

# DEVELOPING COMMUNITIES

## with Economic Development Organizations

By Jeremy Heath

If there's one thing every community has in common—no matter how large or small, no matter its demographic makeup, no matter its geographic location or features—it's that each one is its own unique entity. Each has its own collection of assets, its own strengths, and its own weaknesses.

That means the leaders of each community need to recognize and embrace the things that make it different when setting both short-term and long-term goals. Those established goals should then determine the nature, focus, and magnitude of the community's economic development efforts. Because like the communities they bolster, every economic development organization (EDO) is different.

### What Are EDOs?

There are EDOs of all sizes, from the municipal and county levels to statewide, national, and even international levels. While the precise focus and scope of the work varies for each of these, their overall missions are roughly the same: to encourage sustainable economic strength and improved quality of life with the tools available to them.

### What Do They Do?

Think of each EDO as a tool box; the tools in each box vary based on the community's collection of assets. In Texas, the primary objectives of EDOs were determined through legislation. In 1979, the state legislature authorized

municipalities to levy sales taxes through Section 4A and Section 4B of the Development Corporation Act. The funds generated through these taxes must be used for economic development projects, and no tax can be levied without a public election.

Not every city qualifies for a section 4A sales tax, but every Texas city could adopt a section 4B sales tax as long as the city does not exceed two percent (2%) in local sales tax. Some Texas cities currently have both 4A and 4B designations.

The main objective for both 4A and 5A cities started as and remains to

retain and attract primary jobs. The list of eligible projects under each section reflects that, but as EDOs and the communities they serve have evolved, other types of permissible projects have been approved by the legislature.

### Section 4A Cities

Section 4A-eligible cities are located in a county with 500,000 people or fewer. It can also be a city which has a population of less than 50,000 and is located within two or more counties. Local sales tax cannot exceed 2 percent, and combined state and local sales tax cannot exceed 8.25 percent. The board of directors of a corporation under this section consists of five directors who are appointed by the governing body of the city and who serve at the pleasure of the governing body.

### Permissible 4A Projects

Section 4A corporations may provide land, buildings, equipment, facilities, expenditures, targeted infrastructure, and improvements that are for a variety of projects: manufacturing and industrial facilities, research and development facilities, military facilities, recycling facilities, distribution centers, primary job training facilities for use by institutions of higher education, regional or national corporate headquarters facilities, and job training classes. Certain targeted infrastructure projects necessary to promote or develop new or expanded



business enterprises may also be provided but are limited to streets and roads, rail spurs, water and sewer utilities, electric utilities, gas utilities, drainage, site improvements, and related improvements. Other improvements in telecommunications and Internet can be seen, and beach remediation along the Gulf of Mexico can be provided. Finally, a general aviation business service airport that is an integral part of an industrial park and port-related facilities to support waterborne commerce could be arranged.

### Section 4B Cities

Every Texas city is currently eligible as long as local sales tax does not exceed 2 percent and combined state and local sales tax does not exceed 8.25 percent. The board of directors of a corporation under this section consists of seven directors who are appointed by the governing body of the eligible city for two-year terms of office.

### Permissible 4B Projects

Section 4B corporations are permitted to participate in most of the same projects permissible to 4A corporations but may also provide land, buildings, equipment, facilities, and improvements found by the board of directors to promote or develop new or expanded business enterprises that create or retain primary jobs. Projects may provide public safety facilities, streets and roads, drainage and related improvements, demolition of existing structures, and general municipally-owned improvements. In addition, any improvements or facilities that are related to the aforementioned projects can be provided.

The board, in its discretion, can determine any other projects that promote or develop new or expanded business enterprises that create or retain primary jobs. Projects consisting of professional and amateur (including children's) sports, athletic, entertainment, tourist, convention, and public park purposes and events may be provided, along with affordable housing projects, water supply facilities projects, and water conservation programs.

### The EDO Should Be Your First Phone Call

While most EDOs are rightfully project-based, the vast majority of them are also resources. Site selectors, realtors (both commercial and residential), investors, current business owners looking to relocate or expand, or those looking to open a new business can all benefit from contacting EDOs. Many EDOs

consolidate data such as demographic information, housing starts and plats, and certificates of occupancy issued. They may also have information on trends in the collection of local sales tax, property tax, and hotel occupancy tax (where applicable).

When EDOs do a good job of maintaining and updating such records, they can provide a potential investor with an honest and accurate snapshot

of the community. This allows those investors to make more informed decisions, which ultimately benefits the community. It actually benefits a city more for an investor to choose another city better suited to facilitate a successful project than to choose it and invest in a project destined to fail or languish. Any practicing EDO professional should feel an ethical obligation to provide a potential

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investor with the most accurate and relevant information possible.

### EDOs Know the Pulse of Their Community

No matter the size of the community, EDOs need to have their finger on the pulse of their community. Relationships with local chambers of commerce, elected officials, land owners and, perhaps most importantly, local

business owners, are vital to success. A site selector or a commercial realtor representing a client wants to gather as much information as possible before making a recommendation to the client. A conversation with an EDO staff member or board member can often provide information that paints a picture that the statistics cannot. For instance, statistics won't indicate that a community has made the decision to grow its light industrial base by creating or expanding a job training program, but an EDO staffer has that knowledge.

EDOs should also be in tune with the local political climate. The current city council might or might not be inclined to offer financial incentives to companies for creating or expanding businesses. They might be more focused on attracting retail and restaurants than manufacturing companies. They might be focused more strongly on single-family than multi-family in the residential market. A good EDO staffer is going to know these little tidbits of information that can not only save an investor time but can also be the difference between making a successful or unsuccessful venture.

### Good EDOs Keep the Economy Moving

While first-hand knowledge of the community and its political and business leaders is an invaluable resource provided by most EDOs, it really does come down to their ability to create primary jobs. When EDOs identify and help execute projects that bring good jobs into the community, everyone benefits. Not only does the project's capital investment typically expand the property tax base, the jobs created inject money into the local economy. This happens through the jobs attracting new residents who might invest in property and spend money at local stores and restaurants or through allowing a current resident to improve their financial position, thus allowing them to put more back into the economy. **N**

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