

Texas cities, unlike the cities of other states, don't receive 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 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 some of 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

Annexation: It Isn't a Four-Letter Word



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

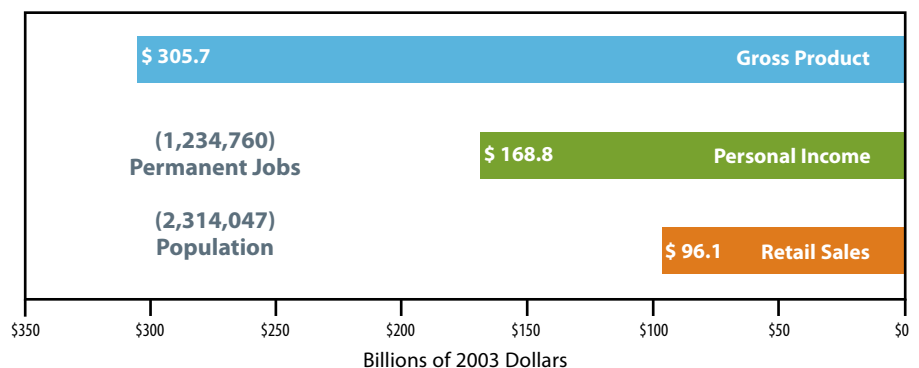
economically, as do northern cities with limited or no annexation power.

A 2003 report issued by The Perryman Group, a well-respected economic and financial analysis firm, shows 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

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.

The Impact of Significant Restrictions on Annexation Capacity on Business Activity in Texas — Losses as of 2030



Source: Texas Econometric Model, The Perryman Group

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, it goes without saying that such basic activities 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 do this in recognition of the fact that cities (city taxpayers) are making expenditures that benefit all residents of the state. For example, all 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 to be 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.

annexations would essentially eliminate annexations and thus severely damage the state's economy.

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.

The Perryman 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." Restricting annexation would result in a loss of more than \$300 billion in gross state product over the next 30 years, according to the report. In addition, the state will lose 1.2 million jobs and 2.3 million in population. 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. ★