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February 25, 2019

Honorable Senators and Representatives
Texas Legislature
Austin, Texas

Dear Senator and Representative,

The City of Highland Village is dedicated to accountable and conservative fiscal policy. We have heard our citizens' concerns about rising property tax bills and agree that an 8% rollback rate is no longer sustainable. The City supports providing relief to property tax payers, however, the proposed fixed revenue cap of 2.5% in Senate Bill 2/House Bill 2 will severely inhibit the City's ability to deliver the services our citizens need on a daily basis. Under the proposed revenue cap, citizens of Highland Village will lose basic services totaling over \$.5 million dollars in 2018. To put the lost revenue into perspective, four departments within the City each have an annual budget of less than \$.5 million dollars.

The City of Highland Village humbly proposes the Texas Legislature consider a compromise for the proposed rollback provision:

- Allow six (6) percent over effective M&O rate for roll-back to reflect original intent of providing overall check rather than forcing a predetermined annual increase.
- Implement a rolling average rollback calculation: To better address volatility of year-to-year changes in valuation, first calculate a 6% rollback rate each year. Combine the current year rollback calculation with the calculated rollback rate calculation for each of the two prior years to determine a three-year rollback average rate, with this calculated average rate to be used for the current year rollback determination.

The City supports property tax relief, but it must balance that relief with the citizens' needs for crucial services. Historically the City of Highland Village M&O rates have decreased in a number of years – generally mirroring years with decreased valuations. The M&O rate increased about 3 cents over the 17 years, largely resulting from construction of a voter approved fire station in 2007 and transition to fully-paid staffing as well as needed increase in Police Staffing – all within the existing total tax rate. We believe implementing a rolling average rollback calculation with a hard cap of 6% will achieve this balance. The City of Highland Village seeks to work with the Legislature to continue the Texas tradition of being a safe, prosperous, and business-friendly state.

Sincerely,

Michael Leavitt
City Manager

Enclosure:

White Paper – Highland Village Recommended Compromise for Proposed Rollback Provision

Highland Village Recommended Compromise for Proposed Rollback Provisions

Executive Summary

The City is in agreement with a reduction of the rollback threshold, however with following provisions:

- Allow six (6) percent over effective M&O rate for roll-back to reflect original intent of providing overall check rather than forcing a predetermined annual increase.
- Implement a rolling average rollback calculation: To better address volatility of year-to-year changes in valuation, first calculate a 6% rollback rate each year. Combine the current year rollback calculation with the calculated rollback rate calculation for each of the two prior years to determine a three-year rollback average rate, with this calculated average rate to be used for the current year rollback determination. This would provide a smoothing effect for a more relevant comparison to reflect current valuation trend and reduce the impact of a single year spike.

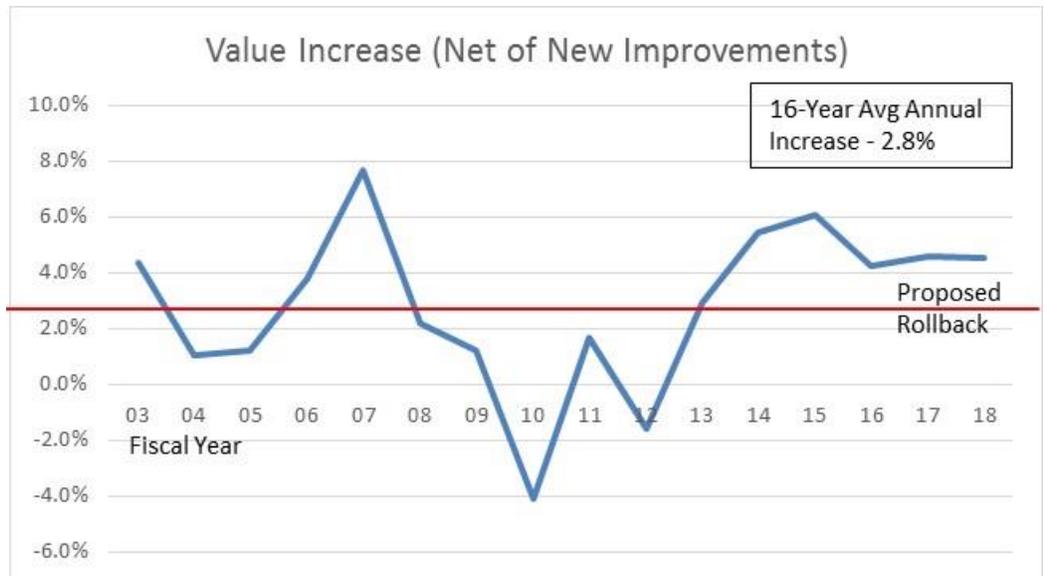
Example:

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Effective Maint. & Operations	0.456	0.439	0.443	0.462	0.460
Current Yr M&O Rollback Rate (Effective M&O Rate x 1.06)	0.484	0.465	0.469	0.490	0.488
3-Yr Rollback Average			0.473	0.475	0.482
Rolling average calculation	(.484+.465+.469) / 3 = .473				

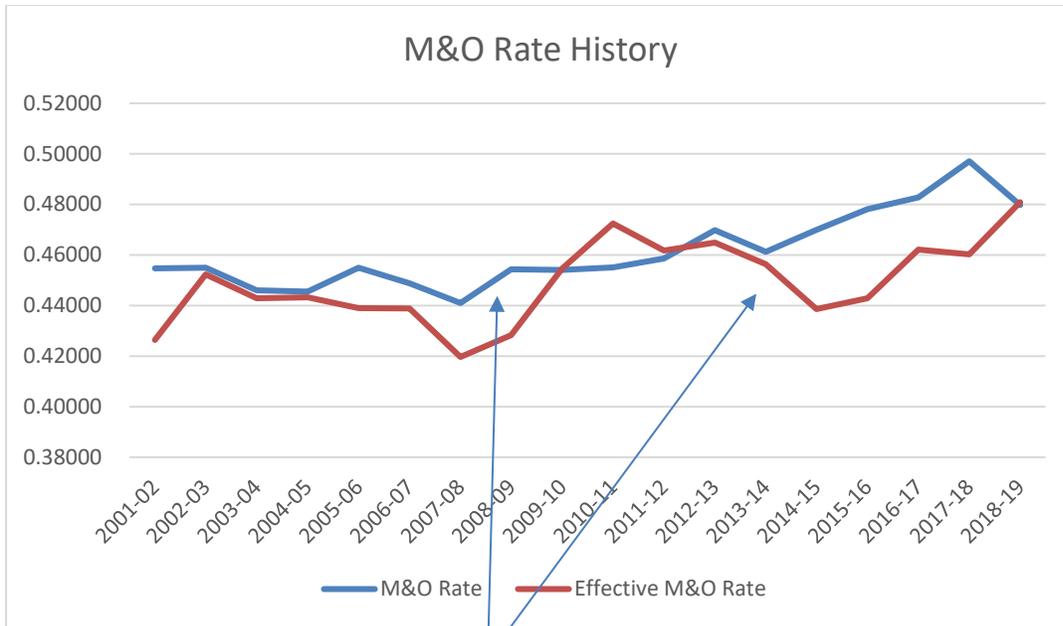
- An automatic election for a jurisdiction proposing a rate that exceeds the calculated rollback rate is acceptable, however only requiring a simple majority from voters as sufficient.

Supporting Justification

- Valuation appreciation is not linear. Valuations should increase over time (a desired outcome for residents), but will have ups and downs as determined by the market.
 - Taxing jurisdictions generally have desire to maintain consistency – maintain constant tax rate and manage downturns in valuation with multi-year planning of expenditures and use of reserves. Tax reductions are considered within context of being sustainable. Similar reason that the State doesn’t adjust the sales tax rate every two years depending on funding needs.
 - A primary issue with the low rollback threshold of 2.5% is that it only considers a single year. As shown in the graph below, ½ of the years have valuation growth above this threshold, with the other ½ below. Highland Village did not increase the tax rate in any of the decreased years – instead managing expenditures within a multi-year outlook.



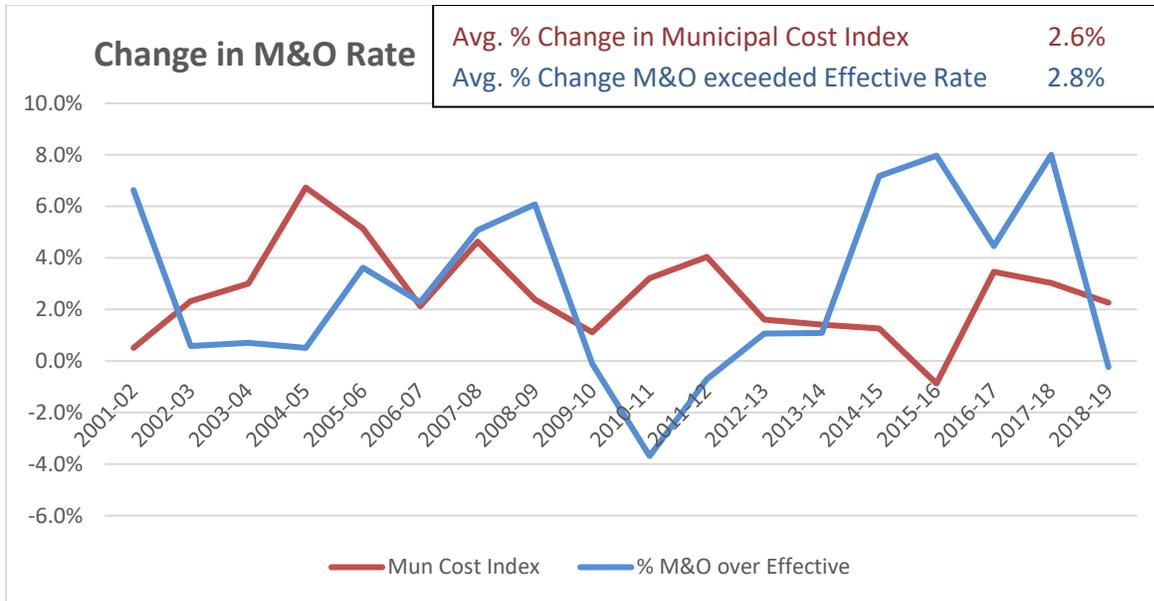
- There is no argument that having an upper threshold is good policy. But it should serve as a check to address outliers rather than force extraordinary measures each year just to maintain continuing operations. A 2.5% threshold is not sufficient to keep pace with inflation and other factors that affect municipal governments. An example would be the significant expenditures regarding addition of Public Safety body cameras and related video storage infrastructure that are indeed valuable additions and have now become expected by the public. This is not reflected in an annual CPI index. It is not realistic to expect cities to operate strictly in accordance to an arbitrary threshold that is at or below annual CPI indexes and meet public expectations. A limit of 6% would allow cities flexibility to manage operations effectively within a reasonable parameter. This would more appropriately target the requirement for a public vote for higher outlier increases as was intended.
 - To demonstrate the practicality of a municipality managing resources (i.e. tax rate), the following graphs depict historical approved M&O rates for Highland Village. The rate decreased in a number of years – generally mirroring years with decreased valuations. The M&O rate increased about 3 cents over the 17 years, largely resulting from construction of a voter-approved fire station in 2007 and transition to fully-paid staffing as well as needed increase in Police Staffing – all within the existing total tax rate. (If adjusting for inflation associated with a Municipal Cost Index, the M&O rate actually decreased over this period of time). However, the proposed 2.5% rollback threshold would have forced several elections (resulting from single-year changes in valuation) - essentially to require approval of voters multiple times for the fire station already approved. Councils deliberately phased addition of the public safety positions to avoid increasing the overall tax rate.



Added fire station and transitioned to full-time professional staffing - doubling from 11 to 22 positions (2008-2016). Increased Police staffing by 20% (9 positions) to provide minimum coverage for all shifts and an additional school resource officer (2014-2019).

M&O Rate in Perspective to Municipal Cost Index

- The Municipal Cost Index represents the year-to-year inflationary costs that impact City Operations. This includes costs of labor, materials, construction and contract services.
- As the M&O Effective Rate represents no increase in tax dollars, the percentage change of the rate exceeding the effective rate would include not only CPI related increases, but service enhancements, equipment replacement, unfunded mandates, etc. The 16-year history of Highland Village shows the average of annual M&O rates exceeding the effective rate as 2.8% - essentially mirroring the average annual Cost Index of 2.6%. It is noteworthy that Public Safety positions, new services, major capital equipment replacements were all also accomplished within this framework.
- The annual average change for the total approved M&O rate was just .4%. In total, the approved M&O rate increased about 3 ½ cents over the 16 years.

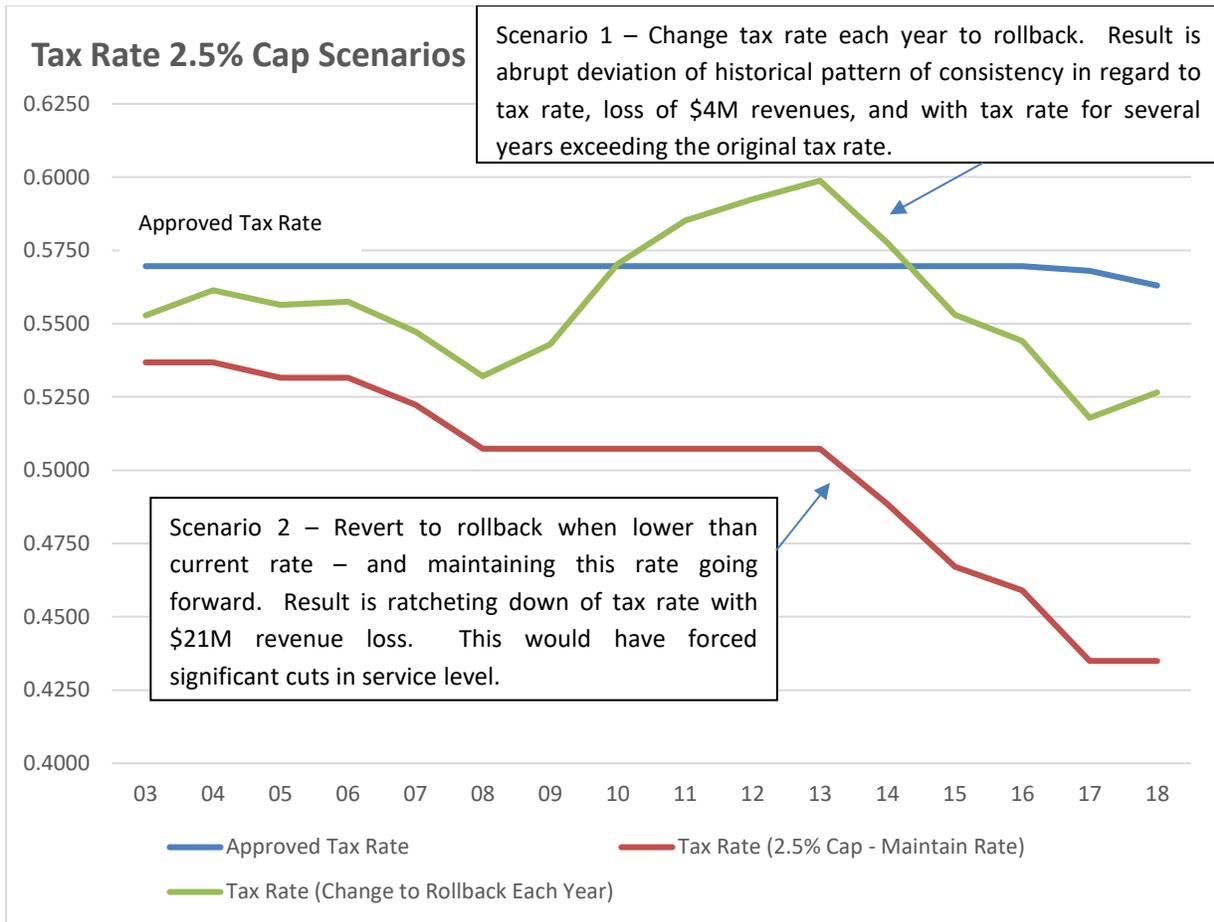


There is general agreement that Councils are reluctant to increase the tax rate even within rollback parameters. This is especially true with an election, even when clearly justified, due to cost and logistics of the extraordinary effort and resources required. A likely outcome of the proposed 2.5% threshold would force cities to automatically change the tax rate each year to the rollback threshold – this even falling short of keeping pace with inflation, thus also forcing frequent elections.

So what’s the problem with forcing elections each year?

- 1) The US Constitution is premised on representative government. The residents elect a Council to maintain the City. Do Texans want to implement a California model to operate more with public votes of referendums / elections rather than elect representatives to do this job?
- 2) There is considerable expense to conduct an election. It is certainly merited for large capital projects or initiatives, but including frequent routine operations budget approval will result in increased voter fatigue as well as a significant redirection of resources to accommodate elections – essentially increasing cost of operations with accompanying loss of efficiency.

Scenarios of 2.5% Tax Cap applied to Highland Village 16 year history



The City maintained a constant rate, with two reductions in FY 17 and FY 18. The annual increase in valuation averaged 2.8% over the 16 years.