



July 6, 2005

The Honorable Donald Hill
400 Porter St
Taylor, TX 76574

City Council
Gary A. Slagel
Mayor
John Murphy
Mayor Pro Tem
Bob Townsend
Rhea Allison
James E. Shepherd
Steve Mitchell
John Sweeden

Bill Keffler
City Manager

Dear Mayor Hill,

Summer is the time of year our cities develop the budget for the next fiscal year. Over the last several years the challenges we face in meeting the service demands of our residents with limited resources have become monumental. These challenges will only worsen if pending legislation related to appraisal and revenue caps are adopted by the Texas Legislature during the Special Session.

Cities, counties, and business leaders vigorously opposed legislation during the Regular Legislative Session that would have placed severe appraisal and revenue caps on local governments. Through our hard work a compromise, SB 18, was developed and passed. This "truth in taxation" bill provides increased notification to the public about proposed tax rate increases, additional public hearing requirements, and minor changes to rollback provisions.

Numerous appraisal and revenue cap bills have been filed during the Special Legislative Session. We believe the House and Senate worked hard to pass legislation during the regular session. SB 18 should have an opportunity to take affect before other legislation is considered.

As a fellow Mayor, you know how important this issue is to the long-term success of our communities. I encourage you to maintain a strong dialogue with your legislators and oppose the appraisal and revenue cap bills that are currently under consideration. By working together we can continue to be successful in defeating this detrimental legislation. We have included background information for your reference and do not hesitate to contact me if I can be of any assistance.

Sincerely,



Gary A. Slagel
Mayor

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ENVIRONMENT
FRIENDLY

Truth-in-Taxation: A Summary on S.B. 18

S.B. 18 (Williams) Property Taxes: makes the following changes to property tax law:

1. **Requires a record vote** of the city council to adopt a property tax rate that exceeds the effective rate.
2. Provides that the motion to adopt a tax rate that exceeds the effective rate must contain certain language.
3. Provides that an ordinance adopting a tax rate that will impose maintenance and operations (M&O) taxes greater than in the previous year must contain, in large type, a statement explaining the effect of the proposed tax rate.
4. Requires that the home page of a **city's Internet Web site must contain a notice of an intended property tax increase**, as well as a notice of required tax increase hearings.
5. **Requires two hearings on proposed tax increases**, with the second hearing occurring at least three days after the first.
6. Requires that **tax increase hearings** be held **whenever the proposed tax rate will exceed the effective rate** by any amount, as opposed to three percent, as current law provides.
7. Modifies the published notice requirements of the tax increase hearings.
8. Keeps the rollback rate at eight percent, but **reduces from ten percent to seven percent the rollback petition requirement** for a city with an M&O tax levy of \$5 million or more. For a city with an M&O levy of less than \$5 million, the petition requirement would stay at ten percent. ("Percent" means percent of all registered voters in the taxing unit.)
9. **Requires that tax bills contain a detailed, five-year history of tax and appraisal information.**

The State Legislature already passed a truth-in-taxation bill during the regular session. State legislators should give S.B 18 an opportunity to work before passing any additional legislation.

FIVE REASONS TO OPPOSE PROPERTY TAX REVENUE CAPS

1. Revenue caps will not allow property tax revenue to keep up with inflation **without a popular vote**. The bill allows an annual increase in property tax revenue of up to only three percent. **Municipal cost inflation has been 5.24 percent** during the past year.
2. Since revenue caps will not allow cities and counties to keep up with inflation, it certainly will not allow them **to pay for state and federal mandates**.
3. Any city or county that must raise more property tax revenue than is allowed by a three-percent increase would be **forced to develop two budgets**: one to go into effect if the voters approve the tax rate, and another to go into effect if the reverse is true. In either event, **the city or county would bear the cost of an election**.
4. To avoid elections, many cities and counties will likely **cut spending on capital improvements, economic development incentives, and other services**.
5. Noted economist Ray Perryman has concluded that **"...revenue limitations bear no relation to the legitimate demand for public services** provided by local government..." and that such limitations **don't account for demographic shifts, will constrain the capacity of high-growth regions to meet public service needs, and will adversely impact bond ratings**.

According to Dr. Perryman, a **3-percent cap** on growth in local property tax revenues will result in **annual losses of \$10.8 billion in expenditures, \$5.1 billion in gross state product, \$3.3 billion in personal income, and nearly 80,000 jobs**.

State legislators want to cap municipal revenues to "stop out of control spending," while at the same time approving a **State budget that is 19% higher than the previous biennium**.

Municipal policy makers are accountable to their citizens.

Let your state legislators know that you and your constituents are opposed to unnecessary revenue caps!

PERRYMAN STUDY SKEWERS TAX CAPS

A new study by noted economist Dr. Ray Perryman finds that local government revenue caps would “reduce the efficiency of the private sector, thus leading to billions of dollars in foregone spending, output, and income in Texas each year.” Appraisal caps fared no better under Dr. Perryman’s scrutiny: “Limitations on appraisals distort market outcomes and create systematic inequities among taxpayers.”

The crux of the study, titled *The Impact of Potential Restraints on Local Government Activity (Appraisal Caps, Expenditure Limits, and Revenue Limits) on the Economy of Texas*, is this: caps harm not only cities and counties, but the economy of the state as a whole.

Specifically, the study finds that a three-percent revenue cap would lead to the following statewide losses:

- 79,889 permanent jobs lost after 10 years
- \$3.349 billion in lost personal income in year 10
- \$5.142 billion in lost gross product in year 10

A three-percent appraisal cap would lead to these losses:

- 32,175 permanent jobs lost after 10 years
- \$1.349 billion in lost personal income in year 10
- \$2.071 billion in lost gross product in year 10

Dr. Ray Perryman’s study explains the negative effects of the appraisal cap proposals now pending before the legislative special session. It shows that appraisal caps:

1. create systematic inequities among taxpayers.
2. discourage real estate market activity and new home purchases.
3. provide incentives to use economic development resources inefficiently and limit long-term growth.
4. penalize business startups.
5. adversely impact bond ratings, thus limiting the ability to meet vital infrastructure needs and raising the cost structure of local governments.

City officials should urge lawmakers to oppose legislation that would change current law with regard to appraisal and revenue caps.

REASONS TO OPPOSE APPRAISAL CAP PROPOSALS

In the special session that is supposed to focus on school finance reform, legislators are furiously filing numerous bills that will be to the detriment of city revenues. Consequently, city officials should step up their opposition to pending appraisal cap proposals through calls and e-mails to legislators.

Current law provides that the appraised value of a residence homestead may not increase by more than ten percent in any given year. That cap has been shown to have numerous problems.

1. It shifts property tax burden from homeowners whose home values are going up in value to homeowners whose home values are staying constant or falling.
2. It shifts property tax burden from some homeowners (those whose values are capped) to businesses.
3. It invariably results in taxing inequities since new properties (or recently acquired properties) are appraised at full market value, while the value of other properties that are similar or identical are capped.

What's even worse with the newly proposed appraisal Caps?

If caps are applied to **all real property** here are some other serious problem:

1. The tax-shifting and inequities of these caps will be magnified by a three-percent or five-percent cap.
2. Because the cap would be applied to all real property, two additional, huge problems are created.
 - o The cap would apply to all property owned by any individual: a residence homestead, a lake house, a cabin in Big Bend, a beach house, rental houses, and more. While some Texans would get huge breaks, a Texan who owns one home, which is going down in value, will receive **no tax break**.
 - o Since the cap would apply to commercial property, the commercial real estate market will be damaged. The Simon Group, the nation's largest developer of shopping malls and the nation's largest manager of retail real estate, recently wrote a letter in opposition to proposed caps on commercial property. Here is an excerpt from that letter:

"Appraised value caps create a disincentive that may affect decisions to purchase or develop income-producing properties. Properties that have an existing cap on their taxable values will have an artificial competitive advantage over recently acquired or developed properties. Due to the artificially lower tax expense, they will be better able to attract tenants by charging less rent for comparable space yet achieve acceptable levels of profit. Texas requires property to be appraised in an equal and uniform manner. The proposed cap on values destroys equality by requiring the taxation of recently acquired or developed properties a full market value, while competing unsold properties would be taxed at a reduced, capped value."

A QUICK SUMMARY ON APPRAISAL CAPS

Caps unfairly shift tax burden from wealthy to less wealthy homeowners.

Caps benefit homes that are rapidly rising in value. In many cities, wealthier homeowners enjoy the greatest appreciation in value, and therefore benefit most from caps. A report by the Dallas Central Appraisal District showed that, due to the current 10-percent cap, the tax savings on a \$1 million home in Dallas were 43 times greater than the tax savings on a \$50,000 home, even though the value of the \$1 million home is just 20 times greater. This shift is unfair to poor and minority homeowners.

Caps unfairly shift tax burden from residential to business properties. Caps that apply only to residential property essentially raise taxes on business. The need for local government services has been growing in Texas. Artificially “capping” one sector of the tax base, therefore, simply shifts existing tax burden to another sector.

Caps create inequities between neighbors. Caps cause citizen resentment by creating tax disparity among similarly-priced homes. Under an appraisal cap scheme, when a home is sold, its appraised value “pops up” to its full market value, meaning the buyer will pay higher taxes than the owner of a similarly-valued house next door. In California, the appraisal caps instituted by the infamous Proposition 13 have resulted in some homeowners paying five times the amount of property taxes paid by the owner of an identical home next door. People will resent these inequities more than the tax itself, thus undermining confidence in the entire tax system.

Caps could depress real estate markets. The “pop up” effect mentioned above is likely to discourage home sales. Because homeowners can’t transfer their cap benefit to a newly purchased home, which will be fully taxed, there is a significant disincentive to move from home to home, or city to city. Caps that would apply to business could have the same effect on commercial real estate.

Caps hinder economic development. Appraisal caps ignore the fact that many property tax incentives that have brought important development to Texas, such as the Texas Instruments facility in Richardson and the Toyota facility in San Antonio, rely on the expectation that property values will increase over time. Preventing property value increases, as caps do, directly undermines these economic development efforts.

Caps ignore differences between Texas cities. There are more than 1,200 cities in Texas, with varying methods of paying for public services. While caps hurt all property-taxing cities, they are especially hard on cities that have little or no sales tax base. The City of Garland, for example, has over 200,000 in population, yet according to recent committee testimony, it is impossible to buy a man’s suit there! The negative effects of appraisal caps are greatly magnified in cities without a substantial retail base to generate sales tax revenue.