

The Biggest Sources of Money for Texas City Governments

1. Fees

Utility Revenues: People who use city utilities pay for them. Utilities include water and wastewater systems, and in some cities, city electricity or gas systems. Residents pay for utilities in their houses and apartments, and business owners pay for utilities for their stores and offices. These fees are collected each month.

User Fees: Many cities charge money for people who use city facilities such as swimming pools, tennis courts, golf courses, and airports. People usually pay the user fee at the time they use the facility.

2. Taxes

Property tax: Everyone who owns certain kinds of property pays taxes on the value of that property, such as land, homes, buildings, office equipment, etc. The value of the property is set by an **appraiser**. Property owners pay their taxes once each year for as long as they own the property. People who own more taxable things, who are usually wealthier, pay more in taxes.

Sales Tax Revenue: Everyone who buys things in a city pays the same set percentage of every dollar in taxes. Rich people and poor people are taxed at the same set rate. This rate can be changed by a vote of a city council.

3. Bonds: Borrowing Needed Money

Most cities in Texas pay the usual costs of running the city out of the taxes and fees listed above. Still, there are times when cities face huge expenses, such as building a new town hall or new water lines, or expanding road systems or city bus lines. When Texas towns and cities need large amounts of money for such large special projects, they usually borrow money by selling **bonds**. People all over the nation have a chance to invest in Texas city bonds.

When cities sell bonds, they must pay **interest** to the buyers of the bonds, just as consumers pay interest when they take out a loan. A town secures the loan by promising to pay lenders back with money collected from taxes, fees, and other city income. Often a city has to raise its tax rate to be able to pay the cost of interest on the sale of bonds. Cities must often get the approval of voters before they can go to the expense of selling bonds and paying interest. When voter approval is needed, the city holds a **bond election**. When most voters think the things that the city will do with the money will help the city, voters approve the sale of bonds. Sometimes bond elections fail because citizens are afraid that the extra taxes will hurt their households, or think that the money will not be used for important projects.

Each city has its own **bond rating**, which is a way of telling potential lenders how risky it is for them to lend money to a city. Cities that seem the most likely to repay a loan usually get the highest bond rating (AAA or Aaa) and a lower interest rate. Cities that seem more likely to have problems repaying loans must offer more money in interest to be able to attract **investors**. These cities have a lower bond rating (BBB or Baa).

Other Sources of Money for City Governments

Federal Grants: Our federal government gives money to cities to help them accomplish certain goals. Texas cities use federal funds to build low cost housing for poor persons, for example. These funds usually go to needy cities; wealthier cities usually do not get many federal funds. This money is similar to a gift to be used for a special purpose and does not usually have to be paid back.

Fines: Cities may fine people and businesses that break laws having to do with fire safety, health, zoning, and traffic laws. People and companies that violate the laws pay these fines.

License Fees: City governments do many things to help keep cities safe, healthy, and pleasant places to live. Cities may charge fees to cover their activities in these areas. For example, cities may charge inspection fees to check out the wiring in buildings. A city may charge registration fees for pets, and licensing fees for jobs such as electricians. People who will directly benefit from the inspections and licenses pay these costs.

Street Taxes: Companies and businesses that use city streets pay “franchise taxes.” Taxicab companies, cable television companies, and utilities companies pay these fees.

Hotel taxes: People who stay in hotels and motels pay a tax that is a percentage of the cost of the room. The money from this tax goes to pay for visitor services, the preservation of historic buildings, and cultural and arts activities. These taxes are mostly paid by people visiting the city.

Alcoholic Beverage Taxes: Liquor stores, clubs and restaurants that serve alcoholic drinks, and brewers have to pay these taxes to the state. The state then pays part of the fees back to the cities where these businesses are located. These taxes are paid by consumers of alcohol.

Occupation Taxes: Companies and people that run coin-operated machines, such as pinball machines, pay city taxes on their businesses.

Name _____ Teacher _____

When is a tax fair?

Place an X on each continuum line.

There are no right or wrong answers, so put what you really think.

- 1. Everyone who lives in a town should pay taxes, rich and poor alike.**

Strongly agree

Strongly disagree

- 2. Only the people who use a facility or service should have to pay for it.**

Strongly agree

Strongly disagree

- 3. Rich people should have to pay a higher tax rate than poor people.**

Strongly agree

Strongly disagree

- 4. Taxes should be abolished.**

Strongly agree

Strongly disagree

- 5. City councils should be able to sell bonds whenever the city needs money.**

Strongly agree

Strongly disagree

- 6. It is better to have a high sales tax than high property taxes.**

Strongly agree

Strongly disagree

- 7. Of all the ways to raise money for a town, which one seems the best to you? Which way seems the worst to you? Consider ways that towns now raise money *and* ways that towns could use the money to fund their projects.**