



The Woodlands Township

The Woodlands, TX

MEMORANDUM

DATE: April 21, 2016

TO: Board of Directors

FROM: Don Norrell, President/General Manager

RE: Additional Materials for the April 21 Closed Session related to Legislation/Incorporation

There has been considerable discussion regarding the estimated costs associated with The Woodlands incorporation. In a study developed in 2011 and presented to the Township Board in early 2012, Economic & Planning Systems, Inc. (EPS) projected that the current Township tax rate of 32.5 cents would increase by 70.4% at incorporation.

The Township tax rate at the time was 32.5 cents per \$100 of taxable value and the financial model projected that it would increase to 55.39 cents.

This 2011 estimate was not intended to be exact but to provide a snapshot in time based on the new city of The Woodlands providing similar services to four benchmarked city government operations selected for similar community size, socioeconomic factors, reputation for services and proximity to a major metropolitan area.

It has been five years since this 2011 projection was completed. Over this period of time, changes have occurred that have an impact on this financial model.

One may ask why the cost of services provided to residents would increase at incorporation? The new city government would be statutorily required to assume and provide more services. Some of these are new services and some of the services have previously been provided by the County. For example:

- ✓ The county presently funds basic law enforcement service costs and the Township funds enhanced services through contract. At incorporation, the new city would be responsible for 100% of the costs of law enforcement services as opposed to just funding enhanced patrol services.
- ✓ The cost of roadway operations and maintenance, signals and signage would become the responsibility of the new city
- ✓ The capital cost associated with the construction and reconstruction of the roadways would become city responsibility.

- ✓ Roadway construction and reconstruction would become the responsibility of the new city.
- ✓ Municipal court services would become the responsibility of the new city.
- ✓ The Township would be required to provide services not currently provided within the Township such as planning and zoning services, health and animal control services.

The original 2012 projections determined that the costs assumed by the new government, as well as the additional service requirements, would cost the new Woodlands city government approximately \$28.5 million annually after netting out all new revenue. This figure was calculated by projecting new city costs less additional revenue to be generated by the new Woodlands city government.

Revenues – It is important to note that the EPS revenue projections included three assumptions regarding revenue sources at incorporation:

- First, that the new Woodlands city would continue to collect a 2% sales tax for operations (general and EDZ) / to be used in same manner as used by Township (about \$26 million)
- Second, that the new Woodlands city would continue to collect a 7% room tax / to be used in same unrestricted manner as used by Township (about \$7 million)
- Third, that the new Woodlands City would not be allowed to collect a 2% supplemental room tax (about \$2 million)

Under current law, the new city may not have the unrestricted use of the EDZ one percent sales tax and the 7% room tax revenue to be available for property tax reduction after incorporation. The continuation of the unrestricted use of existing revenue sources at incorporation will require a legislative amendment.

Expenses – The EPS cost projection for the new Woodlands city assumed that the Township would be absorbed in its entirety by a new Woodlands city government operation. This total merger of operations would not require any additional administrative expenses since there would only be one operating government entity at the time of incorporation.

Comparing this 2011 cost projection with costs already included in the 2016 Township budget, there are three areas where it appears that substantial cost adjustments could be made to the 2011 financial projections.

- First, Parks and Recreation Capital Projects were estimated at \$5.4 million in the 2011 projection. This cost has since been funded through the Township's 2016 budget appropriation for capital projects and the capital project reserve account.
- Second, the 2011 financial projection includes the cost to hire, equip, train and house a municipal police department. In the initial years for the new Woodlands city, the city could consider continuing the agreement with the MCSO for services, if the County is agreeable to this arrangement. Although we will have to fund 100% of the allocated costs, this concept may allow for a lower cost initial operation by eliminating the need for debt service on a new facility.
- Third, the 2011 EPS projection included the cost of operating a municipal court operation and building a court facility. In the initial years for the new Woodlands city,

the city could consider entering into a contract for services agreement with County for court services, if the County is agreeable. Although we would have to fund additional legal service costs to prosecute municipal court violations, having the county provide the facilities and services through the JP court operation may allow for a lower cost of services. The projection estimates that the cost of court services could be offset with the collected fines.

- Fourth, the debt service projection was not changed either in projected amount of issuance or the projected cost of debt service. This projection assumes that \$78 million in roadway improvement debt and \$4 million in facility debt (public works) would be issued by the new Woodlands city.

Summary – Making the adjustments to costs and revenues as outlined above, reduces the net impact on the tax rate at incorporation. Using these rough projections, the existing Township tax rate of 23 cents per \$100 of value (current) would increase to 34.16 cents at incorporation. Based on the cost of a home valued at \$350,000, the additional annual cost of incorporation is approximately \$391 per year per residential property or an increase in the tax rate of 48.5% (versus the previous 70.4% increase). This analysis is not intended to be a tax rate study or a complete review of the cost and revenue changes. The purpose of this preliminary evaluation is to suggest that an update to the 2011 financial projection should be done prior to presentation of the incorporation question to residents as certain factors may have changed.

Note: The 2011 projected increase of 70.4% and this preliminary evaluation of an increase of 48.5% do not include any additional tax based on MUD consolidation. The 2011 study noted that the consolidated MUD impact could be absorbed in the water/utility user fees (typical for a city) or would otherwise add \$0.2633 to the tax rate based on the 2011 estimated average MUD tax levy.

The Woodlands Township - Estimated Additional Costs Associated with Incorporation

	2012 Summary of Addl Costs	Est Cost Increases 2011 to 2016	2016 Estimate	Notes	Tax Impact / 2016 (1 cent = 1.8 million)
New Revenues					
Mixed Beverage Tax	(127,000)	0.12	(142,240)		(0.08)
Franchise Fees	(5,349,000)	0.12	(6,270,000)		(3.48) Based on \$57 per capita
Hotel Supplemental Tax	1,123,000		-	n/a	Lost Revenue at Incorporation / Supplemental HOT
Permit Fess / Licenses	(2,440,000)	0.12	(2,732,800)		(1.52) Planning and zoning administrative and building fees
Fines	(1,548,000)		-	1	- Anticipate an ILA with the County for Court Services
New Costs					
<i>General Government</i>	3,705,500	0.12	4,150,160		2.31
Police	7,748,100	0.12	8,677,872		4.82
Parks and Recreation Capital Projects	5,439,000		-	3	- Funded in 2016 budget and capital reserves
Municipal Court	2,900,000		-	1	- Anticipate an ILA with the County for Court Services
Public Works	6,289,000	0.12	7,043,680		3.91
Planning and Development	2,184,000	0.12	2,446,080		1.36
Economic Development	243,900	0.12	273,168		0.15
Animal Control	473,000	0.12	529,760		0.29
Health and Safety	286,000	0.12	320,320		0.18
New Street Debt Service					
Streets	5,494,900		5,494,900		3.05
Public Works Facility / Debt Serv	305,200		305,200		0.17
Municipal Court	281,200	0.12	-	1	Anticipate an ILA with the County
Law Enforcement Building	1,350,000	0	-	2	Use existing county facilities
Total	28,358,800		20,096,100		11.16

Note 1 - Anticipate an ILA with County for Municipal Court Services / all revenues and costs will remain with county

Note 2 - Anticipate an ILA with County for Law Enforcement services / eliminate need for law enforcement facility debt service

Note 3 - These capital costs are funded in the 2016 budget and the capital project reserve account