

CHAPTER 10 – ECONOMIC DEVELOPMENT

Economic development is, of necessity, a partnership between public and private interests to promote extensive and prolonged private investment. Available land, customer base, workforce, financing options and supporting community incentives are factors necessary to take advantage of an expanding local and regional economy. From the City’s perspective goals, objectives and actions are needed that will attract and sustain desirable businesses and industries, thus increasing the overall tax base. Ancillary commercial establishments will, in turn, provide additional tax revenues to support the community’s quality of life.

It is a generally accepted attitude that a city cannot sustain and expand its key services relying solely on property taxes, development fees, and building permits. Specifically, the City must partner with its commercial property owners to attract businesses that will provide goods and services for the citizens. Locations should be of sufficient size as to attract industries and retail establishments. This partnership involves appropriate zoning, utility extensions, and incentives.

Economic Development and Comprehensive Planning

Economic development is a significant component of Stephenville’s future. Business and industrial location and relocation initiatives should reflect the City’s vision to have balanced commercial development that supports the City’s vision. New businesses and industries need to have adequate and appropriately zoned areas that are in accordance with the Future Land Use Plan. The vitality and fiscal stability of Stephenville’s economy is a key contributor to the continuing quality of life for the citizens. When new businesses locate in Stephenville, they will contribute to a thriving economy and expanding tax base. Funds generated by sales tax and property tax revenues will then provide the City with the resources to achieve the goals of the Comprehensive Plan.

Key Issues

Reviews of current conditions and trends, previous plans and studies, and community input brought to the forefront a set of key economic development issues in and around Stephenville.

- ◆ **Attraction of high quality industry to Stephenville:** For Stephenville's economic growth, it is necessary that the City be able to attract high quality technology and logistics industry to locate in Stephenville. Given its proximity to the DFW Metroplex, Stephenville may be the ideal location for warehouse, distribution, and transport facilities and support industries.
- ◆ **Support for existing industries:** Stephenville is fortunate have a number of successful industries including FMC, St. Gobain, and Fibergrate. The city should continue to work with these corporate citizens, meet their expansion needs and encourage complimentary industries.
- ◆ **Expansion of industrial areas:** For economic growth, it is essential to provide sufficient land zoned for industrial uses in the city, and that such land is large enough and has the required utilities and infrastructure for industrial functions.
- ◆ **Diversification of housing stock:** At present, the City has a limited supply of housing. To attract new businesses to the City there needs to be a variety of housing options for the work force to be able to live in Stephenville.
- ◆ **Regional location:** Stephenville's strengths are in its location as the County seat, home of Tarleton State University, and location for shopping. As a regional center the City needs to encourage and support local provision of goods and services.
- ◆ **Creation of a Business Park:** The creation of one or more attractive, strategically located Business Park would provide incentives for businesses to locate to the City. These areas could have a level of architectural control and must have adequate infrastructure.
- ◆ **Fully allocated sales tax:** At present, the City is not able to assign any of its sales tax toward economic development as the tax has been fully allocated. Any change would require a vote by the citizens or a change by the State Legislature.
- ◆ **Competitive edge, yet maintain identity of Stephenville:** Stephenville's identity and small town charm is why many people have made this City their home. Becoming competitive in economic development endeavors while maintaining the identity and charm of the City would give the City a unique position in the Metroplex.
- ◆ **Viability of Airport:** At present, the profitability and use of the Clark Field Airport is in question. However, the airport should be considered an economic asset, to be fully taken advantage of and protected for future growth.

- ◆ **Absence of City Economic Development entity:** At present there is no city funded economic development governing body for Stephenville. The Chamber of Commerce and the Stephenville Economic Development Corporation (STEDCO) work together as a response team to economic development, but not as one that actively and aggressively works toward economic development.
- ◆ **Cooperation between City, County and other public and private entities:** For the City's economic development to thrive, cooperative efforts need to be made, communication improved and resources shared.

Economic Development Expectations

With the expected stable population in Stephenville, Erath County and the surrounding communities, the City is ideally located to attract new development that will provide goods and/or services. These include technology centers, warehouse and distribution centers which in turn provide the customers for grocery/drug stores, specialty shops, restaurants or personal services such as dry cleaners and appropriately located fuel vendors. Professional offices and services are also included in the commercial mix. Also, being a regional center and strategically located at the confluence of three major highways (US 67, US 281, and US 377), economic development opportunities are abundant. The City's geographic position, land and resources can attract businesses and industries to the City.

In promoting economic development, the City should continue to be mindful of what initially attracted residents to Stephenville - its quality of life. Commercial development should not be allowed to infringe upon existing neighborhoods and new residential development should be buffered from businesses.

For successful economic development, consideration should be given to the costs of providing and maintaining public services associated with new development so that it does not exceed anticipated revenues. Although sales and commercial property tax revenues generally more than offset the costs of providing public safety (and even underwrite the services provided to residences), the City should not extend services beyond what can be handled.

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One method of directing the City's economic growth is the use of an Economic Development Corporation. State Statutes provide that a city may create entities that can dedicate a portion of sales taxes to attract new business and industries. However, currently in Stephenville, sales tax is used to its maximum. A portion of sales tax is currently being used to reduce property tax in the City. This was a decision made in the early 80s by the citizens of Stephenville. The City's portion of sales tax is 1.5 cents per dollar. Of this one cent is directly used for the general fund, and one half cent is used to offset property taxes. This cannot be changed without a citywide vote. A discussion of the different potential types of corporations and other economic development funding and incentives follow the goal, objectives and actions in this chapter.

Goal, Objectives, and Actions

Economic Development Goal: A cooperative effort between the City, the Chamber of Commerce, STEDCO and citizens to support retention and expansion of existing businesses and attract new businesses in targeted economic sectors.

Objective ED1: Attract desirable businesses and industries to locate in Stephenville.

Action ED1.1: Aggressively market the location advantages of the City of Stephenville for business and industry.

Action ED1.2: Develop, with STEDCO and Chamber, attractive and expanded economic incentives for businesses to locate to the City.

Action ED1.3: Promote the Clark Field Airport as one of the City's unique resources and one that is ideal for economic development opportunities.

Objective ED2: Ensure adequate land and utilities for the expansion of existing industries and businesses and for new ones.

Action ED2.1: Coordinate with Future Land Use Plan and Utilities Assessment for appropriate locations for expansion and for new commercial and industrial areas, and business parks.

Objective ED3: *Provide a diversified housing stock to meet needs of Stephenville's growing population and industries.*

Action ED3.1: Encourage through zoning and land use a variety of housing options.

Objective ED4: *Continue to support and assist existing businesses in their growth and in safeguarding their position in the City.*

Action ED4.1: Develop assistance programs and identify existing funding and support mechanisms for the City's businesses.

Objective ED5: *Encourage cooperation and communication between City, County and other public and private entities to promote economic development.*

Action ED5.1: Consider establishing a City/County/STEDCO/Chamber task force in lieu of an economic development corporation.

Objective ED6: *Consider the creation of a City economic development corporation (EDC)*

Action ED6.1: Investigate the means, methods and requirements for a City EDC.

Role of City Government

The City's role in economic development is in assuring an adequate amount of land zoned for business and industrial uses, provide and maintain necessary infrastructure and give appropriate incentives to support existing businesses and industries while encouraging the location of new industries. This will serve to increase the city's tax base and that can ultimately result in enhancement of the quality of life in Stephenville.

Current Cooperation

The Stephenville Economic Development Corporation (STEDCO), a private entity, works in cooperation with the Stephenville Chamber of Commerce to serve as the "Economic Development Response Team". STEDCO assists clients that wish to relocate to Stephenville by understanding their needs and arranging to have those needs met, as well as recruit businesses and provide incentives for businesses to locate to the area. STEDCO, however

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is not funded by the City, and does not function as a traditional Economic Development Corporation.

Economic Development Corporations Overview

Should the City, in the future, be in a position to create an EDC, the following excerpt from the *Handbook on Economic Development Laws for Texas Cities* will be helpful. This information was compiled by the office of the Texas Attorney General and provides a full explanation of Article 5190.6, and 4A and 4B of the *Texas Civil Statutes Article 5190.6*.

Background

Since 1979, Texas law has allowed cities to form Economic Development Corporations to attract businesses and create job opportunities. In 1989, the Legislature amended *The Development Corporation Act of 1979* to allow eligible cities the option of adopting a dedicated sales and use tax to fund industrial development projects. Further legislation in 1991 provided cities with a second form of sales tax to improve their viability as places to live, work and visit. These local sales and use taxes are known as "the economic development sales taxes." The authority to enact the sales and use tax for economic development is found in the Texas Local Government Code. This legislation is for both home rule and general law cities.

There are two types of Economic Development Corporations in Texas that utilize sales and use taxes as their funding. The 4A tax, authorized in 1989, is limited in use to industrial and manufacturing facilities, recycling facilities, distribution centers, small warehouse facilities, closed or realigned military bases and some allowances in the areas of commercial business development, business airport facilities, and port-related facilities.

In 1991, the 73rd Legislature added Section 4B, which allows greater flexibility in the use of revenues. Generally, allowable 4B expenditures include not only those available under 4A, but also projects that contribute to the quality of life in the community, such as park-related facilities, professional and amateur sports and athletic facilities, tourism and entertainment facilities, affordable housing and any other improvements or facilities to promote new or expanded business

enterprises. In 1999, the 76th Legislature added job training, targeted infrastructure, job creation and retention and educational facilities to the definition of "project," thereby expanding the allowable uses of the economic development sales tax revenues. As of July 2000, 441 cities had adopted economic development sales taxes with 125 cities adopting a 4A tax, 247 cities adopting a 4B tax and 69 adopting both 4A and 4B taxes.

Cities may adopt an economic development sales tax under 4A or 4B at a rate of 1/8, 1/4, 3/8 or 1/2 of 1 percent if the new total rate of all local sales and use taxes does not exceed 2 percent. Cities also may limit the duration of the tax and the use of the funds. *The Development Corporation Act* also requires a city to establish a development corporation to administer and oversee the expenditure of the 4A and 4B sales and use tax funds. The development corporation is governed by a board of directors appointed by and that serve at the pleasure of the city's governing body.

Upon receipt of the sales tax from the Comptroller, a city is required to deliver the funds to the development corporation. The board makes all decisions regarding the use of this local revenue in undertaking projects; however, the city retains oversight authority.

Eligibility to Adopt Section 4A Tax

A city is eligible to adopt a Section 4A tax, with voter approval, provided that the new combined local sales tax does not exceed two percent and:

- ◆ The city is located in a county with a population of under 500,000; or
- ◆ The city has a population of less than 50,000 and is located within two or more counties, one of which is Bexar, Dallas, El Paso, Harris, Tarrant or Travis County; or
- ◆ The city has a population of less than 50,000 and is within the San Antonio or Dallas Rapid Transit Authority territorial limits, but has not elected to become part of the transit authority.

Stephenville is located in Erath County which, according to 2000 Census data, has a population of 33,001. By definition, Stephenville is currently eligible to adopt a Section 4A tax with voter approval. The county criteria is the only one of the above criteria that is applicable to Stephenville.

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Eligibility to Adopt Section 4B Tax

A city may impose the Section 4B tax, with voter approval, if the new combined local sales tax rate does not exceed two percent and if the city fits into one of the following categories:

- ◆ The city would be eligible to adopt a Section 4A sales tax; or
- ◆ The city is located in a county with a population of 750,000 or more and the current combined sales tax rate does not exceed 8.25 percent at the time the Section 4B tax is proposed; or
- ◆ The city has a population of 400,000 or more and is located in more than one county, and the combined state and local sales tax rate does not exceed 8.25 percent.

If and when Stephenville is eligible for the Section 4A sales tax; therefore it is eligible for the Section 4B sales tax as well. The criteria for being eligible for the Section 4A sales tax is the only criteria currently that applies for Stephenville to apply for a Section 4B sales tax.

Under both 4A and 4B, the Development Corporation Act has unique provisions that require cities to establish a corporation to administer the sales and use tax funds. The corporation must file Articles of Incorporation with the Secretary of State, which must state that the corporation is governed under *Vernon's Annotated Civil Statutes Article 5190.6, 4A or Article 5190.6, 4B* of the Development Corporation Act of 1979. It may also qualify as a tax-exempt 501 (c)(3) corporation under the Internal Revenue code.

What are the differences between a 4A tax and a 4B tax?

- ◆ **4A** - The tax is primarily intended for manufacturing and industrial development, and cities must use the tax revenues to focus on these areas.
- ◆ **4B** - The tax provides cities with a wider range of uses for the tax revenues because it is intended to give communities an opportunity to undertake a project for quality of life improvements, including economic development.

Funding Mechanisms For Economic Development

The City has identified a variety of incentives that expresses its commitment to the promotion and retention of high quality development to better the quality of life for its citizens through the enhancement and expansion of the local economy. To meet these objectives, the City of Stephenville has and will continue to, on a case-by-case basis, consider

providing tax abatements, tax increment financing (TIF) or reinvestment zones, neighborhood empowerment zones or other economic development incentives to aid the stimulation of economic development. The City of Stephenville may give said consideration in accordance with their established *Economic Development Incentives Program Guidelines and Criteria*, however this does not imply or suggest that the City of Stephenville is under any obligation to provide tax abatements or incentives to any applicant.

Participation in an abatement or incentive agreement does not remove any obligation to satisfy all codes and ordinances of the City or any other affected taxing jurisdiction that may be in effect and applicable at the time this project is implemented.

Sample Funding Mechanisms

There are a variety of ways to support economic development. The following funding methods should be further researched to determine which would be appropriate for Stephenville.

Sales Tax for Economic Development – With voter approval to change the sales tax structure in Stephenville, an Economic Development Corporation may be created to promote the creation of new and expanded industry and manufacturing activity within the city and surrounding vicinity. The Section 4A-Development Corporation is funded by the imposition of a local sales and use tax dedicated to economic development.

Alternative Tax Initiatives for Local Development - Cities may adopt a venue project tax whereby they can collect taxes to fund a specific voter-approved economic development project. Projects may include sports stadiums, convention centers and related improvements, or tourist development along an inland waterway. Venues that may be taxed include admissions, motor vehicle rental, event parking, hotel occupancy and facility uses.

Local Property Tax Incentives - A city may use the following to attract new industry and commercial enterprises to the area:

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Property Tax Abatement is a means by which a city may enter into an agreement to abate (waive and/or postpone) property taxes in a "reinvestment zone".

Tax Increment Financing is a tool to publicly finance needed structural improvements and enhanced infrastructure within a defined area. The costs of the improvements are repaid by the contribution of all or a portion of future tax revenues that are attributed to the increase in the property values due to the improvements in the reinvestment zone.

Freeport Exemption adopted in August 2000, is a type of property tax exemption for certain items that are detained in Texas for a limited period of time for storage or factory processing. It may enhance the ability to attract warehouse and distribution centers. This exemption was instituted in 1990 unless the taxing authority took specific action to continue to tax certain applicable property.

Economic Development through Tourism - A city may use the following programs to augment tourism programs that bring visitors to the area and create a **Local Hotel Occupancy Tax** that provides an important source of funding for maintenance of a city's tourism program.

Designation under the Texas Program for Historic Landmarks with the owners' approval provides eligibility for ad valorem tax exemptions and state grant preservation funds, technical preservation assistance and inclusion in travel guides.

Designation by the National Register for Historic Places makes certain tax credits available for certified rehabilitation of income-producing buildings and allows for federal historic preservation grants-in-aid.

Grants and Loans - A city may provide a grant or loan of city funds or services to promote economic development, but must ensure that the public purpose of economic development will be pursued by the business through the creation of jobs, or expansion of the tax base by construction of or enhancement of physical facilities. Safeguards and demonstrable

benefits should be stipulated in a contract agreement in which there are tangible means for measuring the business' meeting of its obligations.

A city may provide land to promote economic development by obtaining and even partially developing a site to show businesses that may relocate to the area. Examples may include the purchase of land for municipal facilities including water and sewer treatment plants, industrial parks, municipal airports and city streets.

Issuing Debt For Economic Development - If permitted by the city charter, a city may issue bonds to finance infrastructure improvements and certain manufacturing and commercial facilities. These bonds may be issued through the Development Corporation or a Tax Increment-Financing District (TIF). Commercial buildings must be subsequently leased to a private entity. Bonds may also be issued by an industrial development corporation and are payable solely from the sales tax proceeds.

Enterprise Zones - An enterprise zone is an economic development tool that allows a community to partner with the State to offer local and state tax and regulatory benefits to new or expanding businesses in distressed areas. Stephenville is eligible to apply as a rural community.

Economic Development and Infrastructure Improvements - Public Improvement Districts (PIDs) and Business Improvement Districts (BIDs) provide means for undertaking public improvements that allow a city to levy and collect special assessments for property in the city or its ETJ. Improvements may include water, wastewater, sewer drainage, sidewalks, street, mass transit, parking, library, park and recreation, landscaping, art installation, pedestrian malls and other similar projects. Also included are safety services and business-related services such as advertising, recruitment and development. The city or affected property owners must petition for the creation of a PID or BID. The revenue from the special assessment must be used for the specified improvements or developments in the PIDs and BIDs.

Municipal Management (Downtown) Districts (MMDs) are a relatively new way that commercial property owners may enhance a defined business

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area to finance facilities and improvements above and beyond what is already provided by the city or property owners. The improvements may be paid for by a combination of self-imposed property taxes, special assessments impact fees and other charges against the property owner. Such a district is meant to enhance, not replace city services in the area.

As Stephenville continues to grow, it will need to continually assess the importance of economic development and the various ways to provide the quality of life so important to its citizens.