



# The Connection Between Infrastructure and Revenue Caps

**W**ith 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.

Furthermore, 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. (A notable exception is the state’s grant program for local parks.)

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.

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 below.)

**Chart 1  
Cost-Saving Measures**

Percent of All Cities

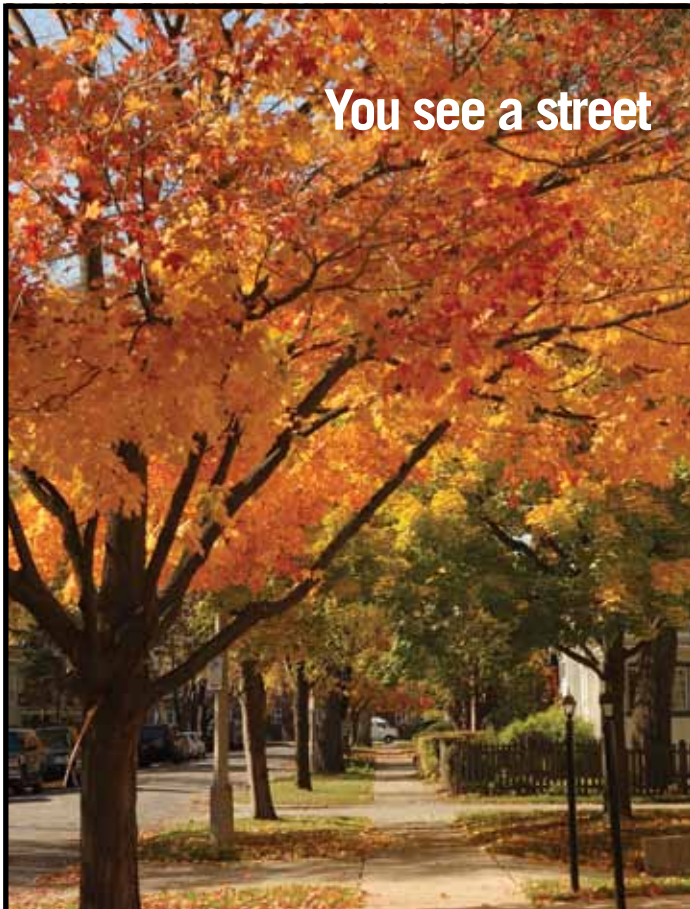
	1997	1999	2001	2003	2005	2007	2009
Hiring freeze during the past two years	4.8%	4.2%	3.4%	9.7%	11.8%	4.9%	8.7%
Wage freeze during the past two years	3.7%	2.5%	2.6%	6.3%	10.3%	2.9%	5.1%
Reduced services	3.4%	1.6%	2.7%	3.8%	1.8%	2.5%	4.0%
Eliminated services	2.1%	0.9%	1.7%	2.2%	1.0%	1.4%	2.2%
Reduced salaries	0.7%	0.5%	0.5%	1.4%	1.2%	0.8%	1.0%
Laid off employees	7.4%	3.5%	4.1%	8.6%	9.1%	5.9%	6.6%
Postponed capital spending	39.2%	39.1%	49.5%	47.4%	52.3%	49.4%	50.0%

Chart 2 If Revenues Remain Constant or Diminish, What Will Cities Do?							
First Response	Percent of All Cities						
	1997	1999	2001	2003	2005	2007	2009
Postpone capital spending	43.3%	34.8%	33.3%	29.2%	27.3%	39.5%	45.0%
Increase user fees	20.8%	15.1%	22.8%	20.7%	23.2%	21.1%	18.1%
Impose hiring freeze	16.7%	16.0%	29.2%	34.6%	34.1%	19.1%	17.7%
Raise property tax	10.9%	9.0%	11.3%	7.6%	11.1%	10.0%	10.6%
Impose wage freeze	3.6%	3.8%	10.2%	9.9%	13.7%	3.4%	2.4%

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.**

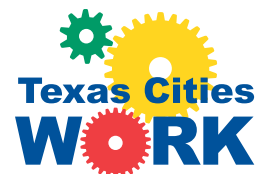
Without municipal investment in the infrastructure needed for industrial and commercial activity, the state’s job creation and economic growth will be severely damaged. And the most certain way to limit the construction and maintenance of infrastructure is to restrict the growth of tax revenue. ★



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