

18. TAX ABATEMENTS

As of September 30, 2025, the City of Arlington (City) provides for tax abatements and tax rebates through two mechanisms – Tax Abatement Agreements and Chapter 380 Agreements. The City's Tax Abatements are authorized under Chapter 312 of the Texas Tax Code and the City's Policy Statement for Tax Abatement. Under a tax abatement agreement, the taxable value is reduced by a specific percentage, and the amount of the abatement is deducted from the recipient's tax bill. The City's tax abatements are administered by Tarrant Appraisal District. Chapter 380 agreements are authorized under VTCA Local Government Code Chapter 380 and the City's Chapter 380 Economic Development Programs Policies and Procedures. Under a 380 agreement, the recipient pays the total taxes due to the City, and the City rebates a portion of taxes paid based on the terms of the agreement.

For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is the key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this disclosure. Therefore, the City's 380 agreements are being disclosed, as the substance of the rebates meets the definition of a tax abatement for purposes of financial reporting.

The City provides tax abatements for economic development in three categories – (1) Development and Redevelopment, (2) Recruitment, and (3) Retention.

Development and Redevelopment

The City provides development and redevelopment tax abatements to encourage development of remaining greenfield sites with highest and best uses, and transformational redevelopment of existing sites with high community impact. Abatements are obtained through an application and evaluation process, with ultimate approval authorized by the City Council. Property owners are required to complete the City's Application for Incentives providing a complete description of the project, method of financing, descriptive list of improvements, schedule for completion, estimated taxable value of improvements, level of abatement requested, jobs created (if applicable), and any other incentives requested. Applications are evaluated to determine if the project meets the criteria for a development/redevelopment tax abatement. The City abates up to 100% percent of the additional property tax resulting from the increased taxable value of the improvements. Property owners are required to pay 100% of the property tax on the base year value. The City may also rebate a portion of the sales, hotel occupancy, and mixed beverage taxes generated by a project. A portion of the City's local tax collections generated by the recipient's purchase or sale of taxable items associated with the project and consummated in the City may be rebated for a specified period. In exchange for the abatement/rebate, the recipient commits to comply with the terms of the agreement, such as project completion deadlines, capital investment, and minimum added value requirements. If the recipient fails to meet the improvement conditions, the agreement enters a breach status, and the City provides a 30-60-day cure period. If the recipient fails to cure the breach, the City may terminate the agreement and recapture any taxes abated/rebated per the terms of the agreement. As part of a tax abatement/rebate, the City may make other commitments to support development and redevelopment projects (*e.g.*, development fee waivers, infrastructure improvements, etc.).

Recruitment

The City offers recruitment tax abatement agreements to attract and incentivize new business to the City. Abatements may be granted to a company agreeing to relocate to the City or to establish new business in the City; the project must meet requirements of the Tax Code and the City's policy statements to be considered for an abatement. The City may grant tax abatements for recruitment if the City Council finds the abatement is in the public interest because it will facilitate one or more of the following objectives: (1) increase the tax base, (2) provide quality employment, and (3) contribute to the diversity and quality of Arlington's business community. The value and duration of the tax abatement is determined by the degree to which the project meets the objectives of the City's Economic Development Strategic Plan, number and types of jobs to be created, and sales taxes, hotel taxes or other incomes that would be generated. Additional levels of abatement are considered based upon the project's employment numbers, industry type, and wages. Applicants undergo the same application and evaluation process required for development/redevelopment abatements. The City abates up to 100% percent of the additional property taxes (*i.e.*, real estate, business personal property, or both) resulting from the increased taxable value of

the project. The City may also rebate a portion of the sales, hotel occupancy, and mixed beverage taxes generated by a project. A portion of the City's local tax collections generated by the recipient's purchase or sale of taxable items associated with the project and consummated in the City may be rebated for a specified period. In exchange for the abatement/rebate, the recipient commits to comply with the terms of the agreement, such as project completion deadlines, added value requirements, job creation, etc. If the recipient fails to comply, the same breach and recapture provisions described above may apply. Based on the economic impact of the project, the City may make other commitments to the recipient in addition to the tax abatement/rebate. Additional incentives include development fee waivers, infrastructure improvements, and grants for hiring Arlington residents.

Retention

The City offers retention tax abatements to incentivize existing businesses to remain in the City and to encourage renovation, expansion, and job growth. Abatements may be granted to existing businesses looking to expand and renovate existing facilities or to construct new facilities to accommodate product/service demand and employment growth. Criteria for retention abatements include increasing and preserving the City's tax base, creating and retaining employment opportunities, and updating the skills of existing employees. The value and duration of the tax abatement is determined by the degree to which the project meets the objectives of the City's Economic Development Strategic Plan, number and types of jobs to be created/retained, community impact, and sales taxes, hotel taxes or other incomes that would be generated. Additional levels of abatement are considered based upon the project's employment numbers, industry type, and wages. Applicants undergo the same application and evaluation process required for all abatements. The City abates up to 100% percent of the additional property tax (*i.e.*, real estate, business personal property, or both) resulting from the increased taxable value of the project. The City may also rebate a portion of the sales taxes and other income generated from the project. In exchange for abatement/rebate, the recipient commits to comply with the terms of the agreement, including project completion deadlines, added value and/or taxable sales requirements, and job creation and retention numbers. If the recipient fails to comply, the same breach and recapture provisions described for all abatements may apply. As part of a tax abatement, the City can make other commitments to support business retention (*e.g.*, development fee waivers, infrastructure improvements, hiring grants, etc.).

Tax Abatement Program					
Program	Property Tax	Sales Tax	Hotel Occupancy Tax	Mixed Beverage	Other Commitments
Development/Redevelopment	1,209,386	309,357	1,719,115	392,073	4,570,763
Recruitment	989,219	5,509,615	-	-	488,494
Retention	3,258,522	-	-	-	154,000
Total Tax Abated	5,457,128	5,818,972	1,719,115	392,073	5,213,257

For the fiscal year ended September 30, 2025, the City's property tax revenues were reduced by \$5,457,128 under active tax abatement and Chapter 380 agreements for Development/Redevelopment, Recruitment, and Retention. Sales tax revenues were reduced by a total of \$5,818,972 for Development/Redevelopment and Recruitment rebates. Hotel occupancy tax revenues were reduced by \$1,719,115 and mixed beverage taxes were reduced by \$392,073 for Development/Redevelopment rebates. In addition to tax abatements/rebates, recipients qualified for \$5,213,257 in other commitments from the City in the form of fee waivers, hiring grants, relocation and retention incentives, and reimbursements for infrastructure improvements.

As a result of the City's tax abatement/rebate program, the property tax base increased by more than \$1.7 billion with property value growth of 2,183% above the base year value. The projects receiving abatements/rebates of the City's sales tax, hotel occupancy tax, and mixed beverage taxes generated more than \$15.3 million in local tax revenue, of which 52% was rebated.

Tax revenues were reduced as a result of the City's tax abatement agreements only; no other governments' tax abatement agreements caused a reduction in the City's tax revenues. However, the City may also act as a conduit for the refunding of state sales, hotel occupancy, and mixed beverage taxes generated by a qualifying project under Sections 151.429 (h), 351.102, and 351.1022 of the Texas Tax Code, Section 2303.5055 of the Texas Government Code, and other applicable laws.