	\$ 43,803	\$ 17,562
Economic Development	\$ 22,735	\$ 10,951	\$ 4,390
<u>Property Tax Reduction</u>	<u>\$ 22,735</u>	<u>\$ 10,951</u>	<u>\$ 4,390</u>
Total	\$136,408	\$ 65,704	\$ 26,342

Based on the 1.5% sales tax allocation on residential gas and electric, an average household with usage of 1,100kwh will notice an increase of \$2.75 monthly. Total new sales tax revenues dedicated to the General Fund (GF) is estimated to be **\$228,455**. State and County sales tax would not be collected.

(Note: Staff is not proposing an increase in electric sales this year, and there has not been an increase in rates in several years.)

Should City Council decide to pursue this additional revenue source, staff would submit all necessary documentation to the State of Texas Comptroller's Office. Since the second reading of the proposed ordinance would be in July, it is likely that the tax would not start until January 2019.

Staff is available to answer any questions.