



Economic Development

Sachse Comprehensive Plan

Community economic development is derived from public/private partnerships that promote extensive and prolonged private investment. Human resources, land development, financing and the creation of supporting community organizations are the factors necessary to advance a growing economy. A community's economic development program should include policies and actions that are designed to attract industry, encourage business growth and promote job creation and retention. Key concepts include cooperative action, collaboration and sustained private investment via the marketplace. A city's economic development program relates to community actions designed to attract industry, encourage business growth and promote job creation. Sachse's economic well-being results from the location within the community of companies engaged in manufacturing, production or distribution of goods and services.

Sachse has a number of assets that are essential to continued economic growth: a strategic location in the Dallas and Collin Counties, the President George Bush Tollway, available land, accessibility and consumer markets. In the past year, the City has begun to actively practice a higher commitment to economic development in an effort to achieve gains in revenue.

LINK BETWEEN ECONOMIC DEVELOPMENT AND COMPREHENSIVE PLANNING

Economic development is a significant component of comprehensive planning, since it is closely linked to all elements that contribute to "quality of life". The economic development program and strategy for primary job growth support the Comprehensive Plan's shared vision of what the citizens of Sachse want the City to be now and in the future.

Information on the availability of sites and permitted uses is readily available in the Future Land Use Plan and Zoning Ordinance, an implementation tool of the Comprehensive Plan. Current and planned access to the business and industrial sites are important considerations for a business or industry when considering new locations. Other factors affecting location include available job force, suitable housing and education. The overall health and vitality of Sachse's economy is a key contributor to the quality of life for the citizens. When businesses locate in Sachse, they contribute to a thriving economy and expanding tax base. Funds generated by sales tax and property tax revenues provide the City with the resources to achieve the goals of the Comprehensive Plan.

ECONOMIC DEVELOPMENT 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. More information on EDC activities may be found in the guidebook published by the Office of the Attorney General, the *Handbook on Economic Development Laws for Texas Cities*. 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 Vernon's Ann.Civ.St. art. 5190.6 4A, 4B.

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. Wylie, for example, is a 4A Corporation.

In 1991, the 73rd Legislature added #160 4B, which allows greater flexibility in the use of revenues. **The Sachse EDC is a 4B Economic Development Corporation.** 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 adopting a 4A tax, 247 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 would 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. In 1994, the citizens of Sachse decided by a referendum vote to establish the Sachse Economic Development Corporation.

PRIMARY ECONOMIC DEVELOPMENT OBJECTIVES

Survey data from the Texas Comptroller's office demonstrates the objectives and ways that Texas EDC's spent their money in 1998 and 1999. As shown in **Figure 8-1 - Primary Development Objectives Comparison**, many corporations listed more than one primary economic development objective. Job creation and job retention was the preferred activity.

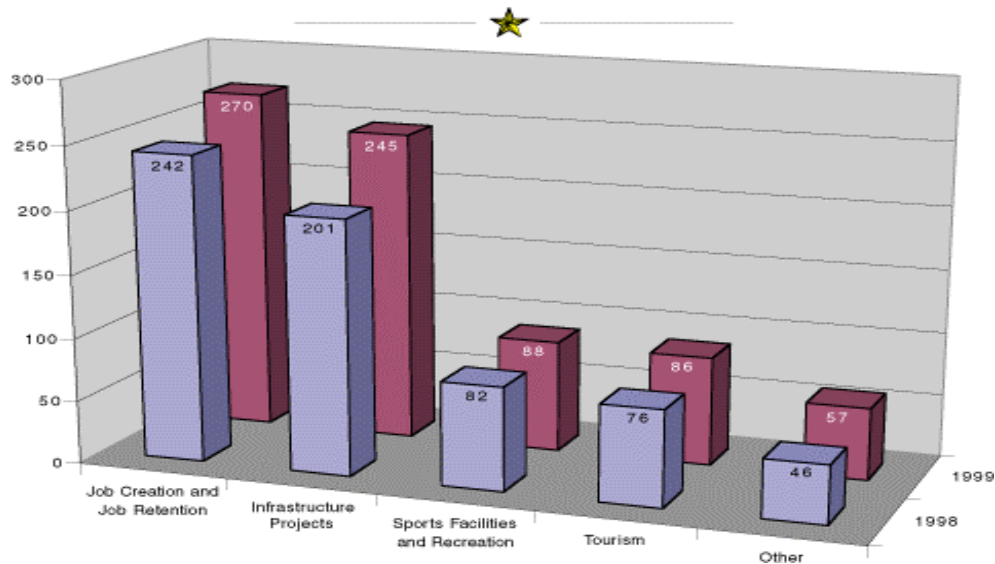
Infrastructure and projects came in second. Sports facilities, tourism and other received almost equal preference. Of the fiscal year 1998 completed forms, 242 corporations listed "job creation/job retention" as a primary economic development objective; 201 corporations listed "infrastructure /projects"; 82 listed "sports facilities/ recreation"; 76 selected "tourism"; and 46 listed "other".

For fiscal year 1999, 270 corporations listed "job creation/job retention" as a primary economic development objective; 245 corporations listed "infrastructure projects"; 88 listed "sports facilities/ recreation"; 86 selected "tourism"; and 57 listed "other".

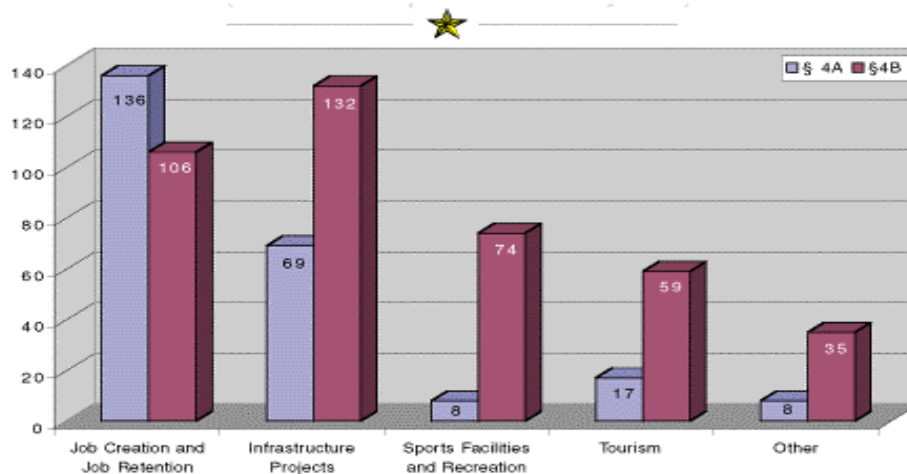
Report findings for fiscal year 1998 show significant differences between primary economic development objectives preferred by 4A and 4B corporations. These differences are illustrated in **Figure 8-2 -Differences Between Primary Objectives of 4A and 4B Corporations**. Job creation and retention was the activity of choice for 4A corporations. One hundred thirty-six or 81 percent of the 4A corporations listed "job creation/job retention" as a primary economic development objective, while 106 or 45 percent of the 4B corporations listed this as a primary objective. Section 4B corporations had more of a leaning towards infrastructure projects, sports facilities and tourism than did 4A corporations. One hundred thirty-two or 56 percent of the 4B corporations listed "infrastructure projects" as their primary objective, while only 69 or 41 percent of the 4A corporations indicated infrastructure was a primary objective.

One noteworthy difference between the two fiscal years report of primary economic development objectives has to do with "infrastructure projects." There was a notable increase in "infrastructure projects" as a primary economic development objective by 4B corporations from one fiscal year to the next. A total of 172 (63 percent) of the 272 4B corporations listed "infrastructure projects" as a primary economic development objective in fiscal 1999, compared to 132 (57 percent) out of 233 corporations in fiscal year 1998.

**FIGURE 8-1
PRIMARY DEVELOPMENT OBJECTIVES COMPARISON**



**FIGURE 8-2
DIFFERENCES BETWEEN PRIMARY OBJECTIVES
4A AND 4B CORPORATIONS**



DEVELOPMENT CORPORATIONS

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 Ann.Civ.St. art. 5190.6, 4A or art. 5190.6, 4B of the Development Corporation Act of 1979.

BOARD OF DIRECTORS

The composition of the corporation's board of directors and the length of a member's term differ between 4A and 4B. Under 4A: The city's governing body must appoint a five-member

board. Each member is appointed to a term not to exceed six years. Under 4B: The city's governing body must appoint seven directors. Three of the seven directors cannot be employees, officers, or members of the city's governing body. The other four directors may be, but are not required to be, members of the governing body or city employees. All directors are appointed to a two-year term under 4B. The directors of a corporation authorized under 4B must be residents of the city authorizing the sales tax if the city's population is 20,000 or more. There is no city residency requirement for 4B directors in cities with fewer than 20,000 population as long as the director is a resident of the county in which the majority of the city is located. The board of directors authorized under 4A and 4B serves at the pleasure of the governing body and must conduct meetings within the city's boundaries. A majority of the board (four members) constitutes a quorum.

The industrial development corporation board of directors is subject to both the Open Meetings Act and the Open Records Act. Additionally, the Development Corporation Act requires the board to conduct all of its meetings within the city limits. At one of its first meetings, the board is required to elect a president, a secretary, and any other officers that the governing body of the city considers necessary. The corporation's registered agent must be a resident of Texas, and the corporation's registered office must be within the boundaries of the city.

HOW TAX REVENUE CAN BE USED

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.

4A Sales Tax

Cities may use the money raised by this sales tax to acquire land, buildings, equipment, facilities and improvements for purposes related to:

- ✦ Manufacturing and industrial facilities, recycling facilities, distribution centers, small warehouse facilities;
- ✦ Commercial development and expansion in blighted or economically depressed areas and development areas;
- ✦ A general aviation business service airport that is an integral part of an industrial park;
- ✦ Port-related facilities to support waterborne commerce; and
- ✦ Maintenance and operating costs associated with projects.

A corporation created under 4A cannot assume, or pay principal or interest on, debts that existed before the city created the corporation.

SPECIFIC COSTS OF A SECTION 4B PROJECT THAT MAY BE FUNDED

Cities must understand what general categories are available for expenditures. They additionally need to know what types of specific expenditures are contemplated within each of these categories. For assistance in understanding what is permitted under the Act, cities should review the definition of the term "cost" under Section 2(4) of the Act. Section 2(4) of the Development Corporation Act defines what costs may be applied to a Section 4B project. It states in pertinent part that costs for a project may include:

- a. **Land and facility improvements:** the cost of acquisition, construction, improvement, expansion of land, buildings and acquisition of right-of-way.
- b. **Machinery and supplies:** the cost of machinery, equipment, inventory, raw materials and supplies.
- c. **Financial transaction costs:** the cost of financing charges, certain interest before and during construction and necessary reserve funds.
- d. **Planning costs:** the cost of research and development, engineering and legal services, development of plans and specifications, surveys and cost estimates; and other expenses necessary or incident to determining the feasibility and practicability of undertaking the project.

Due to the definition of the term "project" and of the term "cost" contained in the Development Corporation Act, a strong argument can be made that any expenditure by a 4B corporation must be related to the acquisition or physical improvement of land, buildings, equipment, or facilities. Of course, expenditures could also include administrative or planning costs associated with such an acquisition or improvement.

PAYMENT OF ADMINISTRATIVE EXPENSES FOR A SECTION 4B PROJECT

Section 2(4) of the Act states that the cost of a project may also include the administrative and other expenses that are incident to placing the project into operation. The law provides that these expenses could include administrative expenses for the acquisition, construction, improvement, expansion and financing of the project. This authority could be cited for the hiring of administrative staff to implement the work of the Section 4B development corporation with regard to its projects. Accordingly, cities that perform some of the administrative functions for the corporation could cite this authority for reimbursement from Section 4B funds for administrative costs related to projects that city staff oversees.

Additionally, Section 4B(a-2) states that the costs of a publicly owned and operated project may include the maintenance and operating costs for the project. The Act, however, allows the voters to object to such an expenditure by submitting a petition of ten percent of the registered voters of the city. The public has 60 days from the date when notice is first given that the tax will be used for this purpose to submit the petition. Such a petition would ask the city to hold an election to approve the payment of maintenance and operating costs for projects. An

election is not required, however, if the voters had previously approved the use of Section 4B tax proceeds for this purpose at an earlier election under the Development Corporation Act.

Payment of Promotional Expenses and Debt Obligations

Due to a lack of clear statutory authority for a Section 4B corporation to expend funds for promotional purposes, cities should seek legal counsel before any such expenditure. Unlike Section 4A, Section 4B of the Development Corporation Act does not contain any reference to the use of Section 4B tax monies for promotional purposes. At a minimum, Section 4B tax proceeds could only be used for "promotional" costs that were in furtherance of and related to specific projects that are authorized under the Development Corporation Act. If a Section 4B corporation chooses to expend funds for promotional purposes, it is also advisable that the corporation voluntarily limits such expenditures to no more than 10 percent of the corporate revenues. Limiting this type of expenditure is consistent with the express intent of the Texas Legislature that the economic development sales tax not be used primarily for promotional purposes.

The Section 4B development corporation may issue bonds, notes and other contractual obligations to fund its projects. However, a bond or debt instrument of the corporation is not an obligation of the city, nor is it backed by the city ad valorem tax rate. The tax proceeds received by the Section 4B corporation may be used to pay the principal and interest on the bonds and any other related costs.

FUNDING MECHANISMS FOR ECONOMIC DEVELOPMENT

There is a variety of ways to support economic development. Sachse, through the SEDC, has already implemented some of the following, however, there are others that should be considered as well. The Comprehensive Plan Committee recommends that the City of Sachse research and employ the following funding methods when appropriate.

Sales Tax for Economic Development - The City created the Sachse Economic Development Corporation as a non-profit development corporation 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:

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.

Local Hotel Occupancy Tax 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 insure 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.

Economic Development and Infrastructure Improvements - Public Improvement Districts (PIDs) are a 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. The revenue from the special assessment must be used for the specified improvements or developments in the PID.

Municipal management (downtown) districts are a relatively new way that commercial property owners may enhance a defined business 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.

GOAL, OBJECTIVES AND ACTIONS FOR ECONOMIC DEVELOPMENT

Opportunities and challenges facing the community along with the social and economic changes are causing the city to redefine its goals and priorities. The comprehensive plan defines attributes and qualities needed to maintain a high standard of economic vitality and environmental quality, which together comprise the quality of life for Sachse residents. The comprehensive plan is a guide for making decisions about future development and growth. The comprehensive plan integrates and coordinates the economic development program and strategy plan with other plan elements.

Economic Development Goal: Advance a cooperative effort by the SEDC, the City of Sachse, Chamber of Commerce and citizens to support retention and expansion of existing businesses and attract new businesses in targeted economic sectors.

Objective A: Attract desirable businesses and industries.

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

Action 2: Develop property inventory of available commercial and industrial sites.

Action 3: Coordinate regionally with adjacent cities for inter-city cooperation for mutual benefits.

Action 4: Utilize tax abatement and other economic incentives to attract desirable industries.

Action 5: Allocate sufficient resources for marketing and business recruitment. Prepare promotional packets of business development for the Sachse area.

Action 6: Attract retail, restaurants, motels, manufacturing and warehouse industries.

Action 7: Locate a major grocery retail project.

Objective B: Retain and expand existing businesses and industries.

Action 1: Support growth of existing local businesses.

Action 2: Meet with local business representatives regularly to discuss economic development in Sachse.

Action 3: Develop and distribute information to local business and the community about SEDC activities.

Objective C: Facilitate President George Bush Tollway.

Action 1: Continue to support NTTA.

Action 2: Work with NTTA on location of Tollway.

Action 3: Establish appropriate land use along the Tollway.

Action 4: Develop and recommend a plan to finance the infrastructure related to the Tollway.

CONCLUSION

Given the current growth radiating from Dallas in a northerly direction, Sachse's population will expand rapidly for the next 10 to 15 years. The challenge facing city leaders is to ensure that development occurs in an orderly and balanced manner that will enhance the quality of life for Sachse residents. From an economic development perspective, Sachse needs to be responsive to commercial and manufacturing uses.

Commercial development of the Tollway corridor, with a mix of low-rise office, retail, entertainment, and restaurant venues, will boost Sachse's attractiveness in a number of ways. As discussed above, expanding the tax base through commercial development is the best way to generate new revenues for the city while holding down tax rates for homeowners and businesses. These new revenues can be used to improve and expand parks, recreation centers, roadways, police and fire protection and other municipal services.

Development along Tollway will also bring new businesses, jobs and income to Sachse. Sachse residents, who today may be commuting long distances to employment centers elsewhere in

the Metroplex, will fill some of these jobs. New employment in the City of Sachse, in turn, will generate additional local retail expenditures and sales tax collections. What's more, expanding shopping, entertainment and dining options within the Sachse city limits will bring back some of the dollars that currently leak out of the community while concomitantly enhancing local sales tax receipts.

In summary, development of the Tollway corridor through Sachse will help ensure a sustainable economic future for the City with few, if any, negative environmental impacts. It will also make the City a more dynamic suburban locale by providing new employment, shopping and entertainment opportunities for area residents. Apart from the outcome of pending land use issues, a balanced land use within the City of Sachse under any reasonable scenario must *maximize* all the available property along the proposed Highway 190 Corridor.