My name is TJ Gilmore and I am an elected City Council member in Lewisville, one of the state’s 40 largest cities with a population of more than 100,000 residents in the thriving North Texas metroplex.

Thank you for your time and for allowing me to share with you some concerns I have related to the proposed rules change for sales tax sourcing.

It is true that Lewisville stands to lose vital tax revenue if this rules change is adopted. We are home to e-commerce distribution centers in our warehouse district. Our most recent receipts and future projections show that we stand to lose about $1.3 million per year, net after any gains from other online sales tax receipts, if sales tax sourcing is changed.

However, we also know that some cities will see increases in their sales tax receipts, and that the addition or relocation of just one large business can move a city from the gainer category to the loser category, or vice versa. This decision cannot simply be about sales tax revenue received by various cities.

Our biggest concerns are about the broader long-term impacts that the proposed rules change would create, impacts that we believe would harm all Texas cities and millions of Texas taxpayers.

Any time state laws or regulations are changed, you have to look for unintended consequences. Often, these unintended consequences cause far-reaching problems that have to be corrected a year or two down the road by the Legislature. The trick is to try identifying those potential consequences in advance.

We believe we have identified two very likely negative consequences that go far beyond the simple processing of sales and use tax.

The first such consequence would create a competitive disadvantage that would jeopardize many millions of state and local tax dollars, private investment, and jobs.

We are fearful that this proposed change will ultimately damage the state’s ability to compete with other states, such as Tennessee, Georgia, and Florida.  As we visit with businesses and developers every week, we are learning just how aggressive these other states are working to try and compete with one of the greatest economies, not only in the United States but across the world – the great state of Texas.

Our efforts to attract businesses from outside the state require a balance between physical location, access to workforce or talent pool, and performance-based incentives. Lewisville does not compete for companies with cash. We use performance-based incentives that only give benefits to the business after new revenue is first received by the city. This is how we keep our tax burden as low as possible for our 100,000 residents and 4,000 businesses. Sustainable economic development has to be a partnership between local government and the businesses themselves.

Lewisville has found success in attracting e-commerce facilities and fulfillment centers in our major business parks. This type of business brings jobs and investment to the city, but often does not generate enough increased property tax to offset incentives. So instead, we turn to the sales and use tax. We use 380 agreements available to all Home Rule Cities under Texas law to provide sales tax sharing using the city’s one-percent portion of general fund sales tax with the companies. The city retains full collections of its special sales taxes for crime control, fire prevention, transportation authority, and parks and library system. These agreements provide significant funds for these areas thus promoting a higher quality of life for our community. They are used only for true e-commerce facilities and do not divert sales tax from physical retail locations in other Texas cities

When choosing a location for their e-commerce facilities, several companies chose Lewisville because we offered significant sales tax sharing in return for delivering high-quality jobs, new capital investment, and taxable sales to enhance our community and our state. Some of those companies chose Lewisville over locations outside of Texas, meaning our state directly benefits from our development agreements.

The proposed fundamental change in the sourcing for sales tax receipts would make it impossible for cities such as Lewisville to leverage projected sales tax revenue in creating performance-based incentives for similar companies. Cities in other states will not have this restriction, giving them a competitive advantage over Texas locations. As a result, we are likely to see large e-commerce facilities locate in other states where they can negotiate to receive suitable incentives.

Not only will this have a negative impact on sales tax revenue for our city and for the state, it also will hurt local employment. Lewisville promotes a very diverse mix of neighborhood choices so families of all types will find comfortable living in Lewisville. This gives us great access to a diverse workforce who are willing and able to work and have the necessary skills for our more than 4,000 employers.

In fact, according to “homearea.com” Lewisville was ranked #1 in “Cities in Texas with the Highest Percent in the Labor Force” at 77.8%.

If e-commerce fulfillment businesses start turning away from Texas because of this proposed rule change, current jobs will be jeopardized in cities across Texas and future job opportunities will benefit residents in other states instead of hard-working Texans. I would call that a very serious “unintended consequence” of this proposed rules change.

In addition to the economic development issues, we believe the proposed rule changes may have unintended consequences related to social and economic equity.

With this new rule, sales tax dollars would be shifted from communities where the order is received to communities where the consumer resides. In other words, cities where residents have more disposable income are more likely to make significant online purchases. Under the proposed new sales tax sourcing, these wealthier communities would see an increase in sales tax but cities with a higher percentage of low- to moderate-income families would see a decrease. This will essentially redistribute sales tax from less prosperous communities to their more prosperous neighbors. Basic city services cost money no matter where they are provided. As you know, cities use sales tax revenue to provide services without increasing property tax. The expected reduction in sales tax I described likely would lead to an increased property tax burden on those Texas families least able to afford it.

I urge you to consider these two concerns today before they become the detrimental “unintended consequences” of tomorrow that harm Texas cities and families. It’s always better to avoid an illness than it is to treat one. I suggest to you that this moment can be the ounce of prevention that negates the need for a pound of cure.

Thank you for your time and for your efforts to find a fair and equitable path for Texas’s future.