

Local governments have many financing mechanisms to fund infrastructure, services, economic development, and quality of life. Understanding each tool—and using them strategically—leads to stronger communities and a more resilient future.

KEY PRINCIPLES



MATCH THE TOOL
Use the right tool for the right purpose.



MANAGE RISK
Consider debt, obligation, and, long-term impact.



MAXIMIZE VALUE
Leverage assets, partnerships, and the private sector.



SERVE THE COMMUNITY
Focus on public benefit, affordability, and equity.

1. TRADITIONAL FINANCING TOOLS

CERTIFICATES OF OBLIGATION (COs)



Voter-approved debt used to finance capital projects with a dedicated tax (usually ad valorem).

Key Points

- Requires election
- Secured by tax levy
- Generally lower cost than revenue bonds

Best For
Streets, parks, facilities, public safety, equipment

Term
Typically up to 40 years

REVENUE BONDS



Debt repaid from the revenues of a specific project or enterprise. No general tax pledge.

Key Points

- No voter approval (most cases)
- Pledged revenues secure the debt
- Rates depend on revenue strength

Best For
Utilities, airports, toll roads, convention centers, senior living, parking

Term
Varies—often 20–40 years

TIRZ (TAX INCREMENT REINVESTMENT ZONE)



Captures future increases in property tax within a zone to finance public improvements.

Key Points

- Requires city + school board agreement
- Increment is above base value
- Limited to 31 years

Best For
Downtowns, blight elimination, infrastructure, transit, affordable housing

Term
Up to 31 years

PUBLIC FACILITY CORPORATION (PFC)



Nonprofit corporation created by a municipality to finance public facilities with tax-exempt bonds.

Key Points

- Used for many project types
- Bonds repaid from leases, fees, or other revenues
- No voter approval

Best For
Public buildings, parks, culture, airports, parking, convention facilities

Term
Varies by project

HOUSING FINANCE CORPORATION (HFC)



Issues tax-exempt bonds and provides other financing to support affordable housing.

Key Points

- State-authorized
- Can use 4% and tax-exempt bonds
- May leverage tax credits

Best For
Affordable rental and ownership housing, preservation, rehab

Term
Varies (15–40+ years)

MUNICIPAL MANAGEMENT DISTRICT / SPECIAL DISTRICTS (MMDs)



Political subdivisions created to finance, operate, and maintain specific services or infrastructure.

Key Points

- Enabled by state law
- Assesses fees/taxes within district
- Can issue debt

Best For
Drainage, security, roads, parks, transit, water, fire services

Term
Ongoing

2. ECONOMIC DEVELOPMENT TOOLS

TYPE A ECONOMIC DEVELOPMENT CORPORATION (4B Sales Tax)



Created by cities to promote new or expanded business development and create jobs.

- Funded by up to 1/2 cent sales tax (with voter approval)
- Can provide grants, loans, incentives

Best For
Recruiting, retaining and expanding primary employers

TYPE B ECONOMIC DEVELOPMENT CORPORATION (HOTEL OCCUPANCY TAX)



Uses local hotel occupancy tax (HOT) to promote tourism and the convention & hotel industry.

- May fund facilities, marketing, and the arts
- No voter approval

Best For
Conventions centers, visitor attractions, tourism marketing

CHAPTER 380 AGREEMENTS



City contracts with businesses to provide economic development incentives.

- Authorized by Local Government Code Chapter 380
- Incentives may include cash, grants, tax rebates, infrastructure
- Requires public purpose finding & council approval

Best For
Business attraction/expansion, job creation, capital investment

CHAPTER 381 AGREEMENTS



City shares ad valorem tax revenues with businesses for qualified property.

- Also called “tax abatement”
- Up to 50–100% of increase in value for up to 10 years
- Requires public hearing and agreement

Best For
Major capital investment, job creation, re-investment

LOCAL GOVERNMENT CORPORATIONS (LGCs)



Cities and counties can form corporations to finance and develop projects.

- Acquire, construct, and operate projects
- May issue debt
- Flexible and confidential

Best For
Workforce housing, infrastructure, industrial parks, public facilities

3. FINANCING TOOLS AT-A-GLANCE

Feature	COs	Revenue Bonds	TIRZ	PFC	HFC	Type A EDC (4B Sales Tax)	Type B EDC (HOT)	Ch. 380 Agmt.	Ch. 381 Agmt.	LGCs	MMD / Special Districts
Primary Purpose	Capital projects	Revenue-producing projects	Reinvest future tax growth	Finance public facilities	Affordable housing	Business development	Tourism & conventions	Economic incentives	Lang abatement incentives	Project development	Provide specific services / infrastructure
Revenue Source	Property tax (ad valorem)	Project revenues (fees, rates, rents)	Increment in property taxes	Lease payments, fees, revenues	Lease payments, loans, fees	Sales tax (up to 1/2c)	Hotel occupancy tax	General funds, sales tax, other	Increase in property taxes	Varies (fees, revenues, taxes)	Varies by district
Voter Approval	✓ Yes	✗ Usually No	✓ Yes (City + ISD)	✗ No	✗ No	✓ Yes	✗ No	✗ No (public hearing)	✗ No (public hearing)	✗ No	Varies by creation
Debt	Yes	Yes	Yes	Yes	Yes	May issue debt	May issue debt	No (incentives) or Yes (project specific)	No	Yes	Yes
Typical Term	Up to 40 years	10–40+ years	Up to 31 years	Varies	15–40+ years	Ongoing	Ongoing	Up to term of agreement	Up to 10 years	Varies	Ongoing
Best For	Public facilities, roads, parks, public safety	Utilities, airports, toll roads, venues, senior living	Downtown, blight, transit, infrastructure	Public buildings, parking, convention centers, parks	Affordable rental & owner housing	Job creation, industrial parks, expansions	Tourism, hotels, conventions, marketing	Business incentives, grants, loans	Large capital investment projects	Mixed-use projects, infrastructure	OSM, drainage, security, roads, parks, transit
Key Advantage	Lower cost, long-term, tax security	No tax increase; paid from project revenue	Captures growth to pay for needs it creates	Flexible, no voter approval, broad uses	Supports affordable housing; access to tax credits	Powerful local sales tax tool for jobs	Promotes tourism using visitor dollars	Flexible incentives tailored to deal	Direct property tax relief to capitalize projects	Flexible, confidential, wide authority	Dedicated funding for local services

4. HOW A FINANCING PROJECT COMES TOGETHER

1



IDENTIFY NEED
Define the problem or opportunity.

2



EVALUATE OPTIONS
Compare tools for purpose, cost, risk, and timing.

3



ENGAGE STAKEHOLDERS
Involve residents, partners, and key agencies.

4



STRUCTURE FINANCING
Select tool, create plan, secure approvals.

5



IMPLEMENT PROJECT
Design, build, or deliver the project.

6



MANAGE & REPORT
Operate, maintain, and measure results transparently.

5. QUESTIONS TO ASK

- ✓ What is the public purpose and community benefit?
- ✓ Who will pay—and how will revenue be secured?
- ✓ What are the total costs, risks, and long-term obligations?
- ✓ What approvals (council, voters, partners) are required?
- ✓ How does this align with our plans and policies?
- ✓ How will success be measured?

KEY TAKEAWAYS

- 1 No single tool fits every need.
- 2 Strategic use of multiple tools unlocks more resources.
- 3 Sound finance = lower cost, lower risk, greater impact.
- 4 Transparency and accountability build public trust.

SOURCES & REFERENCES

- Government Finance Officers Association (GFOA)
- Texas Municipal League (TML)
- Texas Comptroller of Public Accounts
- Local Government Code (Chapters 271, 303, 380, 381, 394, 501–505, 531, 542, 574, 774, 790)
- Bond Buyer, Municipal Market Data (Various Years)
- National League of Cities (NLC)

QUICK LEGEND

- ✓ Voter Approval
- ✗ Typically Not Required
- ⦿ May Vary
- 🏠 May Include Debt
- 🤝 Non-Debt / Incentive
- 🔄 Ongoing Program