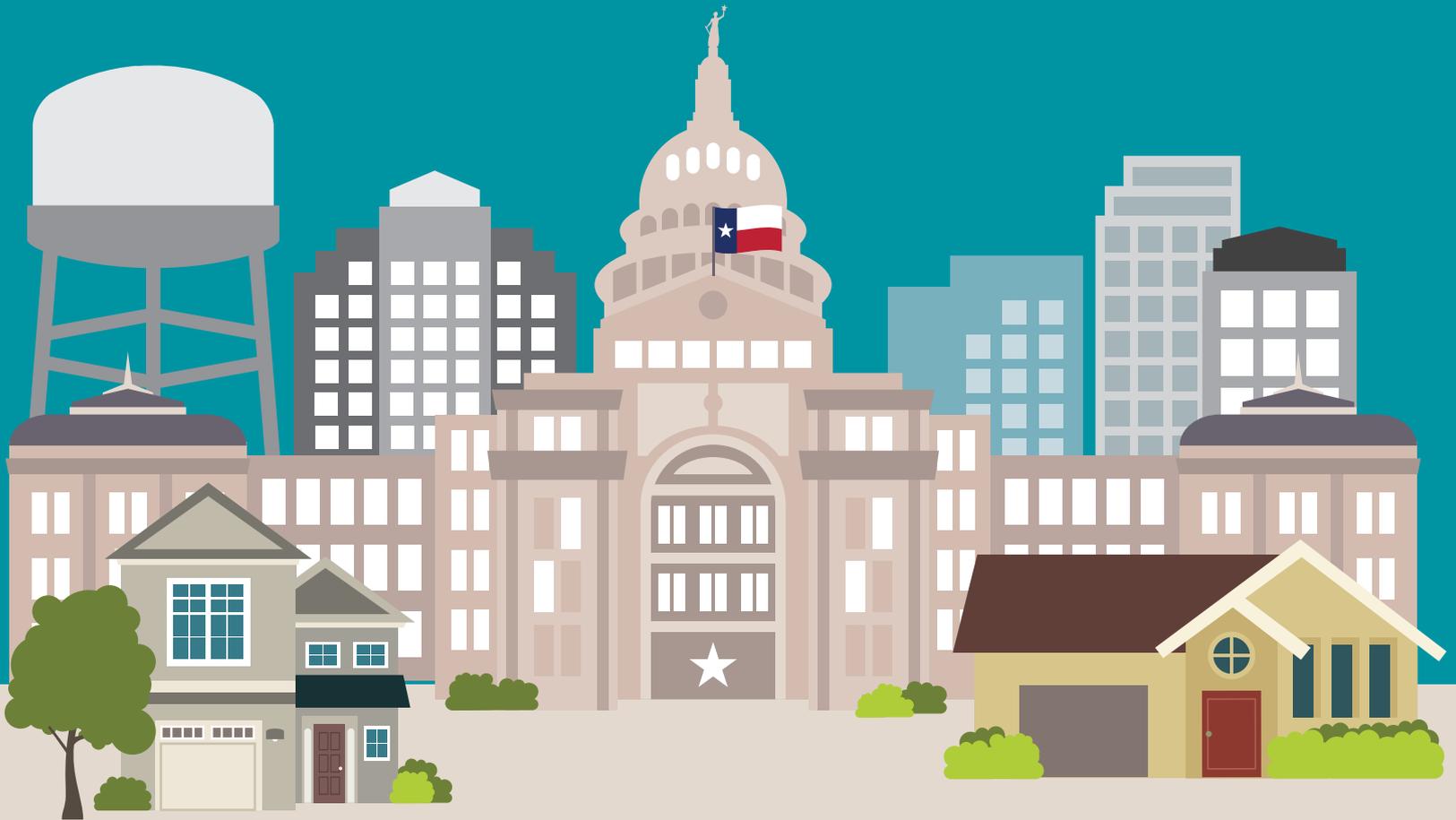


HOW CITIES WORK



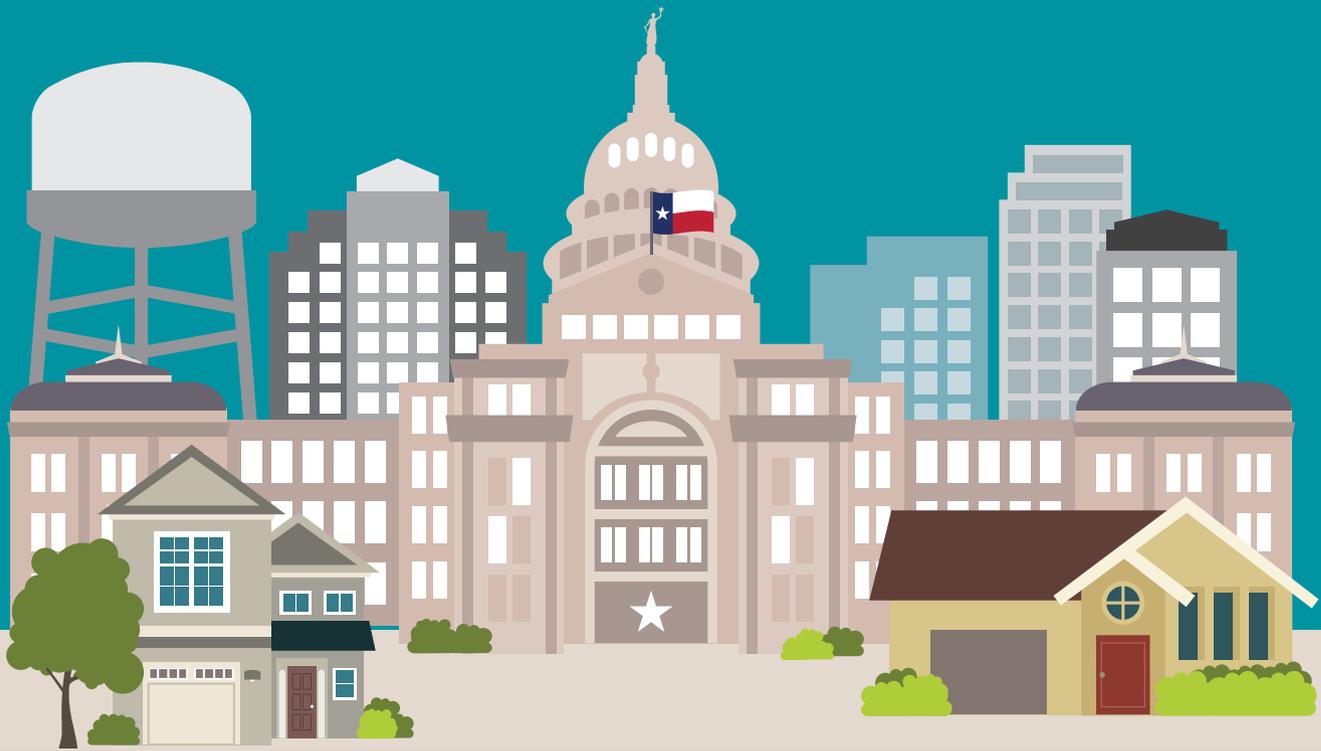


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TEXAS CITIES LEAD THE WAY

By **Bennett Sandlin**, TML Executive Director



As you read this publication of *How Cities Work*, the 85th Texas Legislature has convened and is hard at work. The 2017 regular session will not end until Monday, May 29, 2017. Between now and then, lawmakers will consider thousands of bills. Unfortunately, many of those bills would, if enacted, erode municipal authority or otherwise limit the ability of Texas cities to carry out the important functions and provide the vital services expected by municipal residents.

Cities, the government closest to the people, embody the idea that “We the people” should be in control. Cities provide the services that we cannot do without. Those services reflect the will of the local taxpayers. They are not the kind of services people think of when they say they want less government. City services are the nuts and bolts of our society.

Starting with Texas' independence in 1845, the legislature began creating cities to do its local work. The Texas

Municipal League now represents more than 1,150 cities of every size, shape, and service level. The locally-elected city councils in those cities decide how to provide appropriate services based on the wants of their citizens.

Texas cities provide police and fire protection, the roads we drive on, local business development, the utilities we need to survive and prosper, the protection of property values through thoughtful rules that benefit everyone, and much more. It costs money to provide these services, but keeping taxes low while meeting citizens' demand for services is a core value of city officials.

Cities don't typically seek funding from the state, and they receive virtually nothing from the state. What cities need in lieu of state funding is to be treated as partners in keeping Texas great. City officials want to continue providing local services in the way they were elected to do.

How Cities Work is a tool to help city officials explain how Texas cities are powerful engines of economic growth, as well as safe and pleasant places for people to grow up, raise families, and retire.

In this publication, we highlight:

- The sources of municipal revenue and the ways in which the legislature can damage that revenue.
- The value of building codes.
- Municipal economic development efforts and the ways in which property tax caps threaten those efforts.
- The status of municipal solid waste programs.
- Municipal transportation and public works and the importance of maintaining right-of-way authority, compensation for use of rights-of-way, and funding sources for drainage utilities.
- Municipal participation in utility rate cases.
- The provision of municipal water and wastewater services, including funding for the State Water Plan.
- The connection between infrastructure and revenue caps.
- The high cost of providing public safety services.
- The importance of annexation authority to the future of Texas cities and to the state's economy.

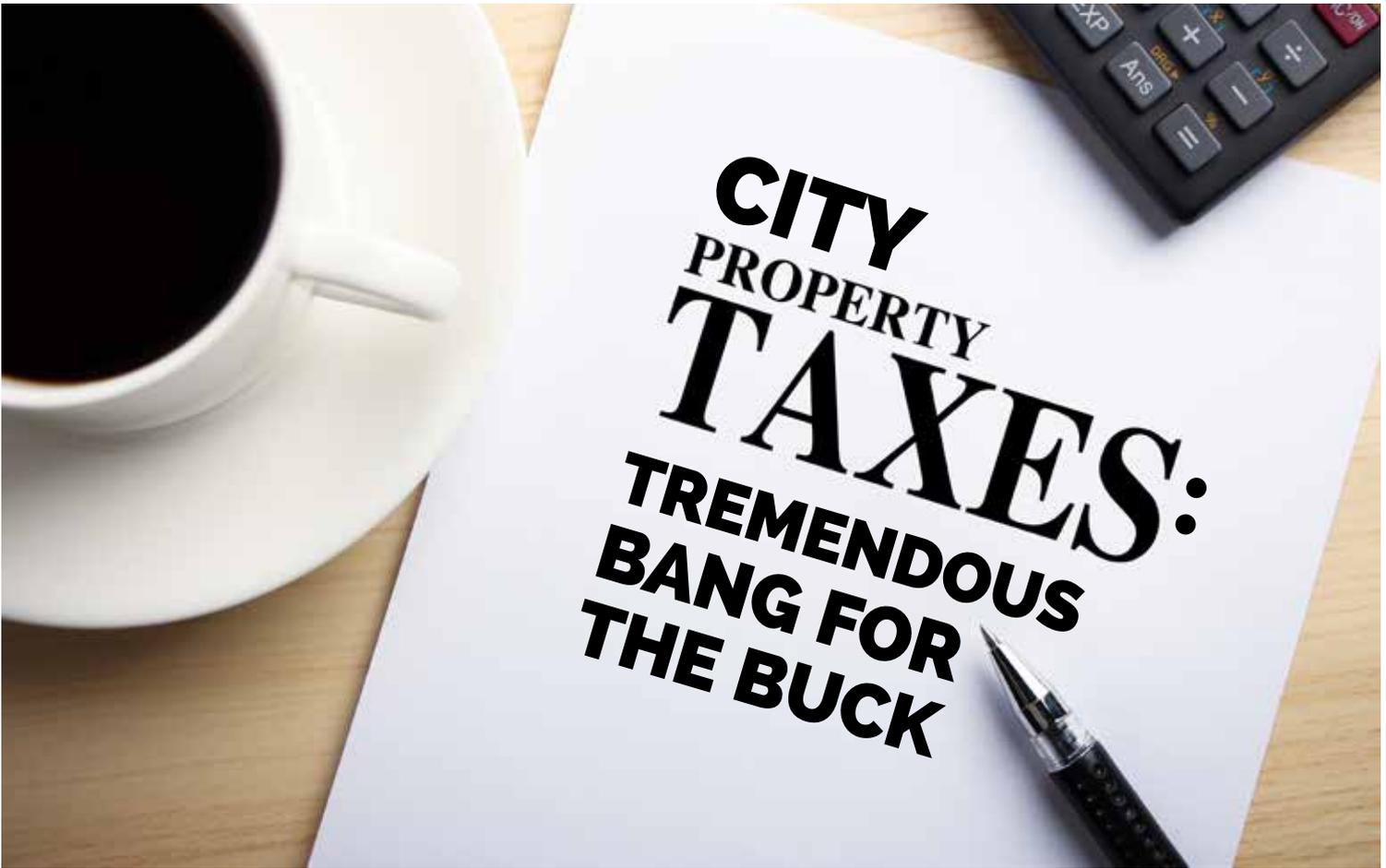
- The ways in which zoning authority protects citizens and their property values.
- The importance of libraries and library funding.
- The value of municipal parks and recreation programs.

While some state leaders will try to reduce municipal revenue or chip away at municipal authority, the vast majority of Texans knows that their city leaders are trustworthy stewards and should be allowed to exercise local control. To a very great extent, economic growth in Texas is the result of municipal efforts to ensure the availability of infrastructure, public safety, and the quality of life necessary for job creation. State policymakers should be very reluctant indeed to harm cities, because as our cities go, so goes our entire beloved state.

We look forward to working with all of you in these important months ahead as we advocate for municipal government in Texas. If you have any questions, please feel free to contact a member of the TML legislative department.

Thank you, in advance, for your support and assistance. ★



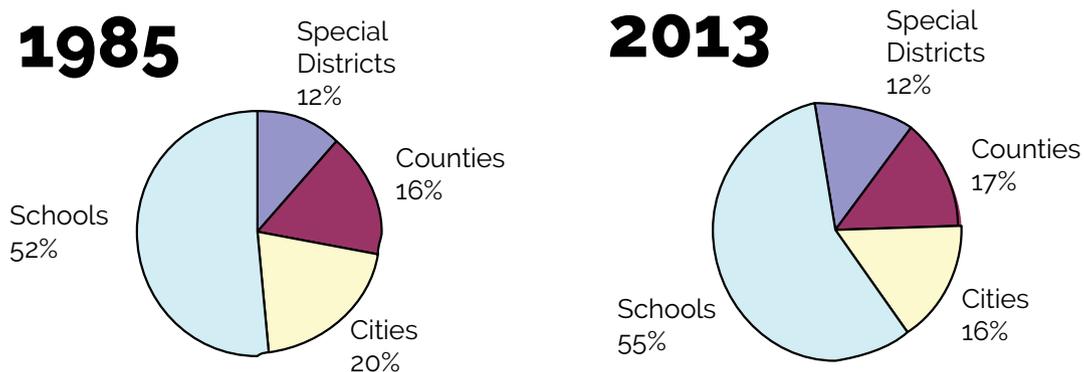


Texas cities depend heavily on property tax revenue. Property taxes help fund many of the services that residents demand including police, fire, streets, and parks. But as Chart 1 shows, city property taxes constitute a small portion of a typical homeowner's property tax bill.

Chart 1

Distribution of Property Tax Collections

Source: Texas Comptroller's Biennial Property Tax Report



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? Not quite.

Unlike other states, Texas provides no general-purpose state aid to cities to help pay for streets, public safety, or other city services. The state forces cities to generate their

own revenue. That's why (as the chart below shows) per capita state tax revenue is relatively low, while per capita local tax revenue is comparatively high.

Chart 2

State and Local Government Tax Revenue, 2013
Source: U.S. Census Bureau

	U.S.	Texas
Per capita state and local	\$4,604	\$3,871 (31st)
Per capita state	\$2,681	\$1,955 (42nd)
Per capita local	\$1,923	\$1,915 (17th)
Percent local	41.8%	49.5%

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

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 Texas cities take care of themselves without inter-governmental aid, it comes as no surprise that Texas ranks second the nation in municipal own-source capacity.

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 Georgia, Oklahoma, and 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 property taxes. It does this by denying them other revenue sources. While this is especially true for public schools which rely almost exclusively on the property tax, it is also true for cities and counties. In fact, of the \$1,915 shown in Chart 2 as per capita local government tax revenue in 2013 in Texas, a whopping \$1,563 (81.6 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:

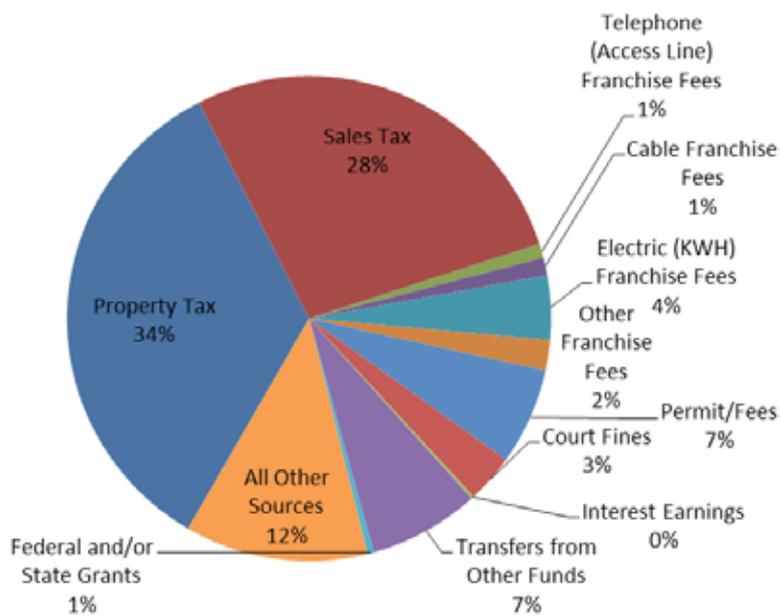
- (1) Texas cities provide vital services that benefit their citizens;
- (2) Texas cities provide those services with less aid from the state, as compared to other states; and
- (3) Texas cities manage all this despite a very small share of the total property tax levy and with reasonable annual increases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

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 2015 TML survey shows that municipal general fund revenue in Texas is made up of the following sources:

General Fund Revenue



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. (See the article on “Reverse Intergovernmental Aid” in this publication.)

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 \$.52 for tax year 2015.

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 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.

Right-of-Way Rentals

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, and up to \$2,000 for city ordinance violations relating to health and safety. Much of a city's fine revenue offsets the 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 six 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.

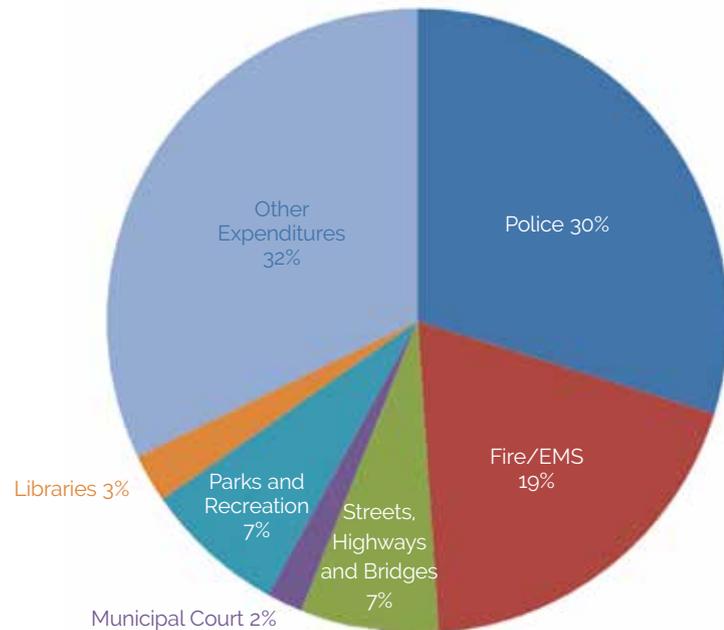
Did You Know?

Many people mistakenly believe that cities derive substantial general revenue from their courts. In reality, the first \$84 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.

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. "Other Expenditures" in the survey include primarily administrative and personnel costs.

General Fund Expenditures



Putting Local Debt in Context

The story about debt coming out of certain Austin think tanks goes something like this: the state has its fiscal house in order, but local governments are greedy, profligate spenders running up the taxpayers' credit card. It's a powerful narrative, but it isn't true.

A recent report issued by the Texas Bond Review Board shows total outstanding state and local debt for the past few years. From 2011-2015, total outstanding local debt increased from \$192.74 billion to \$212.44 billion, a 10.2 percent increase. Meanwhile, total outstanding city debt increased from roughly \$63 billion to \$70 billion, an 11 percent increase during the same time frame. For the same period, total outstanding state debt increased from \$40.5 billion to \$47.09 billion, a 16.2 percent increase. In other words, local debt (and city debt) is increasing at a significantly slower rate than state debt in recent years.

At \$212 billion, the amount of total local debt is certainly significant. However, only a small portion of that—\$29 billion—is tax-supported city debt. Another \$40 billion is city debt supported by the revenues of city utilities and not by property taxes. The largest portion is tax-supported school district debt, at \$72 billion.

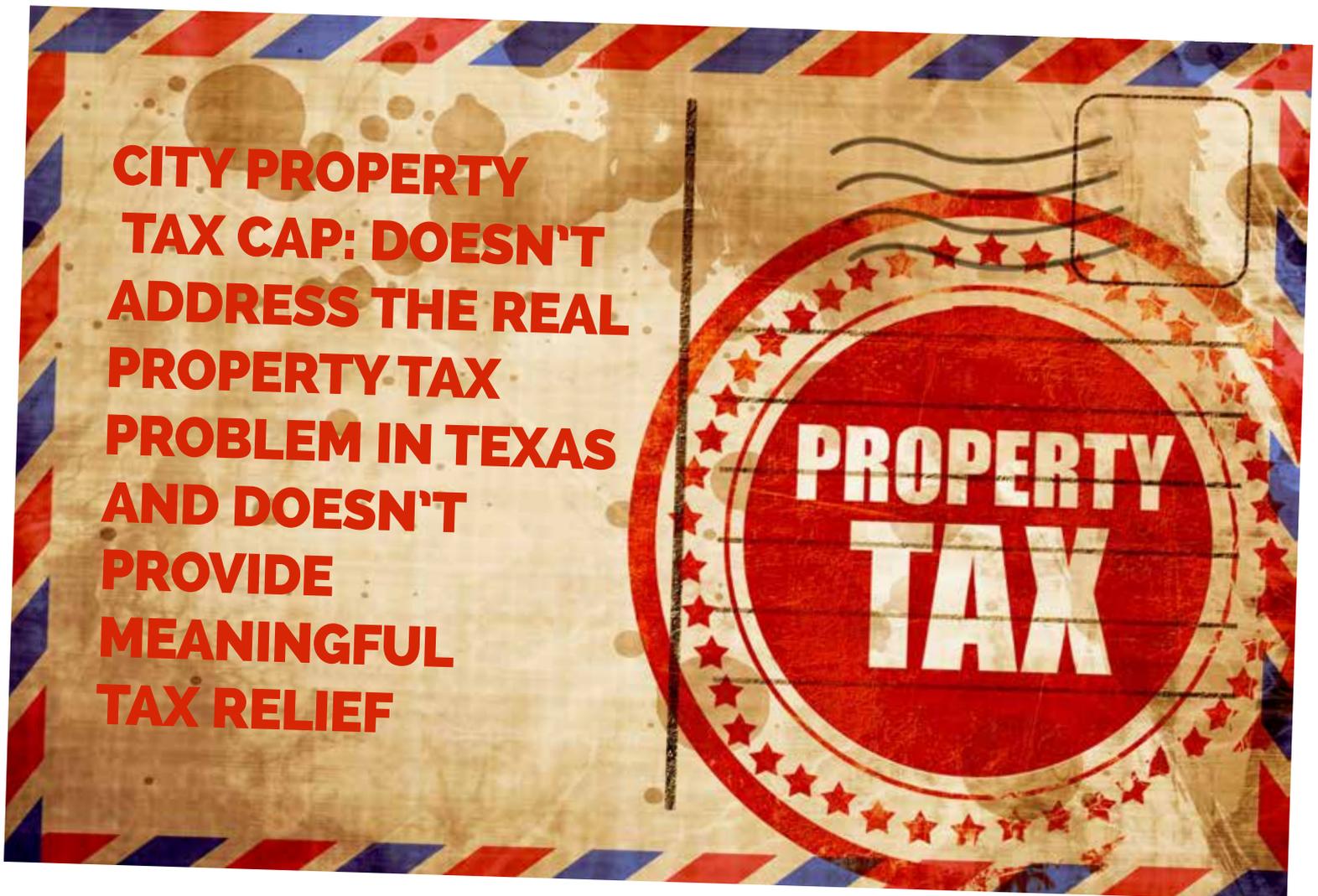
School funding is a constitutional obligation of state government. The state has chosen to discharge that obligation by creating local school districts that levy the

needed taxes. In reality, the \$72 billion of school district debt ought to be thought of as a state debt because that's how the state has chosen to fund schools. Shift that \$72 billion over to the state debt column and a vastly different picture about which governments may be falling dangerously into debt emerges. In any event, the numbers show it clearly isn't Texas cities.

The recent focus on local debt (despite the fact that state debt is growing faster) likely relates to the reality that Texas state government, for better or worse, has gotten out of the business of building new state infrastructure with state dollars. Instead, locals are expected to pick up the slack for things like roads and reservoirs.

Consider the recent water funding proposition that passed in November 2014 – it ultimately spends zero state dollars. Instead, through the use of a revolving fund, it *encourages cities to take on debt* to build our state's important reservoirs and other water projects. This is a perfect example of the state essentially forcing locals to take on debt to do the state's work, then blaming the same locals for having taken on the debt in the first place.

Texas cities are willing to partner with state government to build infrastructure in our great state, but should not be considered scapegoats within that partnership. ★



Everyone who loves living in Texas has his or her own list of things that make our state a great place. For some, it's the people and our vibrant cities – along with the barbeque and breakfast tacos – that rise to the top of the list.

One thing that's often mentioned as an attraction for businesses and people moving to Texas is our low taxes and, of course, no income tax. The latest state rankings from the Tax Foundation listed Texas as 46th in the amount of combined state and local taxes paid by residents.

Even though the overall tax burden is low in Texas, there is one tax that has always drawn the most complaints from Texans: the property tax. A statewide poll last year found the property tax was the most unpopular of the major state and local taxes with 54 percent saying they were "dissatisfied" with the amount of property taxes Texans pay.

Last year, Lieutenant Governor Dan Patrick appointed a special Senate committee to examine property taxes in Texas and make recommendations for reforming and reducing property taxes. The committee has spent most of this year holding hearings in cities all across the state.

In Texas, most of the revenue from property taxes, about 55 percent according to the State Comptroller, goes to school districts. Cities only collect about 16 percent of property taxes. But the Senate committee has refused to consider or even discuss ways to reduce school property taxes and they have pretty much ignored the fastest growing category of property taxes, which is taxes levied by the more than 2,000 special purpose taxing districts created by the legislature.

Instead of focusing on the real causes of high property taxes in Texas, Lieutenant Governor Patrick and the chair



of the Senate committee, Senator Paul Bettencourt of Houston, have made it clear they want to impose statewide restrictions on city property taxes and effectively put a state cap on the annual budgets of all Texas cities.

Because their proposed solution – a four percent cap on city property tax revenue increases contained in S.B. 2 – does not address the real cause of property tax increases, it will not provide real tax relief. If a four percent cap had been in effect over the past decade, the average homeowner in San Antonio would have seen a reduction in city taxes of only \$44 per year - or \$3.67 per month. Any legislator who tries to convince Texas homeowners that this is real tax relief will end up looking foolish.

Remember, city property taxes, on average, make up only 16 percent of property tax bills statewide. And city property taxes are not “skyrocketing” as some state leaders want you to believe. From 2009 to 2014, the total amount of property taxes levied by Texas cities increased by only 19 percent while state revenue collections increased by 46 percent during the same period, according to the State Comptroller.

The Senate committee has been a font of misleading information about city taxes. Earlier this year, Senator Bettencourt wrote in a column for a major daily: “In San Antonio between 2005 and 2014, city tax levies have grown 55 percent while median household income has grown only 22 percent.” That statement is true on its face but the comparison is misleading. “City tax levies” refers to the total amount of taxes on all property in the city and that amount increases from year to year as the population grows, as new areas are annexed into the city and as new construction adds more homes and buildings to the tax rolls. San Antonio is one of the fastest growing major cities in the country so its total property tax collections will obviously increase from year to year.

But Senator Bettencourt carried his misleading comparison to the extreme by writing: “In other words, an average family faces a tax bill that is increasing two-and-a-half times as fast as income.” That qualifies as “pants on fire.” When a new office building is constructed in San Antonio and begins paying city property taxes, it increases the total amount of taxes levied and collected by the city but it does not increase the tax bill of the average family or any other family.

Such attempts to mislead and scare Texans about the tax bills on their homes just distracts us and legislators from the real problem which is the way Texas depends on property taxes to pay for public education.

The state legislature depends on high school property taxes to reduce the amount of state funds it has to spend on schools. A recent headline from the *Texas Tribune* tells the real story: “Rising local school property taxes ease state budget woes.” Under the state’s “Robin Hood” school finance scheme, 230 school districts were required to send part of their local property tax receipts to the state treasury this year.

For example, this year the state “recaptured” more than \$29 million in property taxes from the Alamo Heights School District which is about 40 percent of the taxes paid to the district. The Texas Education Agency has estimated that the amount of local property taxes sent to the state will increase from \$3.7 billion in the current state budget to \$5.1 billion in the next budget.

The League is not an expert on the school finance system, but we do understand that the current system grew out of the need to equitably distribute education funding and that is an important goal.

But when the legislature is using local school property taxes to balance the state budget, it explains why state lawmakers want to divert public attention from the school finance system and try to blame Texas cities for high property taxes.

Imposing a statewide cap on city budgets will not solve the problem of high property taxes and it will create other serious problems.

Public safety – police, fire and EMS – is the largest item in every city’s budget. A cap would prevent cities from hiring additional personnel, raising salaries and benefits, acquiring new technology (like body cameras) or dealing with underfunded pension systems. A cap would force cities to focus on funding basic, vital services and eliminate non-essential, non-mandated spending like the economic development incentives that helped attract the Toyota plant to San Antonio and thus would reduce job creation and damage the state’s economic growth. It would also make our traffic problems worse by limiting the amount of money cities voluntarily contribute to state highway construction projects which amounts to well over \$100 million per year.

Decisions about city taxes and city budgets should continue to be made by local voters and their locally elected officials. This obviously is working well as businesses and people from all over the world continue to flock to Texas cities because of the economic opportunities and quality of life they offer. Texans would be better served if state law makers focused their efforts on their own budget. ★

REVERSE INTERGOVERNMENTAL AID: CITIES SUPPORT STATE PROGRAMS

Regular readers of the Texas Municipal League's *Legislative Update* newsletter will recognize this article. It first ran in 2008, and is updated annually. The 2015 state fiscal year numbers show that cities are still net donors of money to the state. 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 2015 by the National League of Cities, found that Texas leads only Georgia, Oklahoma, and West Virginia in state aid to cities.

State aid flows readily in other states, particularly in populous states. For instance, it is not 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. That's not necessarily a problem, so long as the legislature continues to treat cities as partners in keeping Texas great.

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

1. The state's charge for administering the municipal sales tax.
2. "Local participation" in the cost of building and improving the state highway system.
3. State fees imposed on municipal court convictions.

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 generated over **\$164 million** in 2015, of which cities paid

more than **\$107 million**.

In 2008, the Texas Municipal League (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 \$107 million paid by cities, generating a "profit" of more than \$79 million to the state.

The comptroller's baseline budget is in the neighborhood of \$290 million per year. Thus, the total local government fee of more than \$164 million is enough to cover almost 57 percent of the entire agency's total expenses.

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." This state 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 document, 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.***

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? Over the last couple of years, cities pitched in more than \$100 million in cash and much more in right-of-way donations and in-kind services each year. 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

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 state fees collected by municipal courts have grown rapidly. For example, on a typical traffic offense conviction, a municipal court defendant must currently pay \$84 in state-imposed fees before any city fine is collected. The following chart is a comparison of the present situation with fees imposed just 14 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 or fee levied by another level of government, is remitting it, and keeping a fee for providing those services.

While there are similarities, there are also substantial differences.

For example, the state doesn’t really “collect” the municipal

	January 2002	January 2016
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
Truancy Prevention Fund	--	\$ 2.00
Total	\$40.00	\$84.00



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 2015, the amount was just over \$217 million.

Conclusion

What's the grand total amount of reverse intergovernmental aid in Texas? After making various adjustments, the annual total is more than \$250 million, just from these three 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 million.)

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 easily 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 easy to grasp 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. ★



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 cities in the United States began establishing building codes in the early 1800s.

Today, most populous cities in Texas have adopted modern construction codes. 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.

Scott McDonald, the City of Amarillo's director of the Office of Strategic Initiatives 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 McDonald, "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, 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.

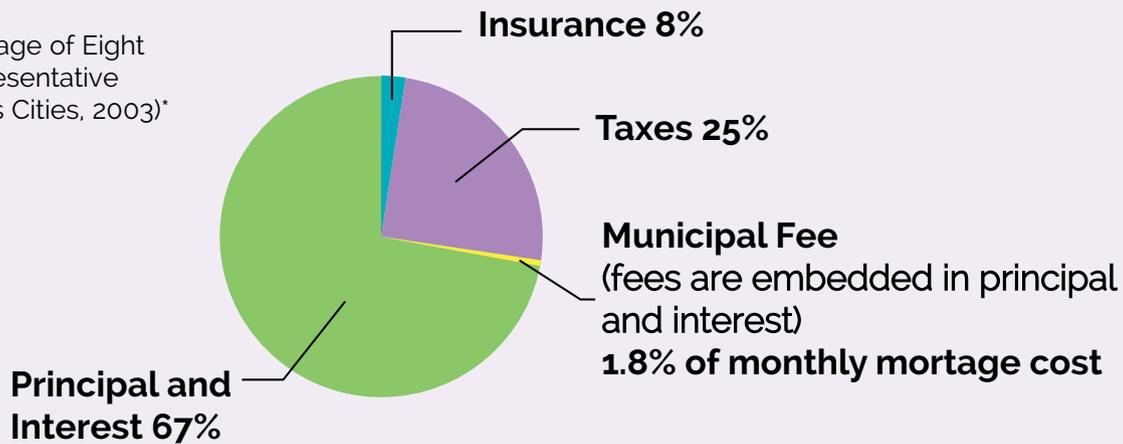
In 2005, the Texas Legislature adopted the International

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

Chart 1

The Role of Municipal Fees in Monthly Mortgage Costs

(Average of Eight Representative Texas Cities, 2003)*



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 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 standards, 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

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 (see Chart 1). ★

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 52-a 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.

Type A/Type B Economic Development Sales Tax

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 extraterritorial jurisdiction. 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 function either by forgiving (abatement) or by 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 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 restrict the very growth in appraised value that tax incentives are designed to generate, undermining the important role that cities play in facilitating job creation in Texas. ★



CITIES KEEP THE GARBAGE FROM PILING UP

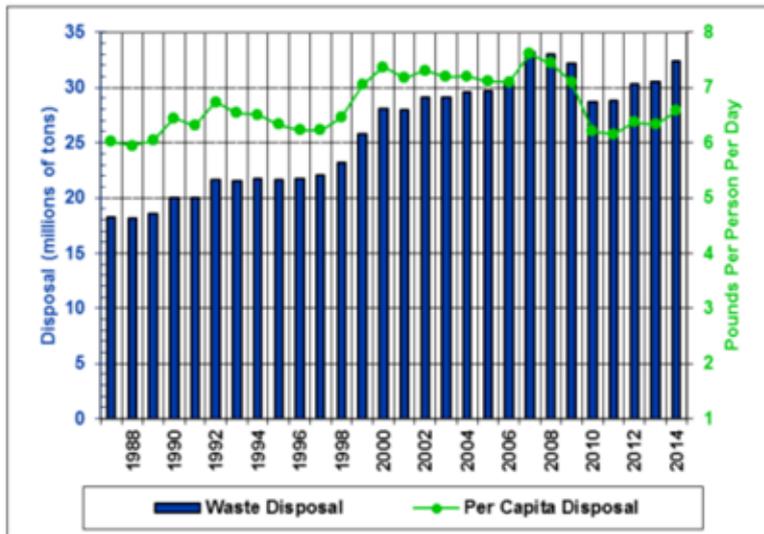
Collection and disposal of garbage is one of the most recognizable and widely used city services. This vital service protects the public health and environment. A city can choose to operate its own garbage collection and disposal system or grant a franchise to a private company (or companies) to handle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

Waste generation is a function of two variables – population and economy

– both of which are growing in Texas. In Texas, “municipal solid waste” is defined to include waste resulting from or incidental to municipal, community, commercial, institutional, and recreational activities including garbage, rubbish, ashes, street cleanings, dead animals, abandoned autos, and all other solid waste other than industrial solid waste. According to the Texas Commission on Environmental Quality (TCEQ), Texans

disposed of approximately 32.37 million tons of municipal solid waste in 2014. That’s about 6.58 pounds per person per day, an increase over the 2013 rate of 6.33 pounds. During this period, the state’s population increased 1.9 percent.

Texas Total and Per Capita for MSW Landfill Disposal



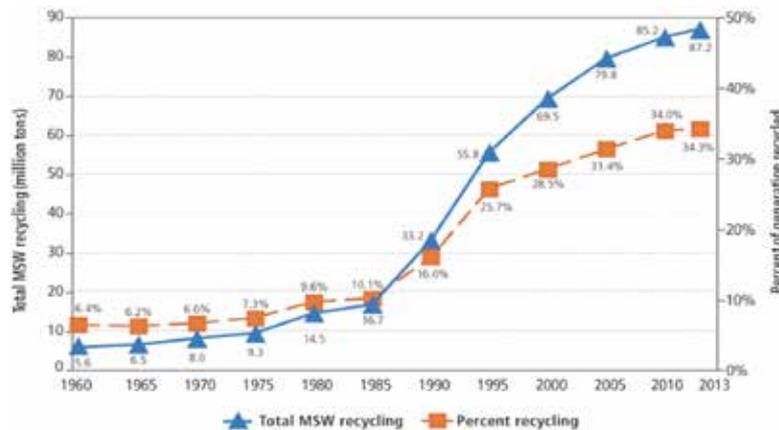
Source: TCEQ, Municipal Solid Waste in Texas: A Year in Review - FY2014 Data Summary and Analysis (October 2015)

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 city 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.

Cities have statutory authority to offer recycling programs to their citizens. 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 may also create more jobs than disposal. Of course, statewide recycling mandates wouldn't take into account the various factors that make different parts of Texas unique. Recycling should be implemented locally in a way that is appropriate for each city. ★

1960-2013



Recycling of Municipal Solid Waste (MSW) in the United States

Source: EPA, Advancing Sustainable Materials Management: 2013 Fact Sheet (June 2015)

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 2013, 52.8 percent of municipal solid waste generated in the U.S. was ultimately disposed of in landfills; 12.9 percent was disposed of through waste incineration with energy recovery; and 34.3 percent was recovered for recycling or composting.

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:

EPA, Advancing Sustainable Materials Management: 2013 Fact Sheet (June 2015)

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



PUTTING THE “WORKS” IN PUBLIC WORKS

Streets and Traffic

Citizens expect to travel easily from one place to another. 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 benefits 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, but Texas doesn't. However, the Texas Legislature has granted Texas cities the authority to impose a street maintenance sales tax to be used to maintain city streets. Many cities have adopted this tax.

Right-of-Way Authority and Utilities

Many Texas cities are experiencing an unprecedented level of 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 industry, 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 paramount to the safety of residents.

Right-of-Way Compensation

Texas law prohibits a city from allowing the use of its ROWs for free. Thus, cities collect compensation in the form of rent (based on various state and federal statutes) from utility providers such as video, 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.

Local Participation: Cities Help Pay for State Highways

The best way to describe "local participation" is to use a quote from a state document titled "Background and Need for Partnering." This state 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 is currently suggesting to local agencies that they consider increasing their participation in TxDOT projects in order to expedite scheduling of locally desired projects."

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. Cities pitch in more than \$100 million annually in cash and much more in right-of-way donations and in-kind services. In addition, the state gasoline tax paid by cities accounts for many more millions of dollars paid by cities for the state transportation system.

FEDERAL STORM WATER MANDATES AND MUNICIPAL DRAINAGE UTILITIES

Federal Storm Water Mandates

During rainfall, storm water runs off impervious areas such as paved streets, parking lots, and rooftops. The storm water 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 storm water from a storm sewer system into rivers and lakes. In Texas, the EPA has delegated the administration of the storm water 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 storm water management program that would reduce storm water 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 storm water management programs as well. At a minimum, the programs must include public education and participation, detection of unwanted discharges into sewers, construction site storm water 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, reissued the Phase II general permit for small cities in 2013.

All Texas cities subject to the NPDES program are required to identify and apply a number of best management practices to reduce storm water 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 storm water mandates, the Local Government Code authorizes Texas cities to establish municipal storm water 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 storm water 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 storm water control provided by storm water 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

The population in Texas is expected to grow to 50 million by 2070. Additionally, by 2070, municipal water use is expected to constitute the highest demand of all water users. Providing safe, clean, and reliable drinking water to meet this demand presents a challenge for Texas cities. 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.

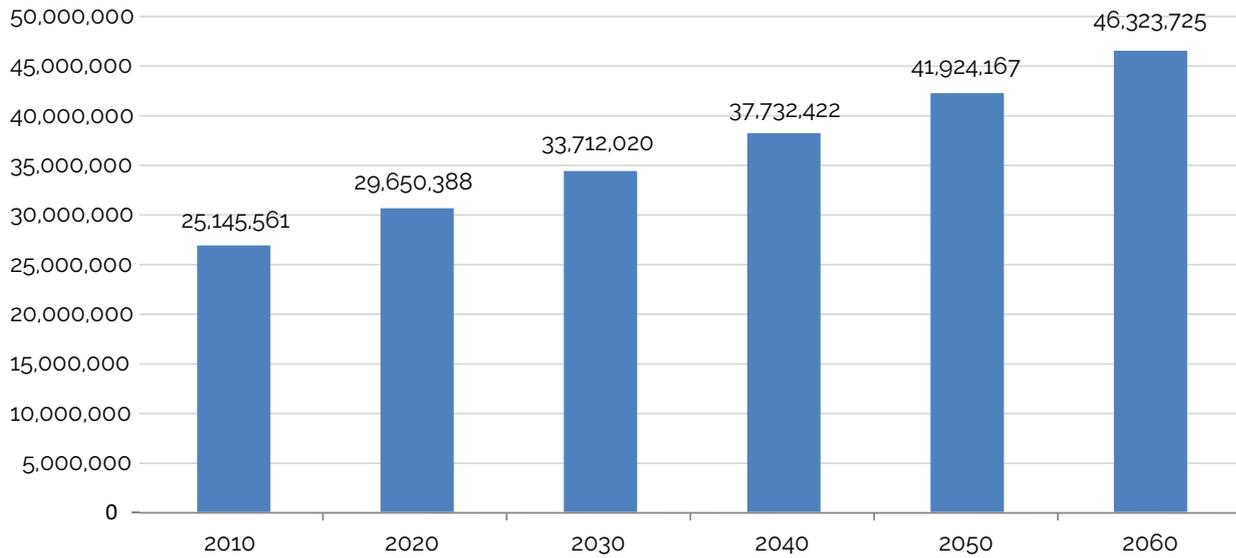
Many water utilities in Texas were built decades ago. Some systems have come to the end of their useful life span, and upgrades may no longer be sufficient. Some cities are even faced with having to completely replace these essential utilities. Upgrading or replacing a water and wastewater system is 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. ★

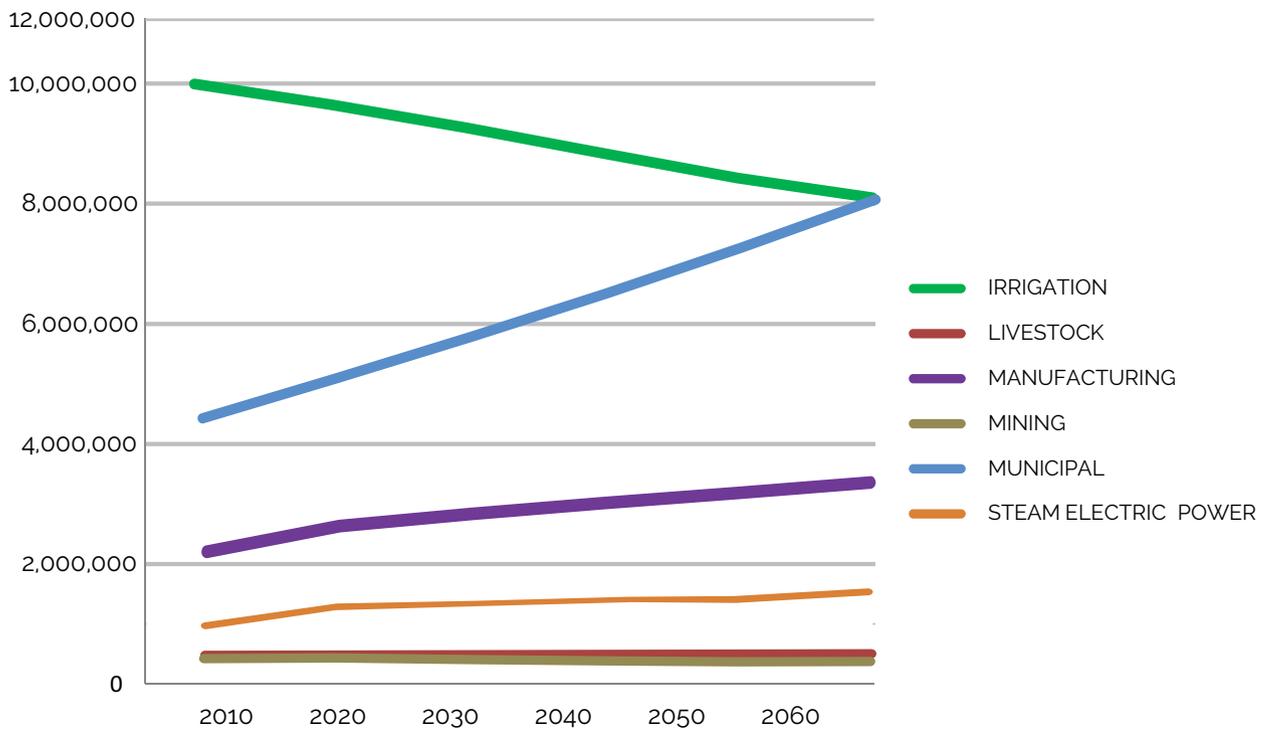
See Funding the State Water Plan article on page 28 for how some of these needed improvements should be funded.

TEXAS ★ Population Projections



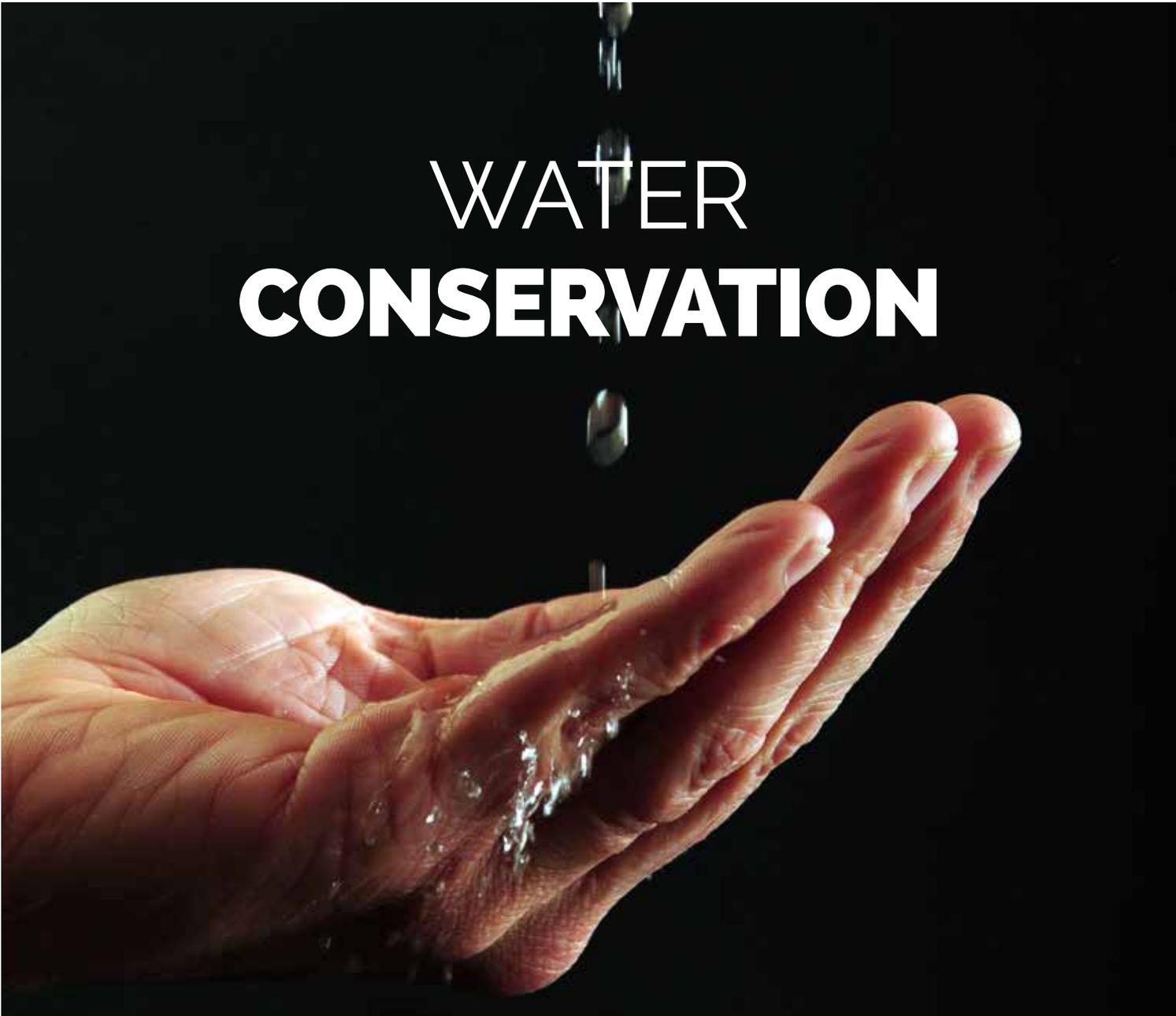
2010 population is the official population count from the U.S. Census Bureau
2020-2060 represent projected population used in the 2012 State Water Plan.

WATER DEMAND ★ Projections



Water demand projections for the livestock and mining water use categories are similar enough to be indistinguishable at this scale.

Source: Texas Water Development Board, State and Regional Population Projection for 2020-2070



WATER CONSERVATION

The heart of the water conservation issue is that, while everyone agrees that water conservation is important for Texas, city officials have traditionally resisted the imposition of a uniform, statewide program that does not take into account the needs, financial and otherwise, of different parts of the state.

In past years, the legislature has enacted numerous bills related to statewide water conservation standards. The requirement that cities draft, implement, and submit drought contingency and water conservation plans comes from bills passed by the legislature in recent years. Additionally, the legislature created the Water Conservation Advisory Council (WCAC) tasked with, among other responsibilities, developing numerous Best Management Practices (BMPs),

including municipal BMPs, which are available at www.savetexaswater.org.

Another conservation issue relates to mandatory conservation water rates. Cities have the exclusive authority to set water rates within city limits. Though there has been proposed legislation in the past related to water rates, no such legislation has passed. The ability to set water rates remains with each city's governing body, which comports with the Texas Municipal League's members' view that local control is best.

In recent years, bills have passed requiring that the Texas Water Development Board (TWDB) and the Texas Commission on Environmental Quality (TCEQ) develop a uniform, consistent methodology and guidance for calculating

water use and conservation to be used by a city in developing water conservation plans and preparing certain reports required by state law. The methodology and guidance include: (1) a method of calculating total water use, including water billed and nonrevenue water used; (2) a method of calculating water use for each sector of water users; (3) a method of calculating total water use by a city in gallons per capita per day; (4) a method of classifying water users within sectors; (5) a method of calculating water use in the residential sector that includes both single-family and multifamily residences, in gallons per capita per day; (6) a method of calculating water use in the industrial, agricultural, commercial, and institutional sectors that is not dependent on a city's population; and (7) guidelines on the use of service populations by a city in developing a per-capita-based method of calculation, including guidance on the use of permanent and temporary populations in making calculations.

The resulting "Guidance and Methodology for Reporting on Water Conservation and Water Use" is intended to guide water providers through the process. This guidance is available at <http://www.twdb.state.tx.us/conservation/doc/SB181Guidance.pdf>.

While water was one of the main topics of the 2013 legislative session, fewer water-related bills were filed in the 2015 legislative session. Leading up to the 2017 legislative session, the only interim charge relating to water conservation was for the House Natural Resources Committee and the Committee on Agriculture and Livestock to examine current water delivery methods and water conservation goals for agricultural use and evaluate whether there are more efficient and effective water-usage management practices that could be employed in the agricultural industry.*

Water restrictions, conservation education, and higher prices have achieved the result of Texans using less water. According to the League's survey, the average monthly residential consumption is decreasing each year (with a few outliers), averaging a total of 6,404 gallons in 2016 compared to 8,581 in 2002. Which method of addressing water shortages—restricting usage, repairing/replacing inefficient infrastructure, or scarcity pricing—is the best? Whatever a city council decides is right for its city is usually the correct method. In other words, local control is the best method.

Interestingly, one side effect of lower use is a loss of millions of dollars in anticipated revenue to some cities. For example, the City of Wichita Falls has reported that conservation efforts have resulted in water revenue down nine million dollars from fiscal year 2012-2013 to fiscal year 2013-2014. Anticipated water revenue is generally

budgeted to pay for fixed or infrastructure costs and in certain cases, to pay off debt. In some cases, the debt was issued to finance new wastewater plants or water-related projects.

Each city has a unique perspective and resulting priorities for expending resources to save water. Climate, population density, availability of water resources, and the ratio of industrial to residential water use in the city are but a few of the various factors that affect conservation decisions across the state. Water conservation continues to be a major issue in many cities in Texas. Cities should continue implementing the water conservation strategies appropriate for their specific community. ★

*Interim Charge House Natural Resources: Determine the sources of water used by Texans in the production of food and fiber, and, and determine the impact of crop insurance requirements on producers. (Joint charge with the House Committee on Agriculture & Livestock)



Cities offer a variety of different programs to encourage water conservation.

For example, the City of San Marcos offers:

Tiered Water Rate System

Water rates increase as consumption increases.

Rebate/Incentive Programs

The City of San Marcos provides rebates to those customers who purchase and install qualifying water conserving items.

Irrigation System Evaluations

Free irrigation system check-ups for both residential and commercial water customers.

Indoor Water Surveys

Free indoor water surveys to customers who would like to save water and money. City staff will evaluate your home or business to make sure you are using water as efficiently as possible.

Public and School Education Programs



FUNDING THE STATE WATER PLAN

The Texas State Water Plan is designed to provide for the orderly development, management, and conservation of water resources in the state. The plan is intended to provide that sufficient water will be available at a reasonable cost to ensure the public health, further economic development, and protect the agricultural and natural resources of the entire state. The State Water Plan is the culmination of a regional planning process that the Texas Legislature established in 1997. Every five years, 16 planning groups – one for each regional water planning area – assess the projected population, water demands, and water supplies in their area for the next 50 years. Each planning group holds public hearings and meetings to develop its regional water plan, which lists the water supply projects needed to meet their water shortages.

Once a regional water planning group adopts its regional water plan, the plan is then sent to the Texas Water Development Board (TWDB) for approval. The TWDB ulti-

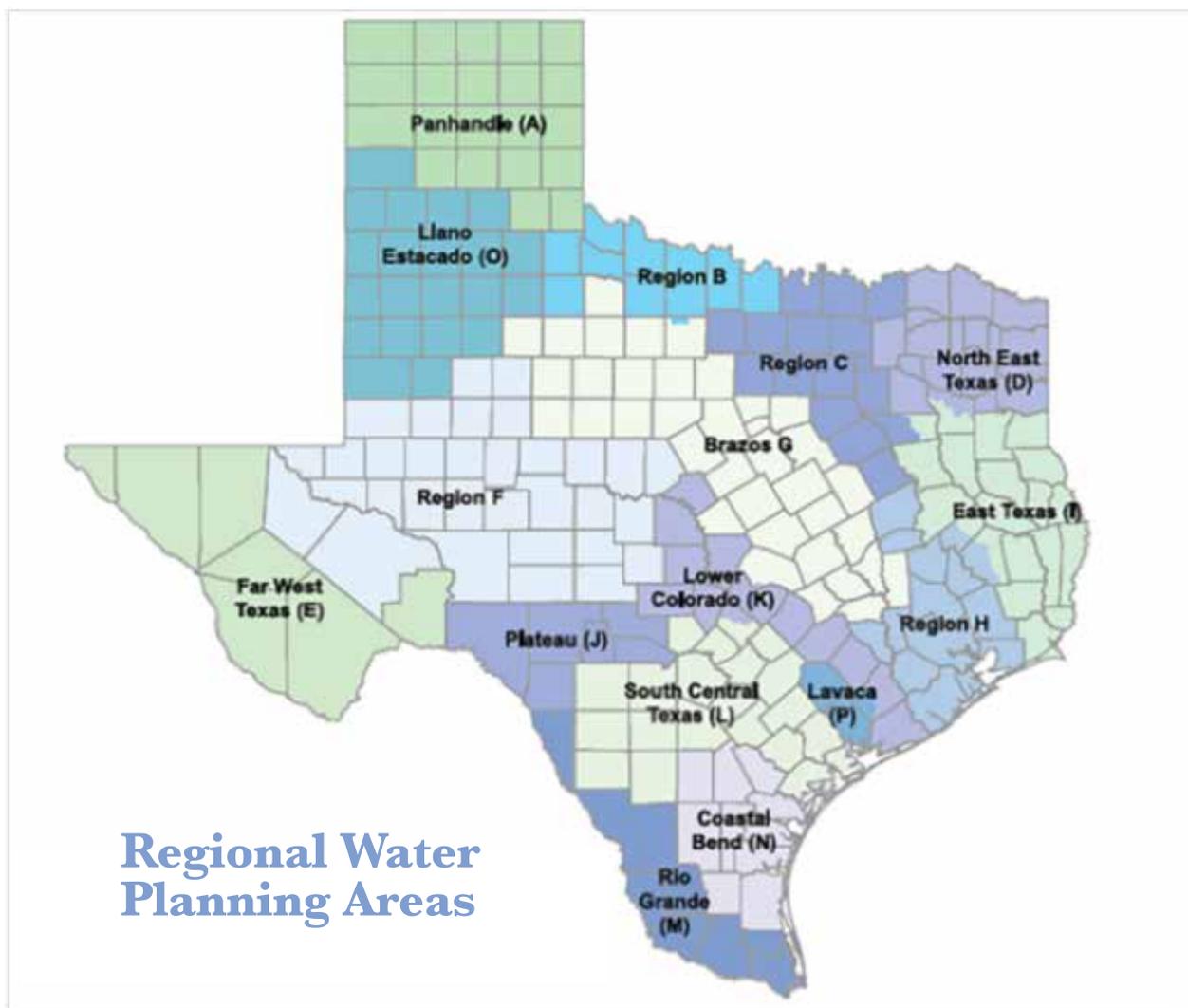
mately compiles the information to make the state water plan. The most recent iteration is the 2017 State Water Plan, which was adopted on May 19, 2016.

The 2017 State Water Plan tells us that our population will continue its rapid growth. Texas' population is expected to increase more than 70 percent between 2020 and 2070, from 29.5 million to 51 million, with more than half of this growth occurring in Regions C and H. Water demands are projected to increase less significantly, by approximately 17 percent between 2020 and 2070, from 18.4 million to 21.6 million acre-feet per year. Texas' existing water supplies — those that can already be relied on in the event of drought — are expected to decline by approximately 11 percent between 2020 and 2070, from 15.2 million to 13.6 million acre-feet per year. Water user groups face a potential water shortage of 4.8 million acre-feet per year in 2020 and 8.9 million acre-feet per year in 2070 in drought of record conditions.

The 2017 State Water Plan provides a roadmap for how to address the water needs that accompany our expected growth by identifying water management strategies and their associated costs for communities all across the state. Approximately 5,500 water management strategies that are recommended in the 2017 plan would provide 3.4 million acre-feet per year in additional water supplies to water user groups in 2020 and 8.5 million acre-feet per year in 2070. The estimated capital cost to design, construct, and implement the approximately 2,400 recommended water management strategy projects by 2070 is \$62.6 billion. Water management strategies can include conservation, drought management, reservoirs, wells, water reuse, desalination plants, and others.

The information in this plan is critical to ensuring that Texas has adequate and affordable water supplies both now and in the future. If strategies are not implemented, approximately one-third of Texas' population would have less than half the municipal water supplies they will require during a drought of record in 2070. If Texas does not implement the state water plan, estimated annual economic losses resulting from water shortages would range from approximately \$73 billion in 2020 to \$151 billion in 2070.

For more information on the 2017 State Water Plan as well as resources on how to get involved with your regional planning group and financial assistance for cities, visit the Texas Water Development Board at <http://www.twdb.texas.gov/>. ★





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.

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 of 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.

Chart 1
Cost-Saving Measures
 Percent of All Cities

	2007	2009	2011	2012	2013	2014	2015	2016
Hiring freeze during past two years	4.9%	8.7%	17.9%	15.8%	7.6%	4.4%	3.8%	2.9%
Wage freeze during past two years	2.9%	5.1%	23.8%	16.2%	5.9%	4.2%	3.4%	3.5%
Reduced services	2.5%	4.0%	6.7%	7.6%	3.2%	2.6%	1.3%	2.5%
Eliminated services	1.4%	2.2%	2.9%	3.4%	1.7%	1.5%	1.3%	0.6%
Reduced salaries	0.8%	1.0%	1.7%	1.7%	1.3%	0.9%	0.4%	0.4%
Laid off employees	5.9%	6.6%	10.7%	10.2%	4.5%	3.8%	3.0%	1.4%
Postponed capital spending	49.4%	50.0%	52.4%	43.1%	36.9%	29.7%	36.0%	28.7%





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 biennial fiscal conditions survey. When asked which cost-cutting measures were employed to balance the current-year budgets, cities consistently identify “postponed capital spending” as the most commonly used tactic. (Please see Chart 1 on page 30.)

Chart 2

If Revenues Remain Constant or Diminish, What Will Cities Do?
Percent of All Cities

First Response	2007	2009	2011	2012	2013	2014	2015	2016
Postpone capital spending	39.5%	45.0%	22.6%	24.6%	24.1%	27.6%	28.5%	29.4%
Impose hiring freeze	19.1%	18.1%	42.3%	32.7%	32.1%	26.6%	22.0%	16.4%
Increase user fees	21.1%	17.7%	12.4%	10.6%	10.9%	10.2%	14.5%	10.5%
Raise property tax	10.0%	10.6%	6.2%	4.2%	8.2%	7.6%	8.0%	6.6%
Impose wage freeze	3.4%	2.4%	10.6%	9.3%	7.3%	6.7%	6.5%	5.1%

Similarly, when asked to identify how they would respond to diminishing revenue in future years, city officials almost always select “postpone capital spending” as the 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



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;
 - response to pandemic disease and other public health disasters;
 - 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 costly 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 often comes with a high price tag and must be supplemented on an ongoing basis. ★

Median Salary for Police Officer and Firefighter

Police Patrol Officer:
\$60,270.00 plus
benefits annually

Firefighter:
\$46,870.00 plus
benefits annually

Source: US Bureau of Labor

Helmet
and hood
\$381

"PASS" alarm to
monitor firefighter
while deployed
\$495

Firefighter pager
\$459

Self-contained
breathing apparatus
\$4,268

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

Gloves
\$87

Heat-reflective,
fire-resistant pants
\$600

Puncture-proof,
heat-resistant boots
\$358

Total cost of Firefighter Equipment \$7,848

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 Hurricane 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. In 2013, the City of West responded to a fertilizer plant explosion that devastated its city. The City not only paid the price of emergency response in dollars, but also lost many of its volunteer firefighters, one being the city secretary. Disasters like the West explosion can lead to legislation that seeks to impose additional mandates on cities, but without commensurate funding. In 2014, cities like Dallas have already been asked to assist with the costs of Ebola response. The costs for these types of emergencies will continue to fall on cities because urban populations are often the hardest hit by public health emergencies

ANNEXATION: IT ISN'T A FOUR-LETTER WORD



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 are 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 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, showed 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.

The Perryman Group 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." If you think those numbers are exaggerated, just look at what happened to four once-great American cities that were prevented from growing. In 1950, Detroit, Baltimore, Cleveland, and St. Louis were the fifth, sixth, seventh, and eighth largest cities in the nation in population. All four of them were prevented from expanding their city limits. Sixty years later, in 2010, all four cities had about the same number of square miles they had in 1950.

Over the six decades from 1950 to 2010, Detroit suffered a population loss of 61 percent. Baltimore's population declined 35 percent. Cleveland lost 57 percent of its population and St. Louis lost 63 percent of its population. Without the ability to take in areas of growth, those cities died.

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.

	Land Area Sq. Mi.		Population Rank		City Population		Population Change	Median household Income in 2013
	1950	2010	1950	2010	1950	2010		
Detroit	140	140	5	20	1,849,568	713,777	-61%	\$26,325
Baltimore	79	81	6	24	949,708	620,961	-35%	\$41,385
Cleveland	75	78	7	48	914,808	396,815	-57%	\$26,217
St. Louis	61	62	8	61	856,796	319,294	-63%	\$34,582

In contrast to the four cities that experienced a death spiral due to annexation limitations, look at what happened in four Texas cities between 1950 and 2010 without similar restrictions on their ability to grow.

	Land Area Sq. Mi.		Population Rank		City Population		Population Change	Median household Income in 2013
	1950	2010	1950	2010	1950	2010		
Houston	160	600	14	4	596,163	2,009,453	252%	\$45,010
San Antonio	70	451	25	7	408,442	1,327,407	225%	\$45,722
Dallas	112	341	22	9	434,452	1,197,816	176%	\$42,846
Austin	32	297	73	14	132,459	709,390	497%	\$53,946

Certainly other factors were at play, but it seems clear that annexation authority plays a big role in the success of a city (and therefore the state). More recently, the League commissioned a study of only southern states with similar demographics to Texas. That study found that, among a comparison set of 13 states, three key findings emerge:

1. States in which city councils decide whether to annex have seen their cities grow faster over the past 25 years, both economically and demographically, than other states that limit annexation.
2. In terms of annexation activity (as measured by change in city size) states in which city councils decide whether to annex have actually seen their cities physically grow more slowly from 1990 to 2010 than other states that limit annexation.
3. When measured by bond ratings tied to the issuance of general obligation bonds, states in which city councils decide whether to annex have better ratings than other states that limit annexation.

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. ★

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.

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, basic activities such 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 recognize that cities (city taxpayers) are making expenditures that benefit all residents of the state. For example, most 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 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.





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 a city's residents, the power to zone is best exercised by the level of government 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 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

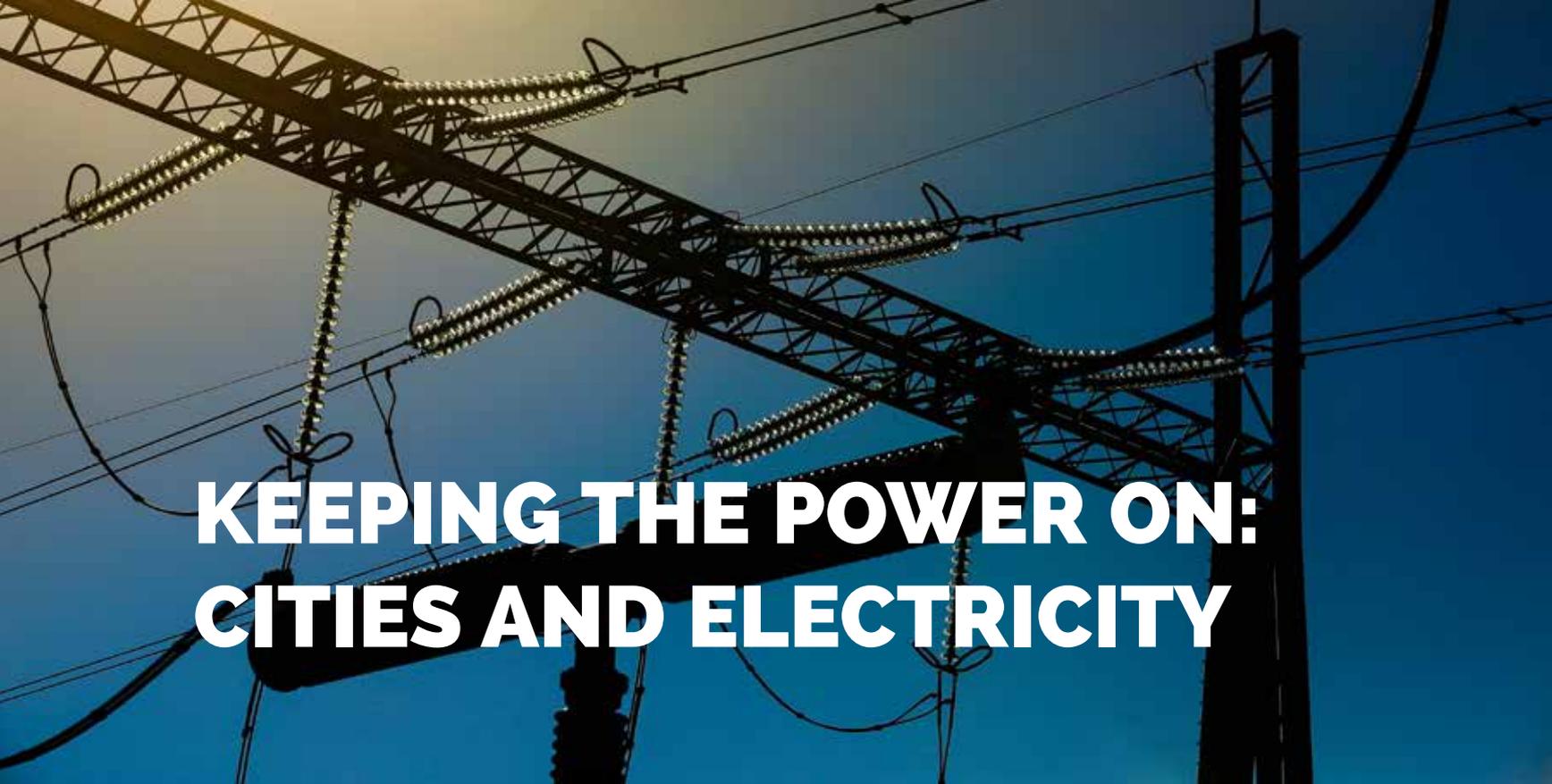
requirements of the International Residential Code, have an appearance and value similar to nearby homes. Many cities take advantage of these provisions to protect property values and the safety of residents, while at the same time offering viable housing alternatives for lower income families. "Manufactured and modular housing provides a solution to affordable housing in appropriate areas under consciously adopted, well-thought-out regulations," says David Gattis, former deputy city manager in the City of Benbrook. The Texas Municipal League is not 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. ★

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 United States 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) 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.



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. The following questions and answers provide a “primer” on the issues facing cities in this area.

Note: See the article in this publication titled “Cities Refuse to Accept Utility Rate Hikes Without a Fight” 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 (Coop). Each of those providers usually has a monopoly in the areas they serve, based on a certificate from the Texas 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 Coops retain that monopoly status, unless they choose—by a vote of their governing body—to adopt customer choice. The reasons for allowing MOUs and Coops discretion to retain their monopoly status are many, but one of the most important is that MOU and Coop rates are governed by a city council or board of directors—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 investor-owned transmission and distribution utility (discussed below) are regulated by the 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 Coops 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 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, so deregulation is impractical.

Whether deregulation has been beneficial to cities and their citizens remains the subject of heated debate. One thing is certain: deregulation has changed the way cities in the deregulated market purchase power for city facilities; one of the ways 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 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 into 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 (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 Coops (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. ★



CITIES REFUSE TO ACCEPT UTILITY RATE HIKES WITHOUT A FIGHT

Texas cities have a long history of participation in the ratemaking process for both gas and electric utilities in the State of Texas. 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 that 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. ★

City coalitions have found expenses like these which utilities tried to pass on to customers:

- Hotel expenses of nearly \$1,000 per night for executives to stay at a New York City hotel.
- Tens of thousands of dollars worth of art for the utility's office.
- Dinners in New York City, Dallas, and Philadelphia restaurants costing more than \$200 per person.
- More than \$1.5 million in employee "financial incentives."

A private, investor-owned utility is allowed to incur expenses like those listed above, but the company itself (i.e., its shareholders), not the utility customers it serves, should pay for those costs. It's unreasonable to ask to raise customer rates to cover these kinds of expenses, and cities are the first line of defense against such requests.

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 850 member cities, 102,000 contributing members, and 43,000 annuitants.

TMRS has taken great strides in recent sessions to make improvements in the system that provide retirement benefits

to a majority of city employees in Texas. The reforms have stabilized benefits and lowered city contribution rates, while ultimately using fewer tax dollars to fund pensions. They will also require training by pension system employees.

There are numerous reasons why TMRS has been so successful. TMRS relies on an advisory board of 19 members, including 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 session provides for easy passage of the needed reforms.

Although the drumbeat for reform may persist throughout the next legislative session, TMRS has proved to be a well-funded model for pensions around the country. It should not be included in discussion about other pension reforms. ★



THRIVING LIBRARIES REFLECT THRIVING CITIES

"Libraries allow children to ask questions about the world and find the answers. And the wonderful thing is that once a child learns to use a library, the doors to learning are always open."

Laura Bush

The Texas Library Association (TLA) reports 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.

Libraries impact the local economy and workforce development.

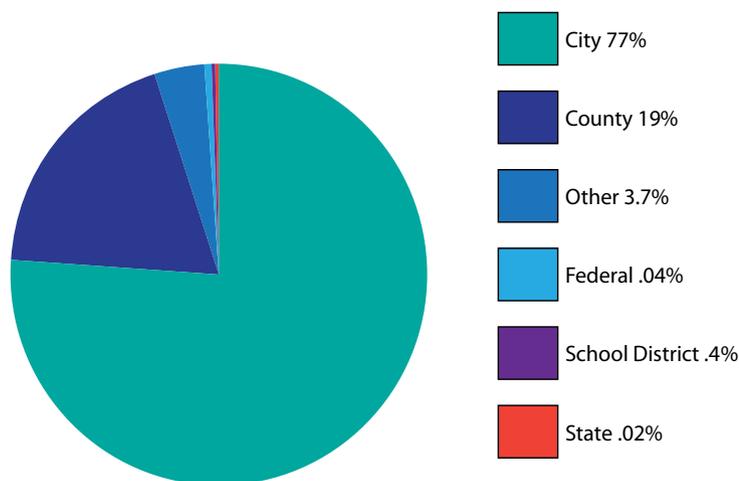
In a 2008 public opinion survey, conducted on behalf of the TLA, 83 percent of Texas voters believed that public libraries support the economy through job skills training, career and job information, and resources for local businesses. A recent study conducted for the Texas State Library and Archives Commission (TSLAC) documented various, specific examples of libraries (1) enabling businesses and self-employed individuals to improve their economic activities; (2) assisting individuals to obtain employment; and (3) providing educational and occupational programs that meet the needs of Texas communities and regions. Some businesses—particularly those requiring a highly skilled workforce—look to the city's library as a barometer of local commitment to workforce readiness.

Libraries impact literacy and education. Public library patrons include preschoolers, afterschoolers, homeschoolers, distance learners, and researchers. Through story time hours, reading programs, English second language classes, and other local services, they represent the public's bridge to structured educational campuses. The 2008 TLA public opinion poll found that Texas voters were nearly unanimous in their belief that public libraries create educational opportunities for all citizens (97 percent agreed).

Libraries impact community. Communities value their city libraries not only as centers of information and learning, but also as a gathering point for ideas and discussion. The 2008 TLA public opinion survey found that 95 percent of Texas voters believed that public libraries improve the quality of life in their community. Approximately 75 percent of public libraries serve communities smaller than 25,000 in population. In small Texas cities, the library may be the only community gathering place.

As shown in the accompanying chart, cities are the largest source of income for public libraries in Texas. ★

Texas Public Libraries: 2015 Income by Source



Source: Texas State Library and Archives Commission, Texas Public Library Statistics, Statewide Comparison Statistics: 1997 to 2015

"Whatever the cost of our libraries, the price is cheap compared to that of an ignorant nation."

Walter Cronkite

Texas Public Libraries: A Great Investment

A study found that, in 2011, Texas public libraries collectively provided \$2.407 billion in economic benefits while costing less than \$0.545 billion. That is a return on investment of \$4.42 for each dollar invested. This chart from the study shows how Texas compares to some other states and cities:

JURISDICTION	RETURN ON THE DOLLAR
STATES	
Colorado	\$4.99
Florida	\$8.32
Indiana	\$4.76
South Carolina	\$4.48
Texas - Statewide	\$4.42
Wisconsin	\$4.06
CITIES	
Charlotte	\$4.61
Southwestern Ohio	\$3.81
Texas - 14 cases	\$4.19

Table 7.1. Return on Investment in Selected Reports
Note: Summary statistics were unavailable for Philadelphia and Seattle.

Texas voters get it! In a 2008 public opinion survey, 94 percent of Texas voters agreed that public libraries are a good value for the tax dollar.

Sources:
Dec. 2012, Texas Public Libraries: Economic Benefits and Return on Investment, Prepared for TSLAC by Bureau of Business Research, IC2 Institute, Univ. of Tex. at Austin. Fall 2008, KRC Public Opinion Survey conducted on behalf of the Texas Library Association

A photograph of two women in athletic wear stretching on a park bench. The woman on the left is wearing a bright green jacket and black leggings, while the woman on the right is wearing a dark jacket and black leggings. They are both smiling and looking down at their feet. The background shows a park with trees and a building under a bright, hazy sky, suggesting a sunrise or sunset. The text 'TEXANS KEEP HEALTHY IN CITY PARKS' is overlaid in the top right corner.

TEXANS KEEP HEALTHY IN CITY PARKS

City parks are the front line in the battle of the bulge, and they help keep Texans feeling their best at home and while away. Texas cities face extreme weather, modern lifestyles, and funding challenges in maintaining fitness.

Texas cities provide 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 pools, softball fields, and Frisbee golf courses. Cities also provide indoor recreation activities for sports, arts, and nature programs. While most cities have hiking trails, some cities are investing in new interests such as dog parks and skate parks. Many cities even provide classes to encourage hobbies and various self-help classes such as income tax and language skills. ★



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.

INVESTING IN TOMORROW'S LEADERS: CITY GOVERNMENTS INVOLVE YOUTH



Many Texas cities have created special programs to engage and involve youth. These programs can take many different forms—from presentations at local schools, to special recognition programs; mentoring or internship programs, to formal youth advisory commissions. At the heart of these programs is a desire to educate youth on the mechanics of city government, provide an outlet for youth to voice their ideas and concerns, and make sure that the city is nurturing their future leaders.

Some of the most comprehensive youth programs are formal youth advisory commissions (YACs). YACs are often authorized by city ordinance; have a well-defined mission statement, bylaws, and application process; and meet regularly. YAC commissioners

participate in community service projects, provide input to city staff and elected officials on city policy matters, develop and organize youth activities, and serve as role models to their peers.

City officials know that, whatever the format, developing relationships with the city's youth is an investment in tomorrow's leaders and in the city's future. ★

YAC

The League Leads Advocacy Efforts.

One of the primary functions of the League is to speak as the voice for city government in Texas. Each legislative session, the League staff works with city officials to educate state legislators about the needs of Texas cities.

ADVOCACY IS VITAL

The Texas 85th Legislative Session began on January 10, 2017. Before, during, and after the session, League staff works directly with legislators on items of municipal interest. However, our influence is directly affected by your city's efforts to be heard. Help your city plan an active and consistent role in the League's legislative effort.

Stay Well Informed

The League provides several ways for members to stay informed about legislative issues. The *Legislative Update* is the primary legislative communication between the League and its members. It is sent electronically as part of the TML Exchange email to member city officials on Fridays.

The legislative portion of the League website (www.tml.org; click on "Legislative Information") is another important information source. There you will find a link to the current issue of the *Legislative Update* newsletter, as well as an index to past issues of the newsletter, summaries of legislative hot topics, and the League's legislative program.

The 2017 legislative session will address many issues that will involve Texas cities and their ability to meet citizen demands for services. The League's best advocates for protection of municipal authority are its members—elected and appointed officials from cities of all sizes and geographic areas. TML needs your participation.

Contact Legislators Early and Often

Your legislators need to hear from you, or they're forced to make decisions on local government issues without fully appreciating the impact they will have on cities in their district. Meet formally at least once a year prior to the session to review key issues. Ask if phone calls, emails, letters, or personal contact works best for them during the session. Encourage your legislators to work with League staff, as well.

Keep the League Informed

The League lobbying team includes Director of Legislative Services Shanna Igo, Assistant Director of Legislative Services Monty Wynn, Legislative Liaison JJ Rocha, and you. Always send copies of your correspondence to and from legislators to the League. League staff can work more effectively with your legislators when we know what you've said and what you received in return. It also allows us to incorporate your local circumstances into our commentary. Emails can be forwarded to legislative@tml.org, and copies can be faxed to 512-231-7490 or mailed to the League office.

Stick to It

It's a fact of life in public policy that things take time. Your consistent participation in the legislative process is essential to long-term success. ★

ABOUT



Whether you are a new or a seasoned elected official, TML has the resources, tools, and training to help you succeed in your leadership role.

Since its formation in 1913, the Texas Municipal League's mission has been to serve the needs of member cities and advocate for members' interests.

Membership in the League is voluntary, and is open to any city in Texas. From the original 14 members, TML now has more than 1,150 member cities. More than 16,000 mayors, councilmembers, city managers, city attorneys, and city department heads are member officials through their cities' participation.

How is TML Organized?

TML has 15 sub-state regions that were formed in 1958 and are the League's grassroots. Regions exist to promote interests in city government on a regional level, foster the exchange of information among cities in the region, and help the TML Board of Directors develop policy that represents the state's diverse interests.

Every TML region elects officers, including a representative who serves on the TML Board of Directors, and conducts regional meetings at least twice each year. The TML Board representative must be an elected official from a city within the region, and serves a two-year term of office with a maximum of two full terms.

To help address the functional professional development needs of member officials, TML has 21 affiliate organizations. Affiliate organizations represent city officials engaged in specific professional disciplines. For example, the Texas City Management Association (TCMA) is the professional association for city managers in Texas. TCMA is its own association, as well as a TML affiliate with a representative on the TML Board. Each affiliate group has its own membership criteria and dues structure that is separate from the League's.

TML is governed by a board of directors composed of a representative from each of the 15 regions, a representative from each of the 21 affiliate organizations, eight at-large

directors (one from each of the state's largest cities), past TML presidents still in municipal office, a president and a president-elect, and two ex officio directors from the TML risk pools.

The Board appoints an executive director to manage the affairs of the League under the Board's general direction. Bennett Sandlin is the current executive director, and has been serving in this role since October 2010.

Today, TML employs a staff of 32 full-time employees and has six departments: Administrative Services, Affiliate Services, Communications and Programs, Legal Services, Legislative Services, and Member Services.

What Does TML Do?

One of the principle purposes of the League is to advance and represent the interests of Texas cities at the state and federal levels.

The Texas Legislature meets for 140 days each odd-numbered year and meets frequently in special "called" sessions. There are hundreds of bills that adversely impact cities among the thousands of bills introduced each legislative session. Most would erode the authority of Texas cities to govern their own affairs or impose mandates that do not provide a commensurate level of compensation.

The League, working through its Legislative Services Department, makes every effort to assure that bad-for-city bills are defeated and bills that help cities operate more effectively are passed.

Through the years, thousands of proposals that would have undermined city government have been defeated. The League's legislative track record is one of unparalleled success.

How Does TML Develop Policy?

Protecting the interest of Texas cities during each legislative session requires considerable planning to

TML AFFILIATES

Association of Hispanic Municipal Officials (AHMO)

Building Officials Association of Texas (BOAT)

Government Finance Officers Association of Texas (GFOAT)

Texas Association of Black City Council Members (TABCCM)

Texas Association of Governmental Information Technology Managers (TAGITM)

Texas Association of Mayors, Councilmembers and Commissioners (TAMCC)

Texas Association of Municipal Health Officials (TAMHO)

Texas Association of Municipal Information Officers (TAMIO)

Texas Chapter of the American Planning Association (TXAPA)

Texas City Attorneys Association (TCAA)

Texas City Management Association (TCMA)

Texas Court Clerks Association (TCCA)

Texas Fire Chiefs Association (TFCA)

Texas Municipal Clerks Association, Inc. (TMCA)

Texas Municipal Human Resources Association (TMHRA)

Texas Municipal Library Directors Association (TMLDA)

Texas Municipal Utilities Association (TMUA)

Texas Police Chiefs Association (TPCA)

Texas Public Purchasing Association (TxPPA)

Texas Public Works Association (TPWA)

Texas Recreation and Park Society (TRAPS)

establish legislative priorities. While the TML legislative philosophy is based on protecting the ability of cities to govern their own local affairs, positions must be taken on hundreds of issues that affect cities.

The process of adopting positions on legislation begins a full year before the regular legislative session convenes. In January of a non-legislative year, the TML president appoints members to legislative policy committees to address specific issues. Each "specific issue" committee is made up of approximately 20-25 members. These committees meet to review issues summarized in policy briefing books, as well as other issues brought up by committee members. Subcommittees may be appointed to tackle some of the more complex issues.

Those "specific issue" committees combine to make up the General Government Committee, which meets once to cover any issues not addressed by those committees.

The final reports of these committees are forwarded to the Resolutions Committee, which meets during the TML Annual Conference. The Resolutions Committee is comprised of members from cities across the state. The committee reviews these reports, as well as any resolutions submitted by the general membership. After a decision is reached by the Resolutions Committee, the resolutions are then considered by the TML general membership at the annual business meeting held the last day of the annual conference. The TML Board adopts a legislative program based on these resolutions.

The League uses this process to determine which issues are most important to Texas cities and how to best allocate its legislative resources.

Legal Services

The League employs full-time attorneys who are available to provide legal information on municipal issues to member cities, as well as example documents to assist cities in drafting ordinances and other required legal notices. The legal staff provides cities with information on changes in federal and state laws and regulations, as well as city-related developments in the courts. During legislative sessions, the legal staff is frequently called on to provide testimony to legislative committees on a variety of city issues.

In addition, the legal staff is available to deliver workshops on a variety of legal subjects to small cities problem solving clinics, affiliate organizations, and regional groups.

Information and Research

The League was formed in 1913 to provide information to member cities. Today, this is still an important service. TML staff has information on virtually every topic affecting Texas cities and can be reached by telephone, snail mail, or email.

The League library and files contain thousands of books, magazines, and periodicals that are available for use by member officials. League publications are another important member service. In addition to *Texas Town & City*, the League publishes a number of books and pamphlets to keep its membership informed on emerging municipal issues.

TML also conducts several annual surveys that collect information on water and wastewater rates, taxation and debt levels, and general fiscal conditions.

Conferences and Training

TML conducts a variety of conferences, workshops, and webinars to enhance the knowledge and skills of municipal officials.

The TML Annual Conference and Exhibition is one of the nation's largest gatherings of municipal officials. The 2017 Annual Conference will be held October 3-6 at the George R. Brown Convention Center in Houston. In addition to keynote sessions, workshops, and the annual business meeting, the conference features an impressive exhibit hall with more than 350 companies presenting products and services that benefit Texas cities.

The League also offers training opportunities that are designed specifically for elected officials. The Elected Officials' Conference, co-hosted by TML and the Texas Association of Mayors, Councilmembers and Commissioners, will be held in Allen, February 16-18, 2017. This event focuses on key issues for newly elected and veteran city officials on topics like economic development, media relations, infrastructure, citizen engagement, revenue sources, government trends, and leadership.

In addition, TML holds several Newly Elected City Officials' Orientations and Workshops each year. The 2017 summer orientations will be held July 13-14 in Round Rock, and August 3-4 in San Antonio. The winter workshop will take place in December via a series of four webinars. These sessions offer training on the basics of serving on the governing body, and provide an overview on the fundamentals of city regulation, financial oversight responsibilities, ethical governance, council-staff relations, economic development, Texas Open Meetings Act, and more.

TML conducts other timely workshops and webinars for both elected and appointed officials throughout the year, including the Economic Development Conference; Public Funds Investment Act Training; Budget, Tax Rate, and Audit Workshops; Leadership Academy; Small Cities' Problem-Solving Clinics; Grant Writing Workshop; and more.

Federal Representation

Through its membership in the National League of Cities, the Southern Municipal Conference, and other similar organizations, TML has a voice in Washington, D.C. Working with these groups, TML ensures that the voice of Texas cities is heard not only in congressional offices, but also in the headquarters of various federal agencies.

Risk Pools

For more than 40 years, the TML risk pools have provided Texas cities with quality risk coverage specifically designed to meet municipal needs. These pools are separate entities, but maintain a close administrative relationship with TML.

The TML Intergovernmental Risk Pool (TMLIRP) works to reduce the cost of property and casualty risks in Texas cities. In addition to providing a stable risk financing system, the TMLIRP offers education to its members to avoid and reduce risks, control losses, and stay informed on other aspects of risk management.

Benefit coverage for municipal employees and their families has become a major expense item in virtually every city budget. Cities throughout the state are holding the line on these costs by participating in the TML MultiState Intergovernmental Employee Benefits Risk Pool (TML MultiState IEBP).

The League Today

TML is committed to helping city leaders in Texas meet today's governing challenges. The League prides itself on 104 years of service to Texas cities, and looks forward to providing the resources, knowledge, and advocacy to support city officials into the future. ★

TML REGIONS

Region 2
Amarillo Area

Region 3
Caprock –
Lubbock Area

Region 4
Permian Basin Region –
Odessa Area

Region 5
Red River Valley –
Wichita Falls Area

Region 6
Hub of Texas –
Abilene Area

Region 7
Alamo Region –
San Antonio Area

Region 8
Where the West Begins –
Fort Worth Area

Region 9
Heart of Texas Region –
Waco Area

Region 10
Highland Lakes Region –
Austin Area

Region 11
Coastal Bend Region –
Corpus Christi Area

Region 12
Lower Rio Grande Valley –
Rio Grande Valley Area

Region 13
North Central Texas Region –
Dallas Area

Region 14
San Jacinto Region –
Houston Area

Region 15
Tyler-
Longview Area

Region 16
Golden Pine and Oil Region –
Beaumont-Lufkin Area



EMPOWERING TEXAS CITIES TO SERVE THEIR CITIZENS.

Texas Municipal League

1821 Rutherford Lane, Suite 400, Austin, Texas 78754-5101

Phone 512-231-7400 • Fax 512-231-7490 • www.tml.org