



## CITY OF SUGAR LAND

OFFICE OF THE MAYOR  
JOE R. ZIMMERMAN

February 5, 2019

The Honorable Paul Bettencourt, Chairman  
Senate Property Tax  
P.O. Box 12068  
Austin, TX 78701-2068

### RE: OPPOSE - Senate Bill 2

Dear Chairman Bettencourt:

I am writing you on behalf of the City of Sugar Land (City) and would like to thank you for the opportunity to provide you and your fellow committee members with the City's perspective on Senate Bill 2 (SB 2).

I'd like to begin with expressing my sincerest appreciation to leaders at the Texas Legislature who are working to find solutions to rising property taxes in Texas. There are provisions in the bill that the City would be supportive of, such as:

- Renaming the "effective tax rate" to the "no new revenue tax rate";
- The creation of the Property Tax Advisory Board; and
- Requiring the comptroller to update the tax rate calculation forms in an electronic format and creating a centralized real-time tax rate database.

I am encouraged to see that addressing the funding of public education at the state level and its relation to increasing property taxes is one of the top issues for the 86<sup>th</sup> Session of the Texas Legislature. With that, the legislature has a great opportunity to provide meaningful property tax relief to Texans and to advance public education in this state.

#### *We Have a Common Goal*

The City shares the committee's goal in reducing the overall tax burden in meaningful and significant ways for residents and businesses in Texas. Our goal is to join you in your efforts to provide tax relief to Texans; however, we want you to take into consideration all solutions before we do anything that would negatively impact the levels of services that our citizens have come to expect. Do we want to take such drastic measures as to limit a city's ability to fund public safety, public infrastructure, or maintenance of public spaces that are so important to property values and economic development? I would think that we all agree that we would not. Therefore, along with informing the committee of the portions of the bill that the city opposes, I'd like to offer some real solutions that I hope the committee will consider.

***Oppose Lowering the Rollback Rate to 2.5%***

I encourage you to sit down with local municipalities to come up with meaningful solutions to increasing property taxes, which may include reductions to the rollback rate. I do not disagree that property taxes are increasing or that they need to be reformed, I only disagree with proposed solution as it stands. Let's work together on a solution. That said, lowering the rollback rate to 2.5% is completely unworkable and will not provide meaningful tax relief for Sugar Land residents. This low threshold would barely come close to covering inflation, not to mention population growth or the costs associated with maintaining aging infrastructure or upgrades to public safety. Sugar Land relies on City Council approved financial management policy statements (FMPS) to guide budget and financial planning decisions. The FMPS are tools used to manage growth in the tax bill and guide the City Manager to recommend a tax rate that is not greater than the effective tax rate plus 3%. The goal is not to exceed an average annual increase of 3% on the residential tax bill unless voters approve a general obligation referendum. Over the last 15 years, the average value home has increased by about 5% annually, while the average tax bill has only increased by about 3% annually over the same time period. Additionally, according to a recent citizen satisfaction survey, over 93% of respondents were satisfied or neutral with the value received for their city taxes and fees.

Projecting out to the next 5 years, lowering the rollback rate to 2.5% would result in an **ANNUAL SHORTFALL** of \$800,000 by FY2024, compared to our current financial policy direction of 3% annual growth in tax revenue - a **CUMULATIVE** impact of \$2.3 million in lost funding. That means that city councils will be placed in the unfortunate position of having to decide between making improvements to public safety, forgoing maintenance of public rights-of-ways, deferring critical public infrastructure projects, or paying our public employees competitive wages. Public safety accounts for 44% of the city's operating budget- more than can be supported from property tax revenues, which bring in only 32% of operating revenues. This could mean that Sugar Land may have to compromise being one of the safest cities in America for "tax relief" that most citizens will not notice. According to our most recent citizen satisfaction survey, our citizens place safety and security as the most important reason for living in Sugar Land.

***Oppose Changes to Tax Rate Adoption Timeline***

Some of the most troubling aspects of SB 2 are the adjustments to the tax rate adoption timeline. These changes have been proposed in order to meet the November general election date in case a city needs to adopt a tax rate over the 2.5% threshold. Since a tax rate may only be levied in accordance with the adopted budget, this accelerates the budget adoption timeline as well. Some would say that this adjustment is in the name of transparency. However, after looking at Sugar Land's current budget and tax rate adoption calendar, I find that the changes actually decrease transparency in the following ways:

- In order to meet the earlier adoption timeline, the City would have to host fewer budget workshops. Currently the City hosts five budget workshops in August which are open to the public. In each workshop city departments justify every line of the budget. Not only would the public have fewer opportunities to learn more about the budget, so will newly elected City Council members.
- Special meetings will need to be called in order to comply with posting and public meetings requirements.
- If the tax rate is to be adopted by August 15th, then City Council will need to host several meetings on days that are not typical of our regularly scheduled meeting dates. Posted agendas would likely contain less detail, reducing transparency rather than increasing it due to the fact that, in order to comply with the Texas Open Meetings Act, the required meeting and public hearing notices would need to be posted prior to having time to complete the required calculations.

- In order to meet this schedule, the City will likely need to publish notices in a non-local newspaper - increasing costs and reducing transparency even more.

If the goal is to engage taxpayers earlier in the budget process, imposing or requiring restrictions in that timeline will not yield the expected results. Read further for Sugar Land's recommendations on how to increase public participation in the overall budget and tax rate process.

***Recommend Incentivizing Slowing the Rate of Property Tax Growth***

The City supports incentives for municipalities to keep taxes low, such as simplifying notification(s), public hearing(s), and the language required to adopt a tax rate for taxing entities that stay within a lower percent increase over the effective tax rate. Until 2007, taxing entities which adopted a tax rate at or below the effective tax rate plus 3% were exempt from holding public hearings and publishing notices; this practice provided for reasonable operating increases to account for inflation. Rather than requiring additional steps such as elections to approve tax rates established or adopted by the governing body, make it easier for local taxing entities to get the job done and improve efficiencies.

***Recommend Eliminating Unfunded Mandates***

The City supports the elimination of unfunded mandates on political subdivisions. If we want to lower the property tax burden on residents, the Legislature should be statutorily prohibited from imposing any mandates on local political subdivisions that impose additional costs without, at the same time, providing the appropriate funding. Unfunded mandates require the City to pass on costs to residents which results in higher fees and taxes and usually no direct benefits to residents.

***Recommend Simplification of the Effective Tax Rate Calculation and Notice***

The City supports the simplification of the effective tax rate calculation, but only insomuch as to provide for a less confusing notice for taxpayers. The City also supports legislative efforts that aim to **ACCURATELY** notify and explain to taxpayers the actual impacts of the effective tax rate while deleting parts of the notification and adoption process that cause confusion and are inconsistent with the goal of providing a transparent budget and tax rate setting process. The following are recommendations for simplifying public notice requirements:

- Simplify and coordinate public notices regarding the tax rate, motions and ordinances to adopt both the budget and tax rate, and the information required on both the budget cover page and website. The language required for all of these are currently inconsistent.
- Allow taxing jurisdictions to explain what the required tax rate calculations are and why they are required.
- Include in public notices both the maximum rate to be considered and the rate that is required to fund the proposed budget.
- Allow cities to include language on the cover page of the city budget to explain or make reference to increases in tax revenue (i.e. maintenance and operation, interest and sinking fund, new growth, etc.) This would give taxpayers the full picture as to why revenues are increasing or decreasing.

***Recommend Changes to Ensure Residential Property Tax Payers Not Bearing Commercial Burden***

Many large commercial property owners have been using the Equal and Uniform Law (1997) to artificially decrease their property values by appealing their valuations to district courts, appeals courts, and even to the Texas Supreme Court. Because larger corporations can afford attorneys and experts, cases are usually settled and the corporations are frequently able to get their property valued for much less than fair market value and subsequently lower their tax bill. Unfortunately, other property owners pursue litigation attempting to use the negotiated commercial property owners' lowered value as a comparable property which leads to a race to the bottom. If we want to look at areas to address this shift of the tax burden to homeowners from commercial property owners, please consider closing equity appraisal statute loopholes by ensuring that:

- Comparable properties are located near each other, preferably in the same appraisal district; and
- Comparable properties are based on the similarity of the properties such as use, square footage, property age, and property condition.

Additionally, appraisal districts are currently prevented from having easy access to sales price data for taxing purposes. However, in order to make appraisals more accurate, it would be beneficial to mandate that appraisal districts have this access. The result would be a system that has a basis in real values.

***Recommend City and County Representation on the Property Tax Advisory Board***

SB 2 proposes the creation of a property tax administration advisory board to make recommendations to the comptroller regarding state administration of property taxation and state oversight of appraisal districts and local tax offices. The board is comprised of: property tax payers, appraisal districts, school districts, and a person who has knowledge or experience in conducting ratio studies. I recommend that cities and counties also be represented on this advisory committee.

***Recommend Considering Best Practices for Citizen Engagement***

Sugar Land considers **CITIZEN ENGAGEMENT** to be an important **CORNERSTONE** of the success of our community. Therefore, the City has utilized a variety of tools available to reach as many citizens as possible. The City utilized platforms such as Facebook, Twitter, Instagram, Nextdoor, YouTube, and the City's website to provide information, announce public meetings, answer citizen questions, and much more.

Since the City's annual budget is first and foremost designed to fund the priorities of our residents, the community is encouraged to visit the City's website to find all the information they might need to stay informed about the budget process. On our website, citizens can find the following:

- Annual Budget & Program of Services
- Five Year Capital Improvement Program
- Budget Filing Presentation and Video
- Budget Workshop videos and presentations
- Property and Sales Tax Information
- Information on voter-approved bond projects
- Explanation of the effective tax rate and the rollback tax rate
- Notices of Public Hearings
- Archives of Annual Budget and CIP
- Contact Information for the Budget Office

*The Honorable Paul Bettencourt, Chairman*

*February 5, 2019*

*Page 5*

***Be Our Partner***

I appreciate the opportunity to share this information with the Senate Committee on Property Tax, and I hope that you will continue to engage with Sugar Land and the various other cities, counties, and school districts across the state. We look forward to working with you this legislative session.

Sincerely,



Joe R. Zimmerman

Mayor

cc: Members of the Senate Select Committee on Property Tax Reform & Relief  
The Honorable Joan Huffman, State Senator, District 17  
The Honorable Lois Kolkhorst, State Senator, District 18  
The Honorable Rick Miller, State Representative, District 26  
The Honorable Ron Reynolds, State Representative, District 27  
The Honorable Phil Stephenson, State Representative, District 85