City Manager's Office
215 E. McKinney St., Denton, TX 76201 • (940) 349-8307

# MEMORANDUM

**DATE:** August 12, 2026

**TO:** Mayor and Council

**FROM:** Aimée Kaslik

**SUBJECT:** FY 26-27 Budget Workshop Follow-Up

On August 8, 2026, the FY 26-27 Budget Workshop was held. During the session, City Council Members requested additional information that required follow-up.

**How much sales tax revenue is not being collected from the data center exemption?**

At this time, we cannot precisely quantify how much sales tax revenue the City is not collecting due to the data center exemption. The exemption applies only to specific qualifying items that are "necessary and essential" to operating a data center, such as servers, electrical and cooling systems, generators, data storage equipment, and certain software. Determining the value of these exempt purchases requires detailed transaction-level information that is not publicly available and is not reported to the City by vendors or the data center operator.

While we may be able to obtain electric-usage data from DME, this alone does not reveal the full extent of exempt purchases. Other qualifying items—hardware, infrastructure systems, and component parts—are purchased from multiple vendors, and the City has no mechanism to view itemized invoices or distinguish qualifying from non-qualifying purchases. State law also requires the data center to pay *local* sales and use tax on qualifying items, but the City does not receive information listing which purchases were exempt at the state level versus taxable locally.

Because we currently lack access to the underlying purchase records needed to identify and total exempt transactions, any estimate of lost sales tax revenue would be incomplete and potentially inaccurate. A reliable calculation would require cooperation from the operator, access to exemption certificates, and detailed purchase documentation that is not presently available.

**Of the $9.6 million dollar increase in property tax revenue, how much is from Business Personal Property?**

Approximately $5,561,914, or 57.87% of the increase in property tax revenue comes from Business Personal Property. Additionally, $4,438,418 is from new value, and $1,123,495 is from changes in existing value.

**How much electricity revenue does it take to generate $1 Million in Return on Investment for the general fund?**

$16.67 Million in revenue generates $1 Million in return on investment (6% of revenues).

**Will Pecan Creek Stormwater Master Plan improve flooding in the Southridge area?**

The Pecan Creek Stormwater Master Plan is a watershed-wide effort to better understand drainage conditions, identify current and potential future flood risks, and develop a long-term strategy for improving the City's stormwater system. The plan will evaluate both the condition of existing drainage infrastructure and how stormwater moves through the Pecan Creek watershed to identify areas where improvements may be needed to reduce flood risk, address aging infrastructure, and support safe and sustainable growth.

Only a portion of the Southridge neighborhood is located within the Pecan Creek basin with the remainder located within the Hickory Creek drainage basin. The northwest portion of the neighborhood will be evaluated during the Pecan Creek Stormwater Master Plan. However, staff does have plans to complete a similar master plan for the Hickory Creek drainage basin, dependent on funding availability.

**What is the impact of drainage leaving the wastewater fund?**

There is no year-over-year impact on the wastewater fund from drainage activities leaving the fund. Drainage has always been treated as a separate component and has never been included in wastewater rate projections or wastewater budget assumptions. Staff assigned to drainage have historically been funded through the drainage portion of the overall utility fund, not the wastewater portion. Their personnel and operating costs have been covered entirely by drainage fees and, where applicable, cost allocation charges. As a result, the removal of drainage has no financial or staffing impact on the wastewater fund.