

How Cities Work



**Government We Need:
Safe Communities,
Essential Infrastructure,
Vital Services**

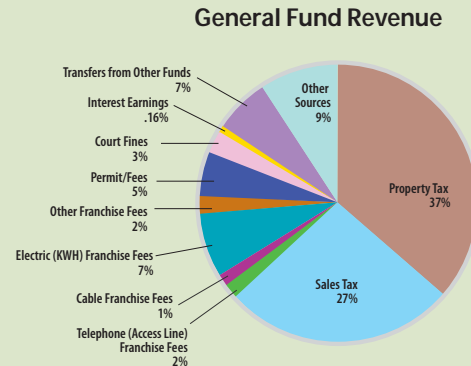


Where Do Texas Cities Get Their Money?



City government is where the rubber meets the road. Cities pave our streets, fight crime and fires, prepare us for disaster, bring water to our taps, take our trash away, build and maintain our parks—the list goes on and on. These services cost money. This article describes the sources of municipal revenue and expenditures.

A 2012 TML survey shows that municipal general fund revenue in Texas is made up of the following sources:



Conspicuously absent from this list is financial assistance from the state. This is unusual—most states provide direct financial assistance to cities in recognition of the fact that cities provide basic services on which the entire state depends.

Instead of revenue, Texas cities receive something equally important from the state—broad authority to govern themselves, including the authority to raise their own revenue. This local authority has worked to the benefit of cities and the state for many decades and should continue into the future.

Here's more information on each source of municipal revenue:

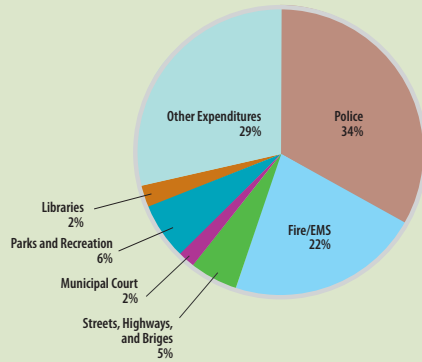
Property Taxes

Property taxes are the leading source of city revenue. Though crucial to city budgets, city property taxes make up just a fraction of a property owner's total property tax bill.

Most cities under 5,000 population have statutory authority to levy property taxes at a rate of up to \$1.50 per \$100 of assessed value. Most cities over 5,000 population have statutory authority to levy property taxes at a rate of up to \$2.50 per \$100 of assessed value. Despite this broad authority, the average city property tax rate was only \$.51 for tax year 2011.

City property tax levies are tied by law to fluctuating property tax values. As values increase, the city must adjust its rate or face potential rollback elections. In reality, such tax rollback elections are rare. City rates have held relatively

General Fund Expenditures



steady for years, both in terms of actual rates and in terms of total levy as adjusted for inflation and rising income.

Sales Taxes

Sales taxes are a major source of city revenue. Nearly 93 percent of Texas cities levy a basic one-cent city sales tax. The revenue can be used for any purpose other than payment of debt. Many cities, though not all, also impose additional sales taxes in varying amounts of up to one cent. These additional sales taxes are known as dedicated taxes, because their proceeds may be spent only for certain purposes. Some popular dedicated sales taxes include mass transit, economic development, street maintenance, property tax relief, and sports venue taxes. All city sales taxes, including the basic one-cent sales tax, require a local-option election of the citizens. Collection of sales taxes is performed by the Texas comptroller, who “rebates” the city share on a monthly basis. The comptroller retains a small portion of the city tax revenue to cover the state’s administrative costs.

Franchises

When utilities and other industries use city property to distribute their services, cities are permitted by law to collect rental fees, also known as “franchise” fees, for the use of public property. Franchise fees are calculated by various methods, depending on industry type.

Permits and Fees

Cities may collect fees for issuing permits for building construction, environmental regulation, and for other services. Because cities incur costs to regulate in these areas, the permit fees must be tied to the cost of providing the service.

Court Fines

A city that operates a municipal court may impose fines for violations of traffic laws and city ordinances. Maximum fines typically range from \$200 for traffic violations, up to \$2,000 for city ordinance violations relating to health and safety. Much of a city’s fine revenue offsets the

Did You Know?

Many people mistakenly believe that cities derive substantial general revenue from their courts. In reality, the first \$82 of most traffic tickets goes directly to the state. What’s left over, if any, can be used by the city. Unfortunately, city courts are increasingly being used as a backdoor revenue source for the state.

costs of law enforcement and operation of the municipal court system.

Interest Earnings

When a city invests its funds, it must closely follow the mandates of the Public Funds Investment Act. Because of the twin concerns of safety and liquidity, investment income is a relatively small source of city revenue.

Transfers from Other Funds

Many cities operate utilities and other optional services that generate substantial gross revenues. By law, the fees for such services must closely offset the cost of providing the service. In addition to the cost factor, cities are permitted to retain a reasonable “return,” which can then be transferred to the general fund. This return amounts to less than seven percent of overall city revenue.

Other Sources

City revenue can take various other forms, including user fees for some services, amusement taxes, and hotel occupancy taxes.

The Bottom Line

The state could put municipal revenue at risk in at least two ways. First, the state could increasingly look to cities for revenue to fund state programs. When a state provides direct financial assistance to its cities, such trading of revenue might be workable. Texas is not such a state. Texas cities receive virtually no direct funding from the state, and cannot afford to fund the state’s obligations. Second, the state could erode the statutory authority under which cities raise their own revenue. While cities are indeed subservient to the state, city officials hope that the respectful nature of the fiscal relationship between Texas cities and the state will continue for years to come. ★

Expenditures

Core city services like police, fire, and EMS account for the majority of expenditures in a survey conducted by TML. In addition, cities spend revenue on streets, municipal courts, parks, and libraries.



Reverse Intergovernmental Aid

The State of Texas, unlike almost all other states, provides virtually no financial assistance to its cities. State aid, defined as a grant made by the state to cities from revenue generated by the state, is practically non-existent in Texas. Research conducted by numerous entities over many years has shown this to be true. The most recent study, released in 2008 by the National League of Cities, found that only in West Virginia is state aid to cities lower than it is in Texas.

State aid flows readily in other states, particularly in populous states. For instance, it is not at all uncommon for states to share state gasoline tax revenue with cities or to split other sources of state general revenue with municipal governments.

While city officials in Texas have seldom asked for state financial aid, they are increasingly aware of the numerous ways in which they are compelled to share city-generated revenue with the state in what can be described as a system of *reverse* intergovernmental aid.

Of the numerous ways in which cities transfer revenue to the state, five stand out:

1. The state's charge for administering the municipal sales tax.
2. Fees levied on cities by the Texas Commission on Environmental Quality.
3. "Local participation" in the cost of building and improving the state highway system.
4. State fees imposed on municipal court convictions.
5. State agency fees that exceed the cost of regulation (e.g., Texas Fire Commission fees).

The State's Charge for Administering the Municipal Sales Tax

When a Texan purchases a product that is subject to the state and local sales tax, the merchant collects the entire tax due and remits it to the state comptroller. The comptroller, in turn, remits the local share back to the appropriate local government (city, metropolitan transit authority, county, and/or special district). For providing this service—and for performing other administrative, enforcement, and reporting duties—the comptroller deducts two percent of the local share of the sales tax and deposits that amount in the state's general revenue fund.

The two-percent fee is high compared to the same fee in other states. Many states charge one percent or less; five states impose no charge at all. In Texas, the two-percent fee generates more than **\$100 million** annually, of which cities pay close to **\$80 million**.

In mid-2008, TML undertook an effort to determine how much the comptroller's office spends annually to provide sales tax services to local governments. The comptroller's office informed TML that "(t)here can be no separate accounting of what costs are ultimately attributable to local tax administration that would not be arbitrary and potentially misleading." A TML committee was then formed to try to estimate the cost of collection to the state. The committee's estimate was at most \$27.7 million per year, far less than the \$80 million paid by cities, generating a "profit" of more than \$50 million to the state.

Texas Commission on Environmental Quality Fees

According to its Web site, the mission of the Texas Commission on Environmental Quality is "to protect our state's human and natural resources consistent with sustainable economic development," and the agency's goal is "clean air, clean water, and the safe management of waste."

One would think that this mission and set of goals would merit substantial funding from the state's general revenue fund. That's not the case. The TCEQ Web site reveals that the agency's revenue comes from the following sources:

State General Revenue	2.89%
Federal Funds	9.27%
Program Fees	86.38%
Other Sources	1.46%

Just who pays the "program fees" that constitute the lion's share of TCEQ revenue? To a great extent, cities do.

The agency imposes more than 40 different fees on cities; roughly 20 are related to water quality. The revenue from these fees is used to pay for the costs of regulating cities under either federal or state law or both. In other words, cities pay TCEQ to regulate them.

Of all the fees, the two that have the most impact on cities are the consolidated water quality fee (CWQF), which is imposed on wastewater treatment facilities, and the public health service fee (PHSF), which is paid by suppliers of public drinking water. The recent funding shortfall for state agencies meant that the TCEQ's water program fees

were insufficient to run the programs starting in the current biennium. The agency could either get more funding from the state's general fund via the state legislature, or increase program fees. The agency chose to increase program fees, and significantly increased both the CWQF and the PHSF. The annual income from cities for the TCEQ from these two fees alone is now expected to be:

CWQF	\$9.9 million
PHSF	\$13.9 million

The PHSF in particular was substantially increased. With the fee increase, the total annual income increased by more than \$15 million. Other fees paid by cities (the water quality permit application fee, stormwater permit fees, the solid waste disposal fee, and others) add considerable amounts to state coffers. **In fact, cities (through the payment of fees) generate more revenue for TCEQ than does the state's general fund.**

Some might say that the fee-dependent financing structure used by TCEQ is fair since cities receive a service for each fee they pay. However, when cities impose fees-for-service on other levels of government, the legislature often acts to prohibit or limit those fees.

For example, when the legislature prohibited the imposition of stormwater fees on public institutions of higher education, some lawmakers argued that it's unfair for one level of government to impose a fee on another level.

And when the legislature prohibited the imposition of municipal impact fees on school districts (unless a district agrees to pay the fee), the legislature's bill analysis stated that:

...impact fees place an undue burden on districts... payment of impact fees by school districts to cities amounts to a needless transfer of money among public entities and constitutes a de facto tax on school districts.

This statement is particularly ironic given that cities pay TCEQ fees and are not exempt from the state's 20-cent-per-gallon gasoline tax. "Public entities" (cities) are paying a state tax each time a police car or fire truck refuels.

Local Participation in State Highway Projects

The best way to describe "local participation" is to quote from a state document titled "Background and Need for Partnering." That document makes the case that the Texas Department of Transportation (TxDOT) faces a funding shortfall because growth in population, vehicle-miles per capita, and total vehicle miles have grown at faster rates than growth in the highway system and growth in revenue available for highway projects. Those trends, according to the report, will continue.

To help address this dilemma...

TxDOT continues to seek additional ways to fund the state transportation program. For years, TxDOT has partnered with local public agencies to make transportation improvements on state highways. This local participation has come in many forms, including provision of right-of-way, financial contributions, maintenance agreements and other forms... Cooperative partnering between state and local agencies will be needed to meet future transportation needs. TxDOT will depend on local and regional leaders to provide both leadership and commitment to help carry projects forward...TxDOT is currently suggesting to local agencies that they consider increasing their participation in TxDOT projects in order to expedite scheduling of locally desired projects. (Emphasis added.)

In short, "local participation" may become a "pay-to-play" system imposed by TxDOT on local governments that wish to see highway projects in their area move forward.

How much do cities annually contribute in local participation? In 2010, cities pitched in more than \$130 million in cash and much more in right-of-way donations and in-kind services. That's a 44-percent increase since 2007. In addition, the state gasoline tax paid by cities accounts for many more millions of dollars paid by cities for the state transportation system.

Here's the bottom line: In most states, the state government makes grants to cities to help those cities build and maintain city streets. In Texas, city governments transfer municipal revenue to the state to help pay for the state highway system.

State Fees on Municipal Court Fines (the "Traffic Ticket Tax")

Municipal courts in Texas collect funds on behalf of the state for a wide variety of state programs. These state programs range from the Criminal Justice Planning Fund to the Crime Victims' Compensation Fund. In most cases, the fees are imposed on persons convicted of any criminal offense. For these collection efforts, cities are generally allowed to keep some small amount of revenue as reimbursement for the costs incurred to collect the fees and remit them to the state.

Many city officials contend that state court costs adversely impact municipal courts in two ways. First, the state's court costs are complicated to administer. While cities can keep a small percentage of the costs as an administrative fee, that amount is not sufficient to reimburse the cities for the bookkeeping and administrative problems connected with this function. Second, when setting an appropriate fine for an offense, a judge must consider the fact that the defendant will also be paying state court costs. As a result, municipal fine revenue is often lower than it

would otherwise be, because the judge has considered the state court costs when setting a defendant's total fine.

Municipal court clerks also point out that the state requires that, in the event of a partial payment, the state court costs must be paid first, before the city can keep any of the fine. This means that cities must do all the work collecting fines but are not allowed to keep any money until the state court costs have been fully satisfied.

In recent years, the number and amount of the state fees collected by municipal courts have grown rapidly. For example, on a typical traffic offense conviction, a municipal court defendant must currently pay \$82 in state-imposed fees before any city fine is collected. The following chart is a comparison of the present situation with fees imposed just nine years ago.

In many ways, municipal court collection of state fees is similar to the state's collection of municipal sales tax. In each case, one level of government is processing a tax/fee levied by another level of government, is remitting it, and is keeping a fee for providing those services.

While there are similarities, however, there are also substantial differences.

	January 2002	January 2013
Crime Victim Compensation	\$15.00	\$15.00
Judicial/Court Personnel Training	\$ 2.00	\$ 2.00
Fugitive Apprehension Fund	\$ 5.00	\$ 5.00
Consolidated Court Costs	\$17.00	\$17.00
Juvenile Crime/Delinquency (Prairie View A&M)	\$ 0.50	\$ 0.50
Correction Management Institute (Sam Houston State)	\$ 0.50	\$ 0.50
State Traffic Fine	--	\$30.00
Jury Pay	--	\$ 4.00
State Judges' Salaries	--	\$ 6.00
Indigent Defense	--	\$ 2.00
Total	\$40.00	\$82.00

For example, the state doesn't really "collect" the municipal sales tax; it's collected by the merchant. With regard to state fees on municipal court fines, however, a municipal court employee actually collects the fees and bears the brunt of any resulting fee-payer anger.

Second, the state controls the level of the municipal sales tax, but cities certainly don't control the level of state fees on municipal fines. So while cities can't unilaterally raise the city sales tax without permission from the state, the state can (and frequently does) increase the amount of state fees that cities must collect and remit. How much state fee/

fine revenue do municipal courts collect annually? For fiscal year 2010, the amount was just over **\$235 million**.

State Agency Fees that Exceed the Cost of Regulation (e.g., Texas Fire Commission Fees)

Most regulatory agencies are essentially "self-funded." This means they are required to collect fees from those they regulate to cover all direct, indirect, and operational costs. The Commission on Fire Protection is no different. It is required to generate revenue through fees on cities and firefighters to cover all the costs of the commission for the biennium. For the current biennium, this amounts to \$3.9 million. However, a rider was placed in the commission's budget during the last few hours of the 2011 session. The rider requires it to generate an *additional* \$3.38 million to be swept into the state's general revenue fund for general purpose state spending.

To raise the needed revenue for the operation of the commission and to return the required \$3.38 million to the state, the commission previously raised fees by 142 percent. (Commission staff indicates that no future increases are currently planned.) Many firefighters, and in some cases the cities they work for, saw this fee increase for what it was: a new, legislatively-imposed state tax on their profession.

Conclusion

What's the grand total of reverse intergovernmental aid in Texas? After making various adjustments, the annual total is at least **\$250,000,000**, just from these five sources of reverse intergovernmental aid. (Please note that simply adding the totals from the previous sections yields a much higher amount. Certain adjustments were made to that number in relation to sales tax administration and court fees to arrive at \$250,000,000.)

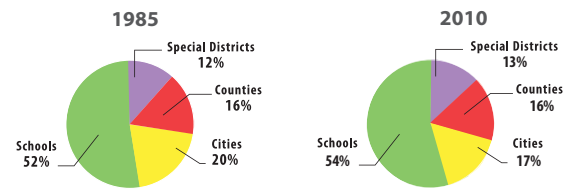
And why does this transfer of revenue from cities to the state matter? It matters because these transfers of resources result in either reductions in municipal services or increased local fees or taxes—most often the local property tax, which is the only general purpose municipal tax that a city council can raise or lower.

Texas taxpayers remain concerned about property taxes. It is clear that some of the pressure on the property tax results from reverse intergovernmental aid, a system under which governments that must depend on the property tax (cities) transfer revenue to a level of government (the State of Texas) that has many revenue sources.

It's not hard to understand why some state legislators are tempted to turn to cities and ask them to generate revenue for the state. It's much harder to understand why some of those same legislators have been trying for several years to limit the revenue-generating capacity of cities by placing caps on the municipal property tax. ★

City Property Taxes: Tremendous Bang for the Buck

Chart 1
Distribution of Property Tax Collections



Texas cities depend heavily on property tax revenue. Property taxes help fund many of the services that residents demand: police, fire, streets, parks, and so on. But as Chart 1 shows, city property taxes constitute only a small portion of a typical homeowner's property tax bill.

How do Texas cities provide so many services with such a small share of a typical property tax bill? Is it with financial help from the state? Hardly.

Unlike other states, Texas provides no general purpose state aid to cities to help pay for streets, public safety, or any other city service. The state forces cities to generate their own revenue. That's why (as Chart 2 shows) per capita state tax revenue is relatively low, while per capita local tax revenue is comparatively high.

But Chart 2 focuses on "local governments" (cities, counties, schools, and districts). What about cities only? For this information, we turn to *Cities and State Fiscal Structure*, a publication of the National League of Cities (NLC).

One section of this report tabulates, for each state, a statistic the authors refer to as "own-source capacity." This is a measurement of the extent to which decisions made by city officials actually determine the city's fiscal direction. Since it has long been known that Texas cities take care of themselves without intergovernmental aid, it comes as no surprise that Texas leads the nation in municipal own-source capacity.

Chart 2
State and Local Government Tax Revenue, 2010

	U.S.	Texas
Per capita state and local	\$4,117	\$3,440 (34th)
Per capita state	\$2,272	\$1,567 (49th)
Per capita local	\$1,844	\$1,872 (13th)
Percent local	44.8%	54.4%

The flip side of that coin, however, is the report's measure of state aid to cities. Here again, the NLC report replicates previous research: Texas trails only the State of West Virginia in state aid—the share of municipal revenue that comes from state government sources.

These two findings of the NLC report once again establish these facts: **(1) the State of Texas relies very heavily on Texas cities to generate the revenue necessary for municipal facilities and services; (2) the state gives cities the capacity to generate that revenue; but (3) the state gives cities virtually no state financial aid.**

In addition to forcing local governments to generate comparatively large amounts of tax revenue, **the State of Texas also forces those local governments to rely too heavily on the property tax.** It does this by denying them other revenue sources. This is especially true for public schools, which rely almost exclusively on the property tax. But it is true for cities and counties, as well. In fact, of the \$1,872 shown in Chart 2 as per capita local government tax revenue in 2010 in Texas, a whopping \$1,555 (83.1 percent) came from the property tax!

These two fiscal conditions, which create the property tax mess in Texas, are unlikely to change unless the State of Texas takes one (or both) of two actions:

1. Inject more state money into public services and facilities, especially public schools. This means even more state revenue than was provided through the public school funding reforms of 2006.
2. Open more revenue sources for counties and cities.

Any other attempts to reduce the property tax burden in Texas will either be ineffective or will create unintended, negative consequences.

In a nutshell: (1) Texas cities provide vital services that benefit their citizens; (2) Texas cities provide those services with less aid from the state, as compared to other states; and (3) Texas cities manage all this despite a very small share of the total property tax levy. ★

Cracking the Code: Citizen Safety and Protection of Property Values

The building code of 4,000 years ago was simple but brutal. According to an ancient Hammurabi code: “If a builder builds a house and does not make its construction firm, and the house collapses and causes the death of the owner, that builder shall be put to death.”

The first building codes in the United States, established in 1625, addressed fire safety and specified materials for roof coverings. In 1630, Boston outlawed wooden chimneys and thatch roof coverings. In the late 1770s, George Washington recommended height and area limitations on wood frame buildings in his plans for the District of Columbia. In 1788, the nation's first-known formal building code was written in Winston-Salem, North Carolina. Larger U.S. cities began establishing building codes in the early 1800s.

Today, most cities in Texas have adopted a building code. The professionals enforcing current building codes in Texas maintain the vigilance of the ancient code of Hammurabi, but with a significantly more civilized approach that emphasizes knowledge and education. Building code regulations enforced in Texas cities ensure minimum standards for safe homes, schools, workplaces, and other buildings.

Jim Olk, the building official in the City of Farmer's Branch and the Building Officials Association of Texas representative on the Texas Municipal League Board of Directors, points out that “During these tough economic times, the enforcement of construction codes is even more important.” According to Olk, “The active enforcement of construction codes not only provides a minimum standard for the structural and life safety components of the homes, schools, churches, and businesses, but it can also provide energy efficiency standards.”

“Buildings constructed to meet updated codes and energy efficient standards protect property values for years into the future, [and] they provide a sustainable stock of housing and commercial options in a community,” he adds.

Prior to 2001, Texas had no statewide standard for any residential or commercial buildings. Each city chose which, if any, building codes to adopt for construction within the city limits, and each city amended its code to meet local concerns.

In 2001, the Texas Legislature adopted the International Residential Code and the National Electrical Code as the

standard building codes for residential construction in Texas cities. Under the statute, cities are authorized to make amendments to these codes to meet local concerns. The legislature also adopted requirements that homes and buildings meet energy conservation standards.

In 2005, the Texas Legislature adopted the International Building Code for most commercial and multi-family construction, but nothing in the bill prohibits a city from adopting local amendments to the International Building Code. Later legislative sessions included revisions to the International Energy Conservation Code.

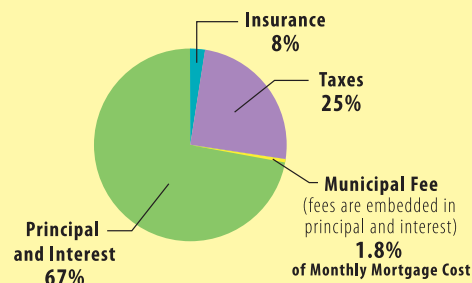
Uniform building codes can make construction and inspection easier and more cost-effective. However, because Texas is a vast state with many different climates and topographical features, uniform codes serve only as guides, and each city is allowed to amend codes to meet that city's needs. In 2009, the legislature added procedures that larger cities must follow when reviewing or amending their building codes.

Under most cities' codes, a person who wishes to build a structure must apply for a permit. City officials review the necessary information and issue a permit if the structure complies with that city's regulations. The amount of time needed to review the permit application varies from city to city and from project to project based on several factors, including the complexity of the city's code and the project. Because of many issues affecting each individual city and building project, a blanket requirement that a permit be issued in a certain amount of time would place an untenable burden on city building officials.

Similarly, a city is not limited by statute as to the amount the city can charge for building and related permits. Fees vary widely based on several factors, including the number and type of inspections and the sophistication of the city's permitting process. While some have claimed that city fees are responsible for the rising costs of housing in Texas, a survey commissioned by the Texas Municipal League shows that building and inspection fees constitute only a tiny fraction of a homebuyer's mortgage payment. ★

The Role of Municipal Fees in Monthly Mortgage Costs

(Average of Eight Representative Texas Cities, 2003)*



* Texas Perspective, Inc., February 17, 2003. Assumes a \$150,000 home, a six-percent interest rate, average insurance rates, and a 30-year mortgage.

City Economic Development



Texas cities are the first—and often only—engine of economic development in the state. Until the controversial Texas Enterprise Fund was created, only cities routinely granted incentives necessary to attract new business to the state. With the Enterprise Fund up and running, larger cities have partnered with the state to attract such major developments as a Texas Instruments facility and a Toyota plant. Smaller cities are usually on their own to attract business.

Until the late 1980s, using city resources to attract business was arguably unconstitutional. In 1987, Article 3, Section 52a of the Texas Constitution was added to make it clear that economic development serves a public purpose. From that point on, three major channels of city economic development began to open for cities: Chapter 380 agreements; the Type A/Type B economic development sales tax; and property tax incentives.

Chapter 380 Agreements

Chapter 380 of the Local Government Code authorizes cities to establish programs for grants and loans of city resources for economic development purposes. Though it is the broadest economic development tool for cities, Chapter 380 is often overlooked in favor of other incentives. Cities using 380 agreements must be careful not to simply present a blank check to business and industry prospects: A program providing for checks and balances on a business's use of Chapter 380 money is required by law. Examples of these checks and balances might be performance agreements tying grant money

to the creation of a certain number of jobs, or requiring the business to stay in the city for a certain length of time.

Economic Development Sales Taxes

More than 500 Texas cities have adopted a Type A or Type B economic development sales tax. Some cities have both taxes. The tax was created in 1989, and authority to spend Type A/Type B tax money gradually expanded over the next decade to cover all forms of commercial, retail, and traditional industrial economic development. An important bill, H.B. 2912, passed in 2003. H.B. 2912 scaled back the authority of some Type A and Type B economic development corporations. Following the passage of H.B. 2912, the sales tax could no longer be spent on retail, commercial, or service industries. Instead, the tax could be spent on basic industrial and manufacturing businesses, among a limited amount of other authorized expenditures. The authority for some, but not all, Type B corporations to engage in retail, commercial, and service economic development was restored in 2005.

The Type A/Type B sales tax remains an important economic development tool for many cities that have the available land and workforce to attract industry. Additionally, instead of a Type A or Type B economic development sales tax, some cities have adopted a municipal development district (MDD) sales tax that may be levied in a specified area in the city or in the city's extrajurisdiction. The MDD sales tax closely resembles the traditional economic development sales tax, but

the scope of projects that may be funded with an MDD tax is slightly broader.

Property Tax Incentives

Property taxes may be directly tapped to promote economic development in two ways: tax abatement and tax increment financing. Both ways function by either forgiving (abatement) or dedicating to improvements (increment financing) any **net increase** in property tax revenue as a result of a business moving to town or upgrading existing facilities. Property tax incentives can never forgive or decrease the present taxable value of the land and facilities upon which they are granted. This key feature of the incentives—that all current taxes must continue to be paid—belies the common stereotype that tax incentives are “giveaways.” On the contrary, when done properly, tax incentives create new taxable value that never would have come to town absent the incentive, thus lowering the overall tax burden on other properties.

Tax and Appraisal Caps Threaten Economic Development

Proposals to cap, limit, or freeze municipal property tax revenue or property appraisals will have the unfortunate side effect of undermining the very rationale behind many economic development tools. While the purpose of economic development is often to put new taxable value on the rolls, tax caps will ensure that this cannot happen. Tax and appraisal caps, after all, restrict the very growth in appraised value that tax incentives are designed to generate. ★

*Humans are an acquisitive species
with a longstanding pattern
of wanting more things
rather than less.*

—Chaz Miller, *Is Frugality the New Green?*

March 1, 2010

Cities Keep the Garbage from Piling Up

Collection and disposal of garbage is one of the most recognizable and widely used city services. This vital service protects the public health and the environment. A city can choose to operate its own garbage collection and disposal system or grant a franchise to a private company (or companies) to handle those tasks.

Waste generation is a function of two variables: the population and the economy—both of which are growing in Texas. According to the Texas Commission on Environmental Quality (TCEQ), Texans in 2010 disposed of approximately 28.64 million tons of municipal solid waste, commonly called “trash” or “garbage.” In Texas, municipal solid waste is defined to include waste resulting from or incidental to municipal, community, commercial, institutional, and recreational activities

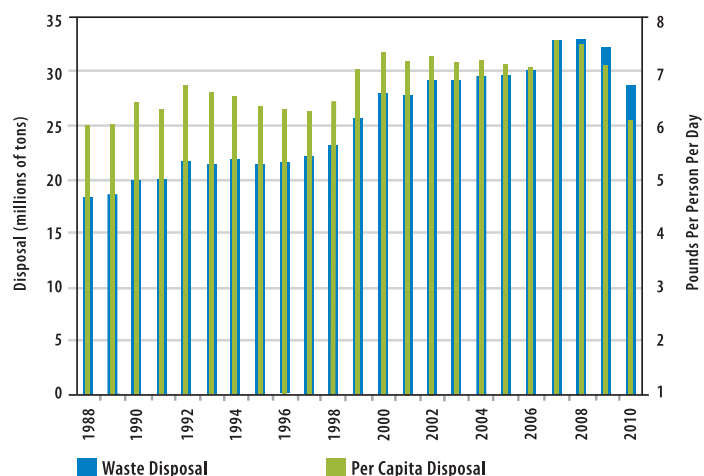
including household garbage, ashes, street cleanings, dead animals, abandoned cars, and all other solid waste other than industrial solid waste.

Cities have statutory authority to offer recycling programs to their citizens. For instance, in 2012 Corpus Christi reported that residents recycled 24.5 million pounds of recyclable materials. There are various benefits of recycling programs. Recycling helps reduce the production of solid waste that must be disposed of by a city and reduce the costs of operating a municipal solid waste disposal system. Recycling also creates more jobs than disposal. And, in Corpus Christi, recycling prompted Ziploc brand to donate an Earthscape playground made out of recycled plastics. Encouraging residents to participate in municipal recycling programs is an ongoing educational process. Of course, statewide recycling mandates wouldn't take into account

Did You Know?

Texas cities have been authorized to provide, or contract with a private company to provide, garbage collection services within city limits since 1971. Texas law recognizes that this authority is important to preserve the public health and safety of all the residents of a city. Uncollected garbage can easily result in various health problems. This law routinely comes under attack from certain groups, but the bottom line is that timely, efficient, and effective garbage collection through municipal service prevents problems from occurring. Open piles of garbage attract disease-carrying rodents and insects and often wash into drainage systems, where they contribute to floods and waterborne disease.

**Solid Waste Disposal And
Per Capita Disposal Rate In Texas**



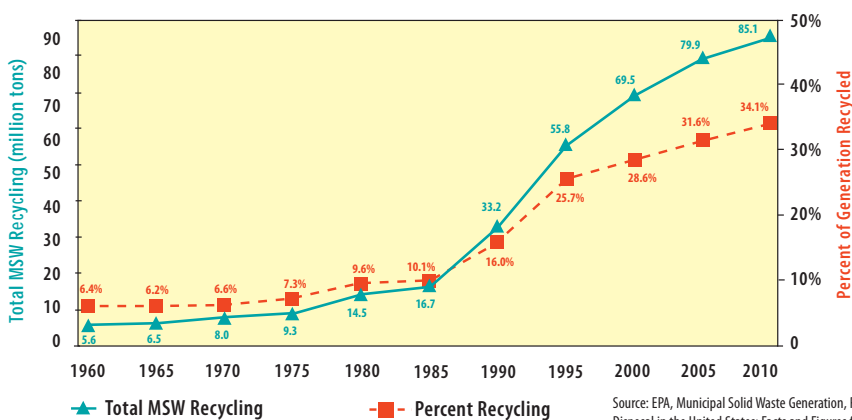
Disposal refers only to solid waste received by permitted landfills.

Source: TCEQ, Municipal Solid Waste in Texas: A Year in Review - FY2010 Data Summary and Analysis (October 2011)

the various factors that make different parts of Texas unique. Recycling should be implemented locally in a way that is appropriate for each city. ★

Waste is a terrible thing to mind —
Recycle
 —U.S. bumper sticker

Recycling of Municipal Solid Waste in the United States 1960-2010



Where Does It Go After I Place It at the Curb? How Much Does this Service Cost?

After household garbage is collected, it often goes to a facility known as a transfer station, where waste is consolidated into larger loads for shipment to its ultimate destination: a landfill or a waste-to-energy plant. Recyclables go to processing facilities, where they become raw materials for new products.

In 2009, 54.3 percent of municipal solid waste generated in the U.S. was disposed of in landfills; 11.9 percent was disposed of through waste incineration with energy recovery; and 33.8

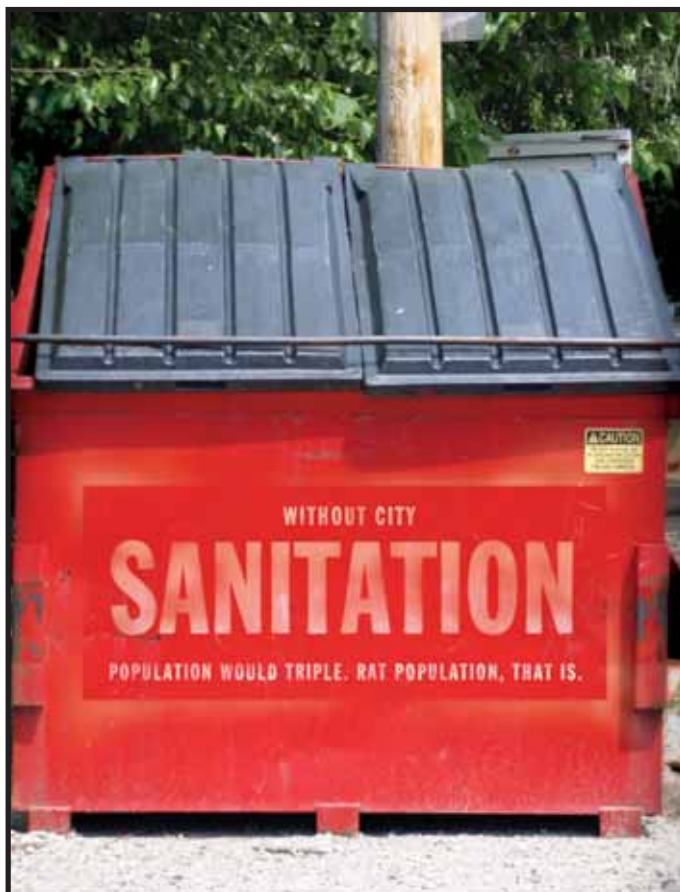
percent was recovered for recycling or composting, diverting 82 million tons of material from landfills and incinerators.

According to data collected by the National Solid Wastes Management Association, the typical U.S. monthly household bill for waste collection in 2003-04 ranged between \$12 and \$20 per month. Collection and disposal costs have gone up in some communities for various reasons, including the rising costs of fuel and equipment, as well as the rising costs of complying with new environmental

regulations. Despite these increases, residential trash collection and disposal is still a bargain for U.S. consumers when compared to other utilities and services like cellular phone and cable television service.

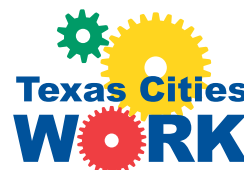
Sources: National Solid Wastes Management Association, Residential Trash Collection: An Essential Service at a Bargain Price

Center for Sustainable Systems, University of Michigan 2011. "Municipal Solid Waste Factsheet." Pub. No. CSS04-15.

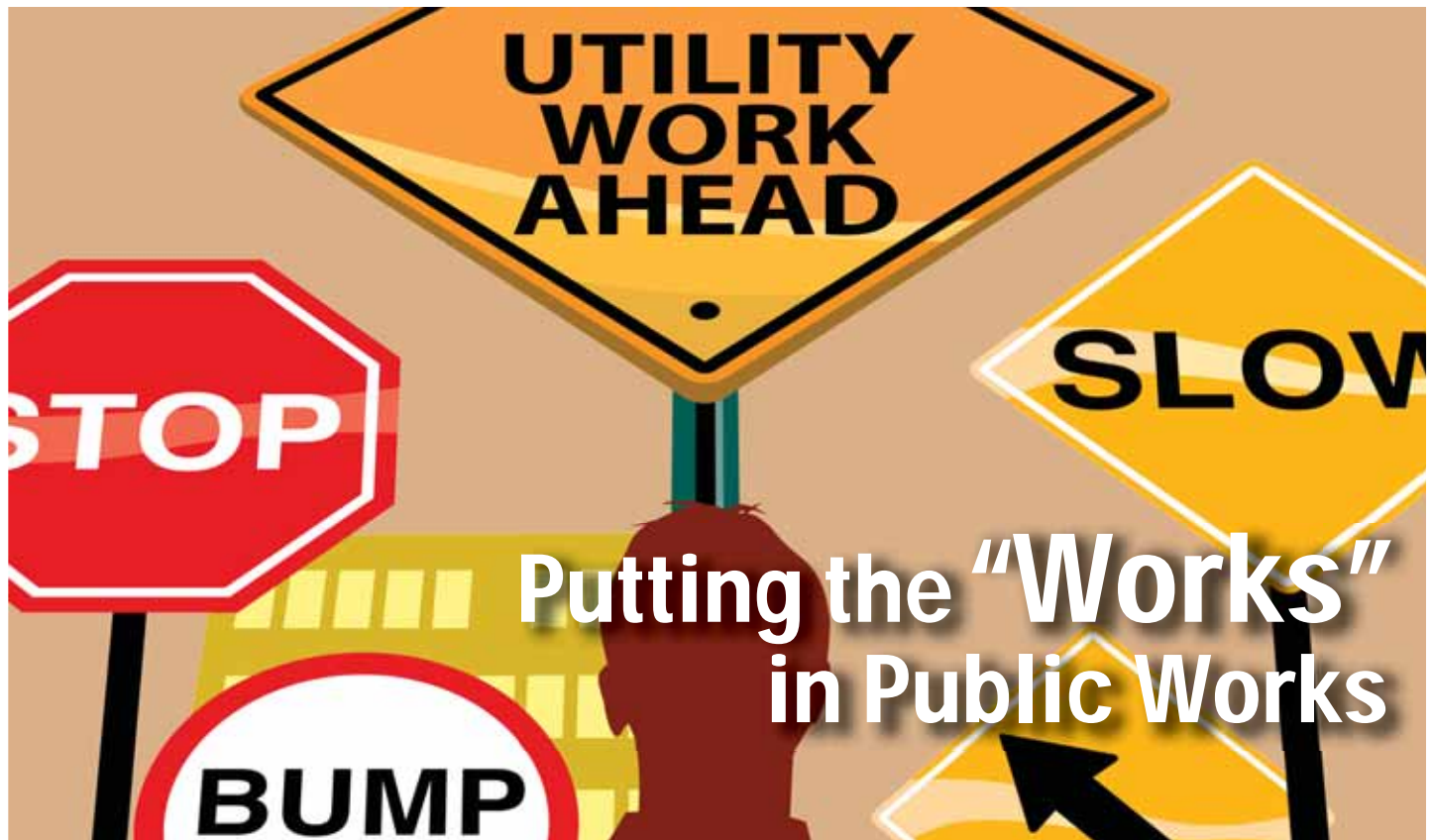


The things you don't think about, cities provide. Like streets, parks, utilities, and safety. But cities can't function with their hands tied by restrictive laws or unfunded state and federal mandates. Cities need options to build a better future. It's in everybody's best interest.

The things you don't think about, cities provide. And we're proud of it.



Sponsored by the Texas Municipal League • www.tml.org



Putting the "Works" in Public Works

Right-of-Way Authority And Utilities

Many Texas cities are experiencing an unprecedented level of commercial and industrial activity in their streets and rights-of-way (ROWs). This is the result of an explosion in new communications technology, the growth of competition in the telecommunications and cable industries, and the expansion of electric distribution lines to newly developing areas.

With this activity sometimes comes a detrimental effect on public safety, traffic flow, city infrastructure, and efficient city administration. Major water lines have been breached during excavations. Traffic in many cities has become so heavy and ensnarled due to activities in the ROWs that the stories have been front-page news. Other cities have experienced the cutting of utility lines. City streets are being barricaded and torn up repeatedly, significantly shortening their life expectancies and suitability for traffic.

Additionally, some utilities have taken the position that a city cannot require a utility to relocate facilities in the ROWs at their own expense for public works projects such as drainage or street construction. That position clearly contravenes the public interest, as well as established law, because the primary purpose of streets and ROWs is transportation. The ability of a city to adequately regulate activities in its ROWs is essential to the safety of residents.

Right-of-Way Compensation

Texas law prohibits a city from allowing the use of its rights-of-way for free. Thus, cities collect compensation in the form of rent (based on various state and federal statutes) from utility providers such as cable, telecommunications, and electric companies. Some have attempted to characterize this rent as a "tax." That characterization is incorrect. Rather, the rent is a cost of doing business for a utility that uses a city's property (just as a utility would have to rent property or obtain an easement from a private landowner). Utilities such as satellite providers do not pay the rent when they have no facilities on city property. In any case, the compensation is authorized by law and provides significant revenue for cities, allowing property taxes to be lowered.

Streets and Traffic

Citizens expect to travel from one place to another easily. They want their drive to work to be problem-free. A city's public works department makes that possible. Public works employees are constantly striving to keep driving conditions safe by building, maintaining, and repairing city streets. In addition, public works employees maintain and repair street lights, sidewalks, and other infrastructure. The task of funding the maintenance of city transportation facilities, which benefit the entire state's economy, is a difficult one for Texas cities. Unlike many other states, Texas cities receive no state aid to offset the benefits that city streets provide. Other states return a portion of vehicle registration fees or gasoline taxes to cities for this purpose; Texas doesn't. However, the Texas Legislature has granted Texas cities the authority to impose a street maintenance sales tax of up to ¼-cent to be used to maintain city streets.

To date, many cities have adopted this tax.

FEDERAL STORMWATER MANDATES AND MUNICIPAL DRAINAGE UTILITIES

Federal Stormwater Mandates

During rainfall, stormwater runs off impervious areas such as paved streets, parking lots, and rooftops. The stormwater contains pollutants that may adversely affect water quality. Thus, the federal Clean Water Act requires cities to obtain a permit from the United States Environmental Protection Agency (EPA) before allowing the discharge of stormwater from a storm sewer system into rivers and lakes. In Texas, the EPA has delegated the administration of the stormwater permitting program (known as the "National Pollution Discharge Elimination System" or "NPDES") to the Texas Commission on Environmental Quality (TCEQ).

Most medium and large cities in Texas currently operate under a "Phase I" permit. These cities include Dallas, Houston, San Antonio, Austin, Abilene, and several others. Beginning in the early 1990s, these cities were required to develop a stormwater management program that would reduce stormwater pollutants. Many other Texas cities are subject to the "Phase II" general permit. The Phase II program began in 1999 and requires more than 400 of the state's smaller cities to develop stormwater management programs, as well. At a minimum, the programs must include public education and participation, detection of unwanted discharges into sewers, construction site stormwater runoff controls, and pollution prevention measures. In addition, cities operating under the Phase II permit must issue an annual report to the TCEQ that includes information regarding the status of compliance with permit conditions, an assessment of

the appropriateness of best management practices, a description of progress toward reducing the discharge of pollutants to the maximum extent practicable, the measurable goals for each of the minimum control measures, and an evaluation of the program's progress. TCEQ, in compliance with federal law, has been in the process of reissuing the Phase II general permit for small cities during 2012.

All Texas cities subject to the NPDES program are required to identify and apply a number of best management practices to reduce stormwater pollution. Obviously, the monetary costs of implementation of this unfunded mandate are high.

Municipal Drainage Utilities

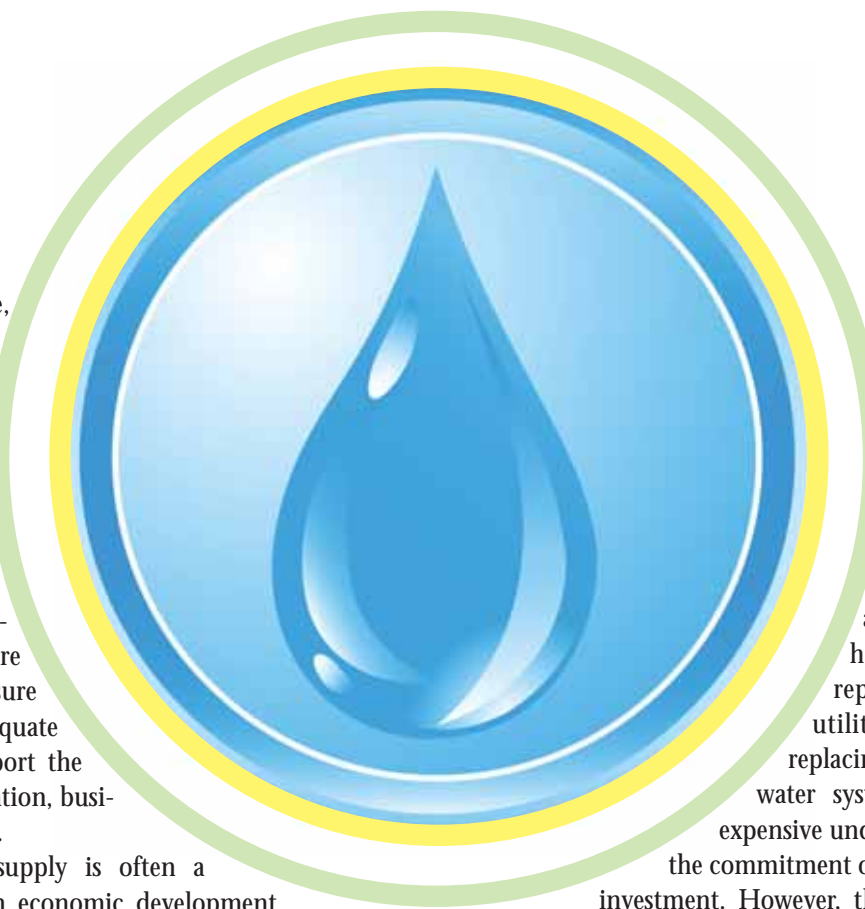
As a means to protect citizens from the devastating effects of flooding and to offset the costs of unfunded federal stormwater mandates, the Local Government Code authorizes Texas cities to establish municipal stormwater drainage utilities. The

utilities are generally funded by fees on properties that are benefited by the improvements. The fees must be nondiscriminatory and must be directly related to drainage.

In 2003, the Texas Legislature enacted a law that exempted state colleges and universities from paying municipal stormwater utility fees. The rationale for that exemption (presumably) was that a taxpayer-funded entity shouldn't be required to pay a fee to another taxpayer-funded entity. In 2007, private universities sought and obtained the same exemption. The exemption of private colleges and universities has had detrimental effects on some cities. These private entities benefit from the flood prevention and stormwater control provided by stormwater utilities, and both public and private universities generally have very large areas of impervious cover that contribute to runoff. The exemptions have resulted in a cost shifting to residents and businesses. ★



The Growing Need for Water and Wastewater Services



Providing safe, clean, and reliable drinking water is a critical city service. Investments in drinking water and wastewater systems protect public health, aid in protecting the environment, provide fire protection, and ensure that there is an adequate water supply to support the state's growing population, businesses, and industries.

Adequate water supply is often a determining factor in economic development opportunities. Businesses and industries are going to choose locations with a stable and sufficient water supply over those states or regions without quality water supplies.

A recent wastewater survey found that America's drinking water systems alone will have to invest up to \$322 billion over the next 20 years in order to keep up with the growing demand for drinking water and the nation's aging drinking water infrastructure. Over the next decade, Texas cities will have to expend millions of dollars on waste and wastewater systems to keep pace with the tremendous population growth in Texas. In addition to meeting the growing demands for water services and replacing aging infrastructure, the investment is also necessary to ensure compliance with the federally mandated Clean Water Act and Safe Water Drinking Act.

Many water utilities in Texas were built decades ago. Some systems have come to the end of their useful life span, and upgrades may no longer be sufficient. Some cities are even faced with having to completely replace these essential utilities. Upgrading or replacing a water and wastewater system is an extremely expensive undertaking that requires the commitment of large sums of capital investment. However, the return is generally

well worth the large expenditure.

Municipal wastewater treatment plants prevent billions of gallons of pollutants from reaching our rivers and lakes each year. In addition, the provision of safe drinking water to our suburban areas has allowed our state to grow at unprecedented levels.

Unfortunately, many Texas cities are struggling to keep up with the costs of complying with increasingly stringent federally and state mandated regulations. The budget pressures associated with meeting these new standards or facing stiff fines from regulating agencies often force cities to delay needed expansion of their water utility systems.

Texas Cities Are Taking the Lead on Water Conservation Efforts

Cities throughout the state have developed water conservation programs to promote water-saving practices among residents and businesses, and the issue of water conservation has come to the forefront of water utility issues. The heart of the water conservation issue is that, while everyone

See "Funding the State Water Plan" on page 30 to learn how some of these needed improvements might be funded.

2011 Regional Water Plan
State Summary of Water Demand Projections for 2010-2060 (in acft*)
TEXAS

Category	2010	2020	2030	2040	2050	2060
Municipal	4,851,201	5,580,979	6,254,784	6,917,722	7,630,808	8,414,492
Manufacturing	1,727,808	2,153,551	2,465,789	2,621,183	2,755,335	2,882,524
Mining	296,230	313,327	296,472	285,002	284,640	292,294
Steam Electric	733,179	1,010,555	1,160,401	1,316,577	1,460,483	1,620,411
Livestock	322,966	336,634	344,242	352,536	361,701	371,923
Irrigation	10,079,215	9,643,908	9,299,464	9,024,866	8,697,560	8,370,554
Texas Total	18,010,599	19,038,954	19,821,152	20,517,886	21,190,527	21,952,198

* An acft is the amount of water to cover one acre with one foot of water and is equal to 325,851 gallons.

Source: Texas Water Development Board, State Summary of Water Demand Projections (2010).

agrees that water conservation is important for Texas, city officials do not wish to be forced to implement a blanket, statewide program that does not take into account the needs, financial and otherwise, of different parts of the state.

The major news in water conservation is a standardized reporting requirement mandated by the legislature in 2011 through S.B. 181. The bill tasked the Texas Water Development Board (TWDB) and the Texas Commission on Environmental Quality (TCEQ) with developing uniform, consistent methodology and guidance for calculating water use and conservation to be used by a city when preparing and submitting certain reports required by state law.

In addition, each water utility with 3,300 or more connections or that receives TWDB financial assistance is required to submit to the TWDB and TCEQ a water conservation plan annual report. Those utilities are also required to submit a drought contingency plan to the TCEQ. The TWDB and TCEQ will use the methodology and guidance developed for calculating water use and conservation in evaluating a utility's water conservation plan and drought contingency plan, as well as other types of reports required by state law.

Also, current law requires all retail public utilities providing potable water to submit a water loss audit to the TWDB every five years, or those receiving financial assistance from TWDB to submit the audit annually. The purpose of the water loss audit is to enable utilities to identify significant losses in their system, allowing the utility to determine long-term infrastructure needs and save money by establishing an efficient repair and maintenance program.

TML's position has historically been in support of local control over water conservation, with a focus on avoiding unnecessary and unfunded mandates on city staff and budgets.

Each city has a unique perspective and resulting priority for expending public funds to save water. Climate, population density, availability of water resources, and the ratio of industrial to residential use in the city are but a few of the various factors that affect conservation decisions across the state. ★



Funding the State Water Plan

More than any other natural resource, water challenges Texas' future. Scarcity and competition, environmental concerns, and the cost of new water supplies have made sound water planning and management increasingly important. With the state's

population expected to grow by 82 percent in the next 50 years, planning to meet not just the water needs of today but those of tomorrow, as well, is essential.

The 2012 Texas *State Water Plan* is the ninth such water plan designed to provide for the orderly development, management, and conservation of water resources in the state. The plan is intended to ensure that sufficient water will be available at a reasonable cost to maintain public health, to further economic development, and to protect the agricultural and natural resources of the entire state.

The primary message of the 2012 *State Water Plan* is a simple one: In serious drought conditions, Texas does not and will not have enough water to meet the needs of its people, its businesses, and its agricultural enterprises. The plan presents information regarding water management strategies necessary to meet the state's needs in drought conditions, the cost of such strategies, and estimates of the state's financial assistance required to implement these strategies. Water management strategies can include conservation, drought management, reservoirs, wells, water reuse, desalination plants, and others. About 34 percent of the volume of these strategies would come from conservation and reuse, about 17 percent from new major reservoirs, and about 34 percent from other surface water supplies. If implemented, these strategies would provide 9.0 million acre-feet per year in additional water supplies by 2060.

The plan also presents the sobering news of the economic losses likely to occur if these water supply needs cannot be met. As the state continues to experience rapid growth and declining water supplies, implementation of the plan is crucial; it is the "road map" to preparing for the state's future water needs.

What Is the Cost of the Plan?

The total cost of the projects in the *State Water Plan* is \$53 billion. These costs consist primarily of the funds needed to permit, design, and construct projects that implement recommended strategies, with the majority of the costs (about \$46 billion) going toward meeting municipal needs; that is, the needs of residential, commercial, and institutional water users in cities and rural communities. Based on surveys conducted as part of the planning process, water providers will need nearly

\$27 billion in state financial assistance to implement strategies for municipal water user groups.

The amount of effort directed toward providing funding for the *State Water Plan* will likely depend on one thing: rain. The natural tendency is to avoid addressing a problem if it is not imminent. When the state receives more rain, funding the plan is less of a priority to the Texas Legislature. However, doing nothing can further exacerbate the problem. When the *State Water Plan* is revised every five years, some projects are pushed down the road rather than receiving funding. The more projects that are delayed, the more the costs of implementing the plan go up.

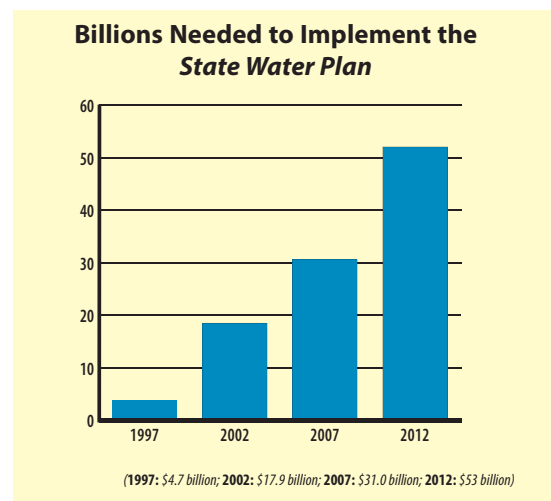
Where Will the Money Come From?

How to fund the *State Water Plan* has been and will remain a hot topic at the legislature. The following proposals for funding the *State Water Plan* have been discussed as options by various interest groups:

- Repealing the sales tax exemption on water bills
- Adding a "tap fee" (i.e., a "state tax on water") to city water bills
- Adding a surcharge on all electric bills, rather than water bills
- Taxing bottled water sold in Texas
- Providing for a fee on new housing developments
- Adding a fee to plastic piping sold in Texas

Of course, city officials have traditionally been opposed to a tap fee because it: (1) requires cities to act as collection agents for the state; (2) may cause disputes between cities related to where the fee revenue is collected and spent; and (3) does not fairly spread the burden among other water users (e.g., agricultural and other users).

A more reasonable alternative is to provide "seed" money from the state's Rainy Day Fund to be used to finance improvements under the *State Water Plan*. ★



Cities Refuse to Accept Utility Rate Hikes Without a Fight

City coalitions have been effective in ensuring that utilities charge cities and their residents reasonable rates. In 2010, cities successfully fought to mitigate excessive rate increase requests by both gas and electric utilities, playing a vital role advocating on behalf of consumers. For example, in one recent Oncor Electric Delivery Company's ("Oncor") rate case, Oncor sought to increase its rates by \$253 million annually. However, based on many of the recommendations made by cities, the PUC determined that Oncor was entitled to a rate increase of just \$130 million.

There are numerous other examples in which cities have protected electric and gas consumers from unreasonable increases. In each of these cases, cities have saved their ratepayers money by refusing to accept the utilities' rate increase requests at face value. By participating in rate cases, cities are able to dig into the complex calculations of ratemaking to determine whether a utility has made a reasonable request. When cities determine that a utility's request is unreasonable, they present evidence supporting the findings to the PUC or RRC and recommend reducing the rate increase requested by the utility.



Texas cities have a long history of participation in the ratemaking process for both gas and electric utilities in the state. Prior to the enactment of the Public Utility Regulatory Act (PURA) in 1975 and the Gas Utility Regulatory Act (GURA) in 1983, utility rates were set exclusively at the city level, with any appeals of municipal rate ordinances decided in the courts.

Currently, under PURA and GURA, cities have original jurisdiction over the utility rates within their city limits. This means that the Railroad Commission (RRC) and the Public Utility Commission (PUC) have original jurisdiction over gas and electric rates in service areas outside city limits and also within the city limits of those cities that have ceded their original jurisdiction to the agency. In addition, the PUC and RRC have appellate jurisdiction over rate ordinances and orders of cities concerning electric and gas utility service within a city's limits.

Recognizing the important role cities play in the regulation of

utilities, hundreds of cities across the state participate in ratemaking proceedings at both the PUC and the RRC in order to ensure fair, just, and reasonable rates, as well as adequate and efficient services for the city and its residents.

Historically, cities have formed coalitions to represent the collective interests of cities and their citizens before the regulatory agencies and courts. By forming coalitions, cities have been able to present a strong voice for consumers for more than 30 years. This has served to reduce the costs that cities and their residents pay for electric and gas service. Cities' active participation in rate cases demonstrates their concern for reliability, quality of service, and the prices their citizens pay for gas and electricity. In numerous instances, without city participation, rate increases would have gone into effect without any party scrutinizing the utility's application.

Both PURA and GURA allow for cities to be reimbursed by the utility company for their reasonable rate case expenses associated with participation in ratemaking proceedings. In providing for the reimbursement of rate case expenses in the statutes, the Texas Legislature has acknowledged the important role cities play in protecting citizens from unreasonable utility costs. Because these expenses are ultimately passed on to consumers by the utility, cities are always cost-conscious. Cities must balance the cost of participation in a ratemaking proceeding against the need to protect the interests of their residents. In prior cases, however, municipal participation has resulted in a net savings for ratepayers because the utility's rate increase was reduced by an amount far in excess of the expenses incurred by the cities. Cities' participation in utility ratemaking proceedings has proven time and again to be a good value for consumers. ★



The Connection Between Infrastructure and Revenue Caps

With the exception of construction, repair, and maintenance of the state highway system, infrastructure in Texas is primarily the responsibility of local governments. Streets, bridges, drinking water systems, and wastewater facilities are funded by local entities. Although some loans and very limited grant funds are available for some water projects, the fact remains that city streets, water systems, and wastewater utilities are built and maintained with city-generated revenue.

Furthermore, Texas cities are on their own when it comes to paying for these infrastructure projects. The paucity of state aid to Texas cities is well-documented. While most states (including virtually all the most populous states) provide substantial financial assistance to cities to help pay for infrastructure, such grant programs generally do not exist in Texas.

In fact, it can be argued that funds flow the other way—from local entities to the state. In recent years, the Texas Department of Transportation received almost \$100 million annually in revenue called “Local Participation” from cities alone. (Other entities provide local participation funds, as well.) This is city money that helps pay for improvements to the state highway system.

Much of the local revenue that is used to fund infrastructure projects comes from the property tax. That fact raises an interesting question: If the Texas Legislature passes legislation that limits or caps municipal property tax revenue, will municipal investment in infrastructure decrease?

The answer is yes.

The evidence is in the Texas Municipal League’s fiscal conditions survey. When asked which cost-cutting measures

Chart 1
Cost-Saving Measures

Percent of All Cities

	1987	1997	1999	2001	2003	2005	2007	2009	2010	2011	2012
Hiring freeze during the past two years	21.8%	4.8%	4.2%	3.4%	9.7%	11.8%	4.9%	8.7%	17.4%	17.9%	16.0%
Wage freeze during the past two years	28.4%	3.7%	2.5%	2.6%	6.3%	10.3%	2.9%	5.1%	19.1%	23.8%	16.0%
Reduced services	10.3%	3.4%	1.6%	2.7%	3.8%	1.8%	2.5%	4.0%	8.5%	6.7%	8.0%
Eliminated services	7.4%	2.1%	0.9%	1.7%	2.2%	1.0%	1.4%	2.2%	4.3%	2.9%	3.0%
Reduced salaries	1.6%	0.7%	0.5%	0.5%	1.4%	1.2%	0.8%	1.0%	0.9%	1.7%	2.0%
Laid off employees	15.1%	7.4%	3.5%	4.1%	8.6%	9.1%	5.9%	6.6%	10.2%	10.7%	10.0%
Postponed capital spending	46.7%	39.2%	39.1%	49.5%	47.4%	52.3%	49.4%	50.0%	49.2%	52.4%	43.0%

Chart 2
If Revenues Remain Constant or Diminish, What Will Cities Do?

First Response	Percent of All Cities									
	1997	1999	2001	2003	2005	2007	2009	2010	2011	2012
Postpone capital spending	43.3%	34.8%	33.3%	29.2%	27.3%	39.5%	45.0%	22.8%	16.3%	24.6%
Increase user fees	20.8%	15.1%	22.8%	20.7%	23.2%	21.1%	18.1%	12.5%	4.6%	10.6%
Impose hiring freeze	16.7%	16.0%	29.2%	34.6%	34.1%	19.1%	17.7%	41.9%	31.8%	32.7%
Raise property tax	10.9%	9.0%	11.3%	7.6%	11.1%	10.0%	10.6%	6.25%	4.6%	4.2%
Impose wage freeze	3.6%	3.8%	10.2%	9.9%	13.7%	3.4%	2.4%	10.66%	5.3%	9.3%

Debt Financing: Voters Always Have the Final Say

Recent news articles have drawn attention to municipal debt financing. Those articles seem to highlight the widespread lack of understanding about how cities and counties finance public works projects.

For more than four decades, state law has provided cities and counties two main options for issuing long-term debt to finance most public works projects. With general obligation bonds, a city calls an election for voter approval. With certificates of obligation, voters can petition for an election.

In the vast majority of cases, city officials choose to seek voter input through a bond election to authorize the issuance of general obligation bonds. Over the past ten years in Texas, city voters have approved nearly 92 percent of the bonds proposed in 205 elections.

But the law also gives cities and counties the flexibility to issue debt through certificates of obligation on a shorter timeline. This enables them to take advantage of favorable interest rates or an opportunity to acquire a property, to make emergency repairs after a disaster, or to address a critical public need without having to wait for the next uniform election date on the calendar. Of all the debt issued by Texas cities in 2011, less than 14 percent was through certificates of obligation.

With certificates of obligation, voters have the option to petition for an election on whether the certificates should be issued. The bar was set relatively low for the petition requirements to call an election. Only five percent of qualified voters need to sign a petition for an election on the issuance of certificates of obligation. By comparison, at least seven percent of qualified voters have to sign a petition to call an election to roll back a property tax increase in larger cities. In smaller cities, ten percent must petition for a rollback election. And it takes ten percent of qualified voters to petition for an election to reduce or increase a city's sales tax rate or for an election to create a charter commission to write a new city charter.

In 2007, the legislature amended the law on certificates of obligation to lengthen the notice period, from 14 days to 30 days, before a city can pass an ordinance to issue certificates. This provides more time for citizen input and more time to gather signatures for a petition to call an election.

It's vital that Texas cities maintain this flexibility in financing public improvements, because every city has different needs and resources. The process for issuing debt, by law, has extraordinary levels of transparency and accountability.

The decision on the kind of debt financing to use is a serious one for city officials involving many considerations. And, like every decision city officials make, the voters will hold them accountable.

were employed to balance the current-year budgets, cities consistently identify "postponed capital spending" as the most commonly used tactic (please see Chart 1).

Similarly, when asked to identify how they would respond to diminishing revenue in future years, city officials almost always select "postpone capital spending" as a top choice (please see Chart 2).

Here's the bottom line: Any legislation that would place new restrictions on the ability of cities to generate property tax revenue will result in reduced spending on infrastructure, particularly city streets and bridges. Those spending cuts will harm regional economies and the state's economy.

Without municipal investment in the infrastructure needed for industrial and commercial activity, the state's job creation and economic growth will be severely damaged. And the most certain way to limit the construction and maintenance of infrastructure is to restrict the growth of tax revenue. ★

The High Cost of Providing Public Safety

Helmet and hood: \$350

Self-contained breathing apparatus: \$4,000

"Pass" alarm to monitor firefighter while deployed: \$500

Heat-reflective, fire-resistant coat: \$1,200

Firefighter pager: \$350

Heat-reflective, fire-resistant pants: \$700

Puncture-proof, heat-resistant boots: \$300

Gloves: \$75

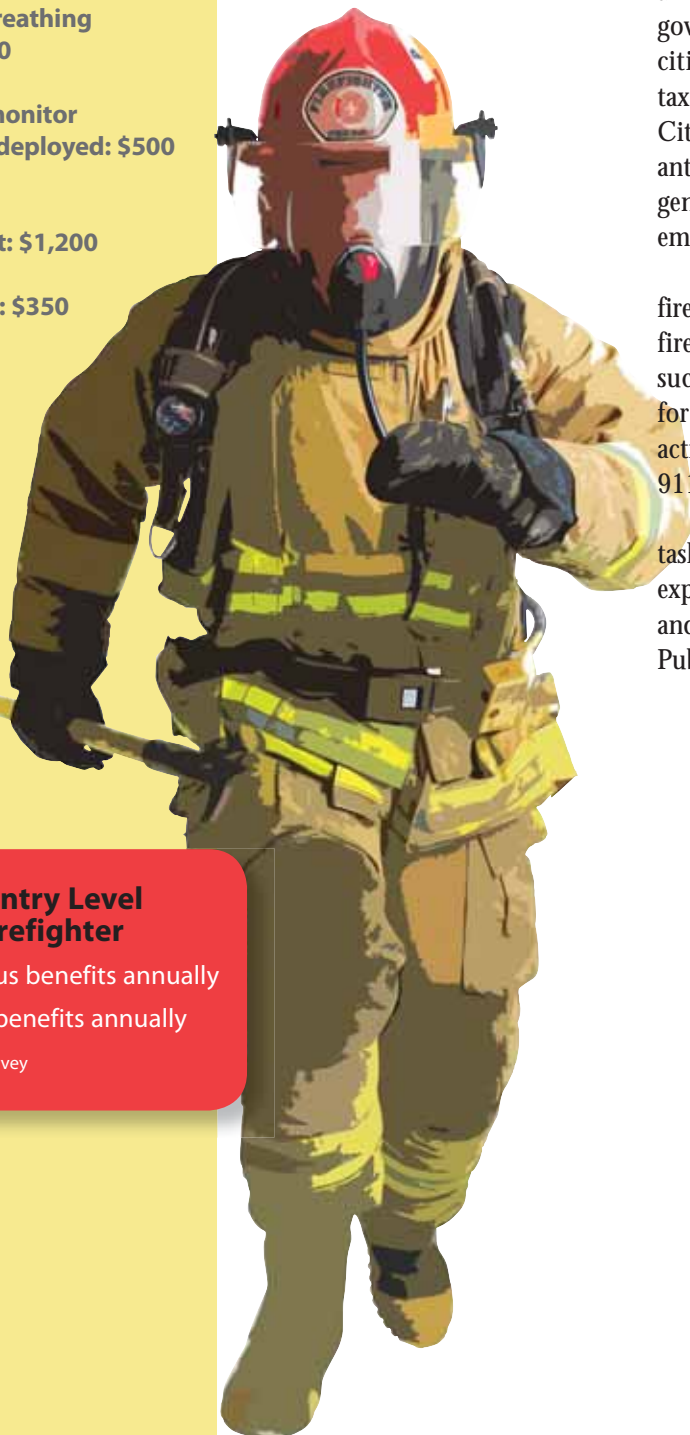
TOTAL: \$7,475

Average Salary for Entry Level Police Officer and Firefighter

Police Officer: \$48,876 plus benefits annually

Firefighter: \$52,695 plus benefits annually

Source: 2012 Salary and Benefits Survey



Ensuring that citizens have a safe city in which to live and work is of the utmost importance to the state. Cities strive to promote the health, safety, and welfare of all of their citizens. Unfortunately, providing a high level of public safety does not come cheap.

For most citizens, it is almost an automatic response to turn to government in times of need. In cities, that translates to spending tax dollars on public safety services. Cities expend considerable resources anticipating what the public at large generally doesn't want to think about—emergencies.

Public safety includes traditional fire protection, such as fighting house fires; traditional police protection, such as officers patrolling streets for traffic violations and criminal activity; and responding to numerous 911 calls.

However, in today's world the task of providing public safety has expanded as threats have increased and citizen expectations have grown. Public safety now encompasses:

- hurricanes and other natural disasters;
- preventing and responding to terrorist threats and attacks;
- federal homeland security mandates;
- emergency medical services (EMS) and ambulance services;
- border security;
- hazardous materials response;
- drug task forces; and
- search and rescue, along with a host of other activities.

As the list illustrates, police, fire, and EMS are now expected to protect our homeland and be ready to respond to terrorist attacks with chemical, biological, and weapons of mass destruction. That's a tall order, considering the cost of standard public safety training and equipment.

For example, it costs approximately \$2,000 to provide basic protective equipment for a single structural firefighter. Of course, the equipment needed to enter a burning building is specialized and much more expensive than the standard issue equipment (see firefighter diagram). In addition to the expensive equipment necessary for firefighters to safely carry out their jobs, they must also receive continuous training. This training is often expensive and must be supplemented on an ongoing basis. ★

Texas Cities Assist with Disaster Response and Relief

Over the past several years, cities have played a major role in disaster response, relief, and rebuilding efforts as hurricanes, wildfires, and tornadoes hammered Texas. According to *Texas Rebounds*, a publication of the governor's office, Hurricanes Ike and Dolly caused the City of Houston to sustain local government infrastructure damages of more than \$100 million. The city rushed to repair vital infrastructure in the days following the storm, dedicating countless resources to restoring necessary services to citizens. The City of Galveston, also hard-hit by Ike, expended \$500 million to repair and replace housing, city buildings, and utility infrastructure, not to mention millions more to repair roads, revitalize the business community, and much more. Some of these expenditures were ultimately reimbursed by the federal government, but the ability of cities to react quickly and decisively during and after a natural disaster is an invaluable service. Cities have also contributed relief and rebuilding efforts to residents affected by 2011 wildfires and 2012 tornadoes. The City of Bastrop spent almost \$70,000 in police costs alone in dealing with the wildfires in its area. The City of Arlington spent more than \$1.2 million responding to tornadoes in the spring of 2012. Similarly, the City of Lancaster spent more than \$500,000 in response and relief efforts after a tornado around that same time. (The City of Lancaster would have spent far more on this effort if it had not been supported by other nearby cities through mutual aid.)

You see a police officer

We see a police officer named Hal who works closely with fire departments and EMS, who knows every business owner downtown, who can name every city street, and who buys 12 snow cones on Saturdays, even though his T-ball team never won a game.

The things you don't think
about, cities provide.
And we're proud of it.



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Texas cities, unlike the cities of other states, don't receive general state financial assistance or state revenue-sharing. They don't ask the state to help fund the facilities and services on which regions and the entire state rely. But cities do ask that their authority to take care of themselves not be eroded. The power to annex is one of those key authorities, and to lose it would not only be very detrimental to cities, it would also be detrimental to the economy of the entire state.

Nonetheless, annexation powers have routinely come under attack in the legislature. The residents of unincorporated areas rarely favor being brought into a city involuntarily, and any city that has gone through a major annexation is well aware of how controversial the process can become. Rural landowners and others have regularly turned to their legislators for relief from city expansions, with the result that bills to curb unilateral annexations have surfaced in every session for the past 40 years.

Texas cities have been some of the fastest-growing in the United States. Evidence of the importance of unilateral annexation exists in other states where cities do not have that power. The broad power of Texas cities to annex has permitted cities in Texas to share in the benefits of growth in the surrounding areas. According to

Annexation: It Isn't a Four-Letter Word



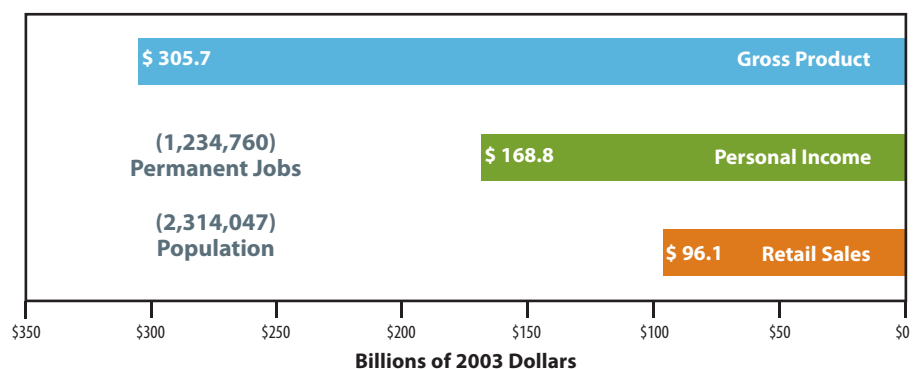
many national authorities, this annexation power is the primary difference between the flourishing cities of Texas and the declining urban areas in other parts of the nation. If San Antonio, for example, had the same boundaries it had in 1945, it would contain more poverty and unemployment than Newark, New Jersey. Without annexation, Texas cities would languish economically, as do northern cities with limited or no annexation power.

A 2003 report issued by The Perryman Group, a well-respected economic and financial analysis firm, shows that overly restrictive annexation policies would harm the Texas economy by reducing gross state product, personal income, sales, employment, and population. The study concluded that voter approval of annexations would essentially eliminate annexations and thus severely damage the state's economy.

Did You Know?

San Antonio's annexation of land on the south side of the city set the stage for Toyota's decision to build a new manufacturing plant in the city.

The Impact of Significant Restrictions on Annexation Capacity on Business Activity in Texas — Losses as of 2030



Source: Texas Econometric Model, The Perryman Group

Why Is Annexation Authority so Critical to the Texas Economy?

To understand the answer to this question, one must look to the most basic elements of municipal finance and intergovernmental relations.

- 1. Cities (city taxpayers) pay for a wide array of services and facilities that benefit entire regions and the entire state.** For example, it goes without saying that such basic activities as mail delivery couldn't take place if cities didn't construct and maintain streets. The economy of Texas would crumble without city investments in the basic infrastructure upon which business and industry rely. Cities are centers of employment, health care, entertainment, transportation, and merchandising used by non-city-residents throughout the region. This means that cities must support public safety services and a physical infrastructure sufficient to serve a daily influx of visitors from throughout the metropolitan region.
- 2. Most states recognize that cities should be assisted in making these expenditures that benefit entire regions and the whole state.** Virtually every state transfers state-generated revenue to cities to assist in the provision of services and facilities. They do this in recognition of the fact that cities (city taxpayers) are making expenditures that benefit all residents of the state. For example, all populous states give a portion of state gasoline tax revenue to cities to assist in street construction and repair. Many states share vehicle registration revenue or motor vehicle sales tax revenue with cities. A survey conducted by the National League of Cities found that cities across the nation receive 13 percent of their revenue from state aid.
- 3. In Texas, there is virtually no state aid to cities.** Take a look at a municipal budget and try to find a revenue line item called "Transfer from State" or "State Financial Assistance." While such line items are common in other states, you won't find them in Texas.
- 4. But Texas has allowed cities to annex.** Cities have used that authority to bring adjacent areas into the city and into the system through which cities finance the services and facilities that benefit the region and state.
- 5. To erode or eliminate municipal annexation authority without considering the issues of municipal revenue and intergovernmental relations would cripple cities and city taxpayers.** If annexation authority were to be eliminated, Texas would become the only state in the nation that denies both state financial assistance and annexation authority to its cities. Opponents of annexation cannot point to a single state that has restricted annexation authority without implementing fiscal assistance programs under which the state helps cities pay for the infrastructure on which the entire state depends.

Did You Know?

Current law provides numerous protections for rural landowners on the outskirts of cities. For example, a city is prohibited from annexing property that is appraised as agriculture or wildlife management unless a city first offers a "non-annexation agreement" to the landowner. Many landowners have accepted the agreements, which provide that the land won't be annexed unless development of the property commences. If a landowner declines an agreement and is annexed, both the Agriculture Code and the Local Government Code prohibit a city from enforcing most regulations that would interfere with farming, ranching, and certain other operations.

The Perryman report concludes that restrictions on annexation would mean that "the entire character of the Texas economy will be changed in a way which notably limits its capacity to support future growth and prosperity." Restricting annexation would result in a loss of more than \$300 billion in gross state product over the next 30 years, according to the report. In addition, the state will lose 1.2 million jobs and 2.3 million in population. In short, municipal annexation is an engine that drives the Texas economy, and turning off that engine would be devastating to the state's financial future. ★



Zoning:

A Primary Means to Protect Property Values and the Welfare of City Residents

Zoning is the division of a city into districts that permit specific land uses, such as residential, commercial, industrial, or agricultural. Zoning authority empowers a city to protect residential neighborhoods, promote economic development, and restrict hazardous land uses to appropriate areas of the city. It is designed to reduce street congestion; promote safety from fires and other dangers; promote health; provide adequate light and air; prevent overcrowding of land; and facilitate the provision of adequate transportation, utilities, schools, parks, and other public services and facilities.

As with all issues that affect the residents of a city, the power to zone is best exercised by the level of government that is closest to the people. For example, a person from a small town in the Panhandle cannot possibly know what type of zoning is best for a large coastal city.

Chapter 211 of the Texas Local Government Code contains many procedural requirements that must be followed when zoning property, including strict notice

Zoning Changes and Property Values

Because zoning is an essential power, statutes that require compensation when a property's value is affected by a zoning change are extremely rare in the United States. Rather, the U.S. Supreme Court and various state courts have set forth tests that are used to determine whether a government regulation requires compensation to a property owner.

In fact, the Supreme Court of Texas upheld a city's authority to make reasonable zoning changes. In that case, a city rezoned a residential area to provide for larger lot sizes. The rezoning was designed to create more open space, less traffic, greater setbacks, less noise, and similar results. The Court concluded that a city has a legitimate governmental interest in such results and in preserving the rate and character of community growth. The Court also found that no "taking" of the owner's property occurred, because the regulation did not impose a great economic impact on him.

Any legislative requirement that compensation should be paid when a zoning change (or any other municipal regulation, for that matter) allegedly reduces property value would create an untenable situation under which cities would either: 1) go bankrupt; or 2) be forced to give up the local power to zone property in the best interests of the community as a whole. And the reality is that most zoning changes are initiated by a property owner and *increase* the value of land.

and hearing provisions. The requirements ensure that residents of the city and affected neighborhoods have a strong voice any time a zoning change is considered. In addition, Chapter 211 provides for the creation of a planning and zoning commission to make recommendations on the adoption of initial regulations and to consider proposed amendments. Also, a board of adjustment may be appointed to hear requests for variances from the regulations.

Zoning authority is generally demanded by the residents of cities and citizens, through neighborhood and preservation groups, who support it wholeheartedly.

In essence, zoning grants a city the authority to prohibit detrimental uses and to promote beneficial uses. For example, zoning authority allows a city to prohibit lead-smelting plants or junkyards from being located in or near residential areas, thereby protecting the quality of life and property values for residents. Without zoning authority, the property values in a city would certainly drop.

Appropriate Use of Manufactured and Modular Housing

The Texas Manufactured Housing Standards Act allows cities to regulate the location of "manufactured homes," which must meet federal construction regulations. The Texas Industrialized Housing Act allows cities to require that "modular homes," which meet the more stringent requirements of the International Residential Code, have an appearance and value similar to nearby homes. Many cities take advantage of these provisions to protect property values and the safety of residents, while at the same time offering viable housing alternatives for lower income families. "Manufactured and modular housing provides a solution to affordable housing in appropriate areas under consciously adopted, well-thought-out regulations," says David Gattis, deputy city manager in Benbrook. **The Texas Municipal League is not by any means opposed to this type of housing, but strongly advocates the authority of cities to retain local control over when, where, and how this type of dwelling is installed. ★**

Keeping the Power On: Cities and Electricity

Cities have various interests relating to how they and their citizens get electric service, how cities with municipally owned electric utilities provide service, and the prices that everyone pays for electricity. Cities also receive franchise fees from utilities that use their rights-of-way, and they have original jurisdiction over the rates of investor-owned utilities in their cities.

How electricity is provided in Texas is complex and based on many moving parts in an always changing puzzle, there's no doubt about that. The following questions and answers provide a "primer" on the issues facing cities in this area. (Note: See "Cities Refuse to Accept Utility Rate Hikes Without a Fight" on page 42 to learn more about how cities without their own electric utility keep rates reasonable for their citizens.)

What are the different ways cities and their citizens get their electricity?

Cities and their citizens generally get their electricity in one of three ways: (1) from a municipally owned utility (MOU); (2) from an investor-owned utility (IOU); or (3) from a rural electric Cooperative (Co-op). Each of those providers usually has a monopoly in the areas it serves, based on a certificate from the state Public Utility Commission (PUC). (Note: A few areas of the state are served by river authorities and municipal power agencies. Also, with regard to an IOU, only the transmission and distribution component, discussed below, has a geographical monopoly in the deregulated market.)

After deregulation, MOUs and Co-ops retain that monopoly status, unless they choose—by a vote of their governing body—to adopt customer choice. The reasons for allowing MOUs and Co-ops discretion to retain their monopoly status are many, but one of the most important is that MOU and Co-op rates are governed by a city council or board, the members of which are elected by the customers. The city council or board of directors is therefore accountable directly to the customers they serve.

IOUs are also governed by a board of directors, but they are accountable to their shareholders, rather than their customers. The rates of an investor-owned transmission and distribution utility (discussed below) are regulated by the Texas Public Utility Commission (PUC) in a way that should—in theory—cover costs of operation and allow for a reasonable profit.



What is electric deregulation, and why should city officials care?

In 1999, legislation was enacted to deregulate the portion of the state that is served by IOUs. MOUs and Co-ops are given the option to participate in the deregulated market by "opting in" to competition. However, to date no MOU has opted in.

Prior to deregulation being fully implemented in 2002, a single IOU performed all the things necessary to provide service to customers within its designated service area. In simple terms, the legislation "broke up" or "unbundled" investor-owned utility monopolies. Those utilities were divided up into different components: generation, transmission and distribution, and retail service. Some utilities sold one or two of those parts of their business, while others created subsidiary companies to run them.

Generation companies obviously make the power with power plants, wind farms, and other means. Transmission and distribution companies move the power from the generators to other parts of the state with huge transmission lines, and ultimately distribute it to the customers through smaller distribution lines.

While the generation and retail portions of the market are now deregulated, the rates of transmission and distribution utilities are still regulated by cities and the PUC. That is necessary because the companies that generate power must have a reliable way to get that power to the retail companies, which actually sell the power to customers.

The retail companies are numerous and essentially speculate as to how much generation will cost them. They then offer price plans to consumers accordingly. They are the ones with which customers in a deregulated area interact. Customers can switch retail companies to try to get the best possible rate.

Certain areas of the state—including the Panhandle, El Paso, and certain areas in the northeast and southeast portions of the state—are served by IOUs, but have not been deregulated. Those areas are not a part of the main transmission grid in Texas. Thus, deregulation is impractical.

Whether deregulation has been beneficial to cities and their citizens remains the subject of heated debate. One thing is sure: Deregulation has changed the way cities in the deregulated market purchase power for city facilities. One way cities and other political subdivisions do that is by a process called aggregation. Aggregation means just what it says: Cities join together, or “aggregate,” to purchase energy at a better price than they could obtain by themselves. (Note: State law also authorizes citizens to aggregate, but the logistics of that process have made it all but useless. Previous legislative efforts to allow cities to automatically bundle-up their citizens and negotiate on the citizens’ behalf have failed.) The most well-known aggregation group is called the Texas Coalition for Affordable Power, which represents more than 100 cities.

Why aren’t MOUs opting in to the deregulated market?

Even though they are not required to do so, MOUs have the discretion to opt in to the deregulated market. Many state

leaders continue to applaud the Texas deregulated market as one that has created lower prices. For a number of reasons, that is questionable. It would also appear that MOUs aren’t convinced, and that their citizens prefer the consistently lower prices and better service that they provide. It’s a case of “if it ain’t broke, don’t fix it.” MOUs can wait and see if opting in to deregulation would really benefit their customers. Also, an MOU that opts in is essentially stuck with that decision. Further, opting into competition would require an MOU to undertake the complex and expensive process of breaking up its service into the three components of the deregulated market (that is, generation, transmission and distribution, and retail).

What are recent criticisms levied against MOUs?

Some MOUs have been criticized recently for transferring some of their profits to the city’s general fund. Interestingly, even larger cities that transfer large amounts of revenue have electric rates that are comparable to, or lower than, IOUs serving the deregulated market.

In addition, cities may or may not charge their MOUs franchise fees for the use of the city’s rights-of-way. Thus, the transfer is often analogous to a franchise payment that the city would receive from an IOU that uses the city’s rights-of-way. In any case, it is currently up to each city’s council to decide how to handle transfers. Another way to look at transfers is that they are very similar to the return on investment that IOUs give back to their shareholders. But in the case of an MOU, the “shareholders” are the taxpayers of the city. Transferred revenue is used to pay for services (police, fire, EMS, streets, and so on) that are used by the customers of the MOU. The transferred revenue is used to keep property tax rates low, which benefits the taxpayers served by the MOU.

What are electric franchise fees?

Electric franchise fees are fees paid by IOUs or Co-ops (and in some cases, MOUs that provide service in other cities) that use a city’s rights-of-way to provide service. Both state law and the Texas Constitution provide that a city may not allow a private entity to use city property for free.

Some argue that franchise fees of any type are a “hidden tax” on utility service. Of course, the municipal position is that the fees are authorized by state law. In fact, the Texas Constitution prohibits a city from giving away anything of value (for example, the use of city property) to a private entity. Thus, the city position is that the fees are nothing more than “rental” payments for the use of city property. ★



Thriving Libraries Reflect Thriving Cities

Perhaps no place in any community is so totally democratic as the town library.

The only entrance requirement is interest.

—Lady Bird Johnson

*Information
is the currency
of democracy.*

—Thomas Jefferson

Current statistics from the Texas Library Association (TLA) show that there are 561 public libraries in Texas, with an additional 314 public branches and bookmobiles. Public libraries—both city and county—consistently rank high among taxpayers in terms of community services. A 2008 public opinion survey, conducted on behalf of the TLA, found that Texas voters were nearly unanimous in their belief that public libraries create educational opportunities for all citizens (97 percent agreed), and 95 percent of voters believed that public libraries improve the quality of life in their community.

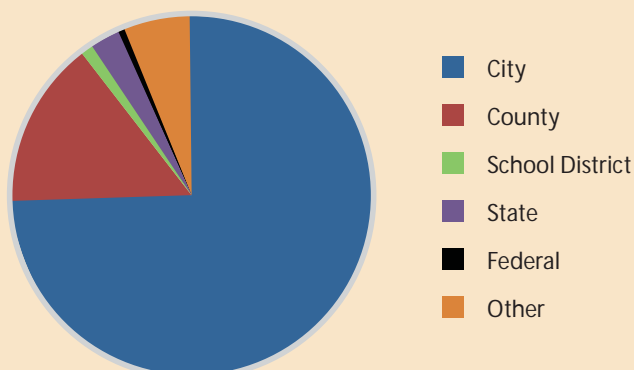
Trusted and diverse institutions, city libraries offer a wide array of education and business resources in varied formats, including both electronic and print media. Additionally, city libraries offer access to the Internet and valuable technology services. From promoting literacy and

education to helping people find jobs and improve their work skills, city libraries are an essential part of a community's education infrastructure.

Communities value their city libraries as centers of information and learning, as well as a gathering point for ideas and discussion. City libraries are representative of local education and community vitality. In fact, many businesses—particularly those requiring a highly skilled workforce—look to the city's library as a barometer of local commitment to education and workforce readiness. And for many small businesses, the library provides needed research resources that they could not otherwise afford.

The TLA reports that 75 percent of public libraries serve communities smaller than 25,000 in population. In small Texas cities, the library may be the only place that offers information resources and a place for the community to gather. ★

Texas Public Libraries: 2010 Income by Source



Source: Texas State Library and Archives Commission, Statistics for Texas Public Libraries, Statewide Comparison Statistics: 1997 to 2010

Use of Public Libraries in Difficult Economic Times

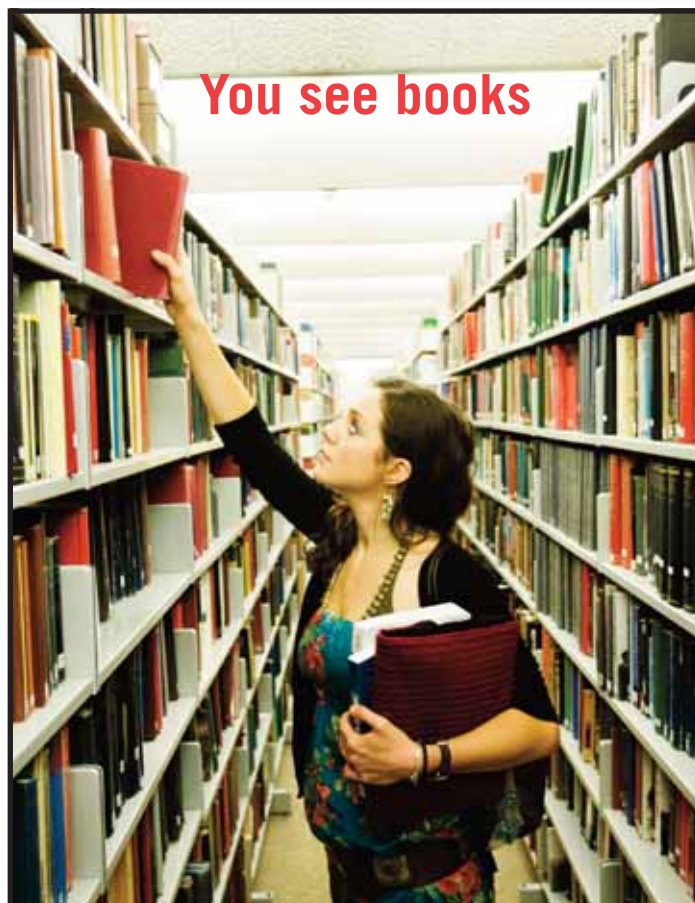
During the economic downturn, public libraries have seen usage increases of ten to thirty percent. Keith Michael Fiels, executive director of the American Library Association, explains that “people are coming to libraries to look for jobs, they’re coming to libraries to access government services and government assistance, and they’re coming to libraries because libraries are a great deal for people who are trying to stretch a dollar.”

In a 2008 public opinion survey:

- 90 percent of Texas voters agreed that during hard economic times, public libraries provide an important resource to families and job seekers;
- 83 percent of Texas voters believed that public libraries support the economy through job skills training, career and job information, and resources for local businesses; and
- 94 percent of Texas voters agreed that public libraries are a good value for the tax dollar.

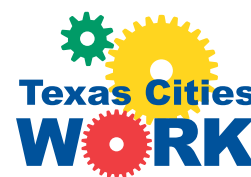
An American Library Association study found that “[f]or the third consecutive year, libraries report that services for job-seekers remain the top-rated Internet service.” Almost half of all libraries reported, however, that they do not have either the staff or expertise to help patrons effectively use employment and e-government services.

Sources: American Library Association, 2010 State of America's Libraries Report (Apr. 11, 2010)
Fall 2008, KRC Public Opinion Survey conducted on behalf of the Texas Library Association
American Library Association, Libraries Connect Communities: Public Library Funding & Technology Access Study 2011-2012



We see a library with a staff of dedicated librarians and volunteers, a children's section with story time on Wednesday afternoon, computer classes for seniors, book discussion groups for all ages, and thousands of books and other resources available to you...at your city library.

The things you don't think
about, cities provide.
And we're proud of it.



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Texans Keep Healthy in City Parks

People value the time they spend in city parks, whether walking a dog, jogging, watching a soccer game, or having a picnic. Along with these expected leisure amenities, parks can also provide measurable health benefits, from providing direct contact with nature and a cleaner environment, to opportunities for physical activity and social interaction. A telephone survey conducted for the American Public Health Association found that 75 percent of adults believe parks and recreation must play an important role in addressing America's obesity crisis. City parks are the front line in the battle of the bulge, and they help keep Texans feeling their best.

Texas cities provide recreation programs that improve the quality of life for individual participants and the overall community. All Texans, including youth and seniors, benefit from the opportunity to increase their health and reduce stress. Communities are strengthened by opportunities to build partnerships, enhance diversity, and learn tolerance through teamwork.

A 2006 study by The Perryman Group found that the physical health of individuals and environmental contributions are often the first benefits people associate with local parks. People with the best access to both built and natural facilities are 43 percent more likely to exercise 30 minutes most days of the week, clearly illustrating the importance of local parks in the fitness movement.

According to the American Planning Association, there is evidence that when cities provide parks, it can make communities safer. City parks also encourage youth to step



away from their televisions and computer games for real social interaction while playing basketball, softball, soccer, gymnastics, or simply enjoying sunshine and wildflowers.

City parks provide outdoor recreation resources such as swimming pools, softball fields, and Frisbee golf courses. Cities also provide indoor recreation activities for sports, arts, and nature programs.

Because of the different ways people experience recreational activities, cities need to provide all types, from neighborhood facilities to large natural areas. ★

The Texas Economy Keeps Healthy in Local Parks

- Parks contribute to residential and commercial real estate values. An analysis of approximately 30 studies found a positive impact of 20 percent on property values abutting or fronting a passive park area.
- Local parks across the state lead to the creation of 45,623 jobs through their maintenance and operations activity, capital investment, and direct tourism.
- By adding the effects of operations and maintenance, capital spending, and tourism, a total gross impact can be derived. Across the state, the total impact of local parks leads to an addition to business activity including \$6.439 billion in spending.
- The incremental net fiscal revenue to the state government from local parks activity is approximately \$171.6 million per year.

Information from Sunshine, Soccer, and Success: An Assessment of the Impact of Municipal Parks and Recreation Facilities and Programs on Business Activity in Texas by The Perryman Group for the Texas Parks and Recreation Foundation in December 2006.

The Texas Municipal Retirement System: Proven Success

Many states around the country are faced with huge deficits in public worker pension plans. That has prompted lawmakers in those states to seek large-scale reforms in their retirement systems. Over the last few years, many states have undertaken major efforts to address those deficits by converting public pensions from defined benefit to defined contribution plans, which are similar to a 401(k). As those funding crises across the country continue, the drumbeat for “reform” in Texas pensions will continue to grow louder.

In Texas, the Texas Municipal Retirement System (TMRS) is responsible for the administration of a majority of city retirement plans covering both public safety and civilian city employees. The system is made up of 849 member cities, 101,000 contributing members, and 39,000 annuitants.

TMRS has taken great strides over the last two legislative sessions to make improvements in the system that provides retirement benefits to a majority of Texas city employees. The effects of reforms passed during the last two legislative sessions continue to make TMRS more efficient. They have stabilized benefits and lowered city contribution rates, while ultimately using fewer tax dollars to fund pensions:

- In 2009, the legislature passed H.B. 360. The bill placed the system on solid footing and set it on a course to become a model across the country. H.B. 360 guaranteed an annual interest credit of at least five percent to member accounts and set the annuity purchase rate for retirees at a minimum of five percent. It also provided reasonable rate stabilization to cities.

- In 2011, the legislature passed S.B. 350. The bill restructured TMRS by combining the system’s three distinct accounts into one fund (the Benefit Accumulation Fund). This restructuring has created efficiencies in the TMRS system by providing more efficient funding, reducing year-to-year volatility in city contribution rates and resulting in lower contribution rates and improved funding ratios for most cities without reducing member or retiree benefits.

There are numerous reasons why TMRS has been so successful. TMRS relies on a 19-member advisory board that includes TMRS retirees, elected officials, pension experts, as well as representatives from both labor and employer groups. This advisory group thoroughly vets all legislative proposals, while moving forward only with those that have consensus. The unified front during a legislative session provides for easy passage of the needed reforms.

Because of TMRS’s efforts during the last four years, it has proven to be a well-funded model for pensions around the country. Although the drumbeat for public pension reform may persist, the legislature has no reason to target a well-run system like TMRS. ★



About the Texas Municipal League

The Texas Municipal League exists solely to provide services to Texas cities. Since its formation in 1913, the League's mission has remained the same: to serve the needs and advocate the interests of its member cities.

The TML Constitution states that the purpose of the League is to “render services which individual cities have neither time, money nor strength to do alone.”



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