



## *Mayor's Letter*

September 15, 2016

*Hello Everyone,*

**LAST MONTH** the Town Council approved our 2017 budget and tax rate. Our ad valorem (property) tax rate is unchanged from last year and remains \$0.30 per \$100 of appraised value. Currently our state legislators are focusing a lot of attention on tax rates and the ability of citizens to influence them. While 2017 represents **the 40th consecutive year** with our operations tax rate at \$0.25 or below, taxes are an important issue and I would like to elaborate on them.

First, the basics. A Town's tax "rate" is really the sum of two rates:

**Maintenance and Operation (M&O)** – these tax revenues are used to operate the town. In LWV these funds are used for many basic things such as running Town Hall (including paying Linda), the playground, mowing, street lights, and town functions (including our Easter, Halloween and Christmas events). Less visible expenses include Fire and EMS, animal control, liability insurance, legal fees, and our share of costs that we are allocated to pay for DCAD, the Denton County Tax Assessor Office, and The Texas Municipal League.

**Debt Servicing (I&S or "interest" and "sinking fund")** – basically, these tax revenues can only be used to pay the interest and principle payments on municipal bonds. Since all municipal bonds issued in Texas must be approved by the Attorney General, there is no question about what qualifies. And, obviously, once the bonds are paid off, the tax goes away.

We adopted an M&O tax rate of \$0.25 and an I&S tax rate of \$0.05 per \$100. Although we kept the M&O tax rate unchanged, because of property appreciation we will receive about three percent (\$8,165) more M&O revenues than last year. Now, for illustration, suppose our overall property values had increased 12 percent from last year and we kept the M&O tax rate the same, as a result we would get 12 percent more tax revenues. Under the Texas Tax Code, **citizens can fight any M&O tax increase greater than eight percent** – they can petition their government to have an election to "roll-back" the tax rate to limit the overall increase to eight percent. If a group of citizens collect signatures representing 10 percent of the registered voters (about 40 signatures for LWV) the municipality must call an election. Prior to adopting the tax rate, the Denton County Tax Assessor calculates each municipality's "eight-percent-exceed-at-your-own-risk" roll-back rate. And, how are we legally required to communicate this important information to our citizens? internet – no. town bulletin boards – no. Pokémon – no. **We are required to put it in the local newspaper PRINT EDITION.** I don't know about you, but the last newspaper I read was one I found discarded at DFW while I was waiting to board my flight, and I think it was the Miami Herald. At least the legislature doesn't make us deliver the notice to the printer by horseback on a floppy disk. It is a totally indefensible waste of tax payer money for us and every town to pay for a notice that no-one reads. If you want town information you should look to the Town's website, just like you do for meeting agendas, minutes, and public notices.

**I DO THINK THERE IS SOME VALIDITY** to the legislature's concern about the tax rate increases that were adopted when the housing market declined. When overall property values decline, a Town Council basically has two options: (1) cut expenses to match the decrease in tax revenues, or (2) increase the tax rate to make up for the lower values. In LWV we chose option 1. Our revenues declined significantly, and we adjusted accordingly. **As I will discuss later, our revenues from property taxes and building permits have yet to get back to our 2007 level.** Many cities choose option 2. Let me be clear, the best choice is unique to each municipality. It depends upon many factors including the level of services that are necessary, the types of expenses (are they contractually fixed or can they be modified?), the availability of other revenues, and the priorities set by the governing body. However, I think it is fair for the legislature to ask if you increased the tax rate when values were low, then shouldn't the municipality lower them back down when the housing values recover? Or in simple terms, is this an example of a "**permanent tax increase**" to make up for a "**temporary revenue decline**".

**OVER ↘**

**IT SOUNDS EASY**, just cut expenses when your revenues go down. Well, like a lot of towns, in the down turn we suffered a double hit – property values fell reducing taxes and, at the same time, new home construction (permit fees) also dried up. It is true that fewer permits means we paid the building inspectors less, however, the fees also pay for:

- the staff’s time spent on building related issues (reviewing submittals, answering questions, scheduling and coordinating inspections, scanning and filing inspection reports and photos, and record maintenance),
- attorney’s fees for reviewing and updating our building codes,
- costs of document storage at town hall (we maintain both electronic and the original paper submittals)

Unfortunately, these costs did not go away. We still had to pay Linda her full salary; we continued to update our building codes and ordinances, and the records at town hall still had to be maintained. Here is a chart showing our

	Property Taxes	Building Permits	Sales Tax	TOTAL	Change from 2007
2007	\$189,981	\$77,000	\$0	\$266,981	
2008	\$194,395	\$24,978	\$0	\$219,373	<b>-\$47,608</b>
2009	\$182,450	\$14,675	\$0	\$197,125	<b>-\$69,855</b>
2010	\$182,146	\$0	\$4,980	\$187,126	<b>-\$79,854</b>
2011	\$172,589	\$27,281	\$10,455	\$210,325	<b>-\$56,656</b>
2012	\$183,585	\$34,016	\$7,937	\$225,538	<b>-\$41,442</b>
2013	\$192,946	\$14,732	\$9,328	\$217,006	<b>-\$49,974</b>
2014	\$208,714	\$30,526	\$14,288	\$253,528	<b>-\$13,453</b>
2015	\$218,819	\$22,453	\$31,054	\$272,326	<b>\$5,345</b>

basic revenues since 2007. **The results may surprise you.** We hit bottom in 2010. We could forecast this, and now you can see why I pushed so hard for the voters to approve our sales tax in 2009 (taxes start in the year AFTER the vote). You can also see that it took until last

year or almost a decade, before we finally reached the same revenue level as 2007 ! While building permits have still not recovered, **the big difference maker is sales tax.** That is why I keep repeating over and over to make sure that everyone uses 75068 = LAKEWOOD VILLAGE, not Little Elm when you pay sales tax. The evidence is clear. It does matter. The individual transaction amounts may be small, but they add up. You are doing a great job. Keep it up.

**WE WON’T HAVE** the audited results for 2016 until December, but the unofficial numbers are better than 2015, and we are forecasting continued improvement in our 2017 budget. Things look great, there should be more money for the town than ever before, we’re rolling now. Umm, not quite, that’s too easy. **This is Lakewood Village and we like a challenge.** By 2014, we had cut expenses, improved efficiency, and built up a reserve fund. As the town’s financial officer, it was also clear to me that our finances had recovered and could support some, not all, new road construction.

	Bond Payment	I&S Taxes	M&O Taxes used to Pay Bonds
2015	\$166,384	\$38,589	\$127,795
2016	\$173,150	\$41,743	\$131,407
2017	\$174,225	\$43,764	\$130,461

Our bond payments started in 2015. The bond payment equated to an I&S rate of \$0.21. In other words, in 2015 we could have had a tax rate of \$0.25 (M&O) and then added \$0.21 to cover the debt, for a total tax rate of \$0.46. That’s what other cities would do. **But, not LWV.** The Council approved my proposal that we set the I&S rate at only

\$0.05. We would use some of our M&O tax money and find other sources of revenues to make up the difference. So, from the table at the top of the page, in 2015 we did collect \$218,819 in property taxes, but we used \$127,795 of that for our bond payment. In 2016 we used \$131,407 and we expect a similar amount in 2017. **So, while our revenues have recovered (top table) we are using about half to pay our bonds and keep our tax rate as low as possible.**

We’ve now been making bond payments for a couple of years. Our annual results have been improving, and in 2017 the Town Council has approved several expenses that we had deferred. I think of it like a family that purchased a new house – you know it will be tight, so in the first year, there is no Disney World vacation. In the second year, you make a little more money, there are less expenses, and maybe you take a weekend in Galveston, and then things get better still. If putting down more concrete streets is our Disney World, then Florida is still a way’s off, but we can make progress on some needed improvements.

**ROAD REHABILITATION ON MELODY AND CARRIE LANE** is underway. The project includes grinding up the old road surface, adding new road base, compaction, and new asphalt patches. The road will be leveled and the dips caused by all the utility cuts will be fixed. It would have been nice to try and piggyback on LandPlan's road construction, however, their timetable is unknown, and we cannot delay any further. **The rehab project is fully funded from our Road Maintenance Fund.** A significant portion of the funds comes from fees on blue roll-off trash containers that must be used for all new home construction. In addition, when voters approved the dissolution of the EDC, the town council approved moving its 0.5 percent sales tax to the Road Maintenance Fund.



We solicited multiple bids, with Councilman Gary Newsome leading the effort, along with Mayor Pro-tem Ed Reed exploring possible options with both Little Elm and Denton County. If the completed project meets our expectations, then I will be bringing to Council a proposal for repairs to Highridge Lane. If approved, these repairs would be done in the Fall 2016.

Based on prior experience, the better the road, the faster people will drive. We don't have paid patrols here in LWV. Not yet.

But that day is coming, I will not wait until some reckless, irresponsible driver wipes out a family on a golf cart or runs over someone walking their dog. You can do your part – if you see dangerous behavior report it. You can report it to Town Hall, or you can report it to law enforcement. The police don't have to be there in person to watch someone rob a bank before they can prosecute it. I'm not asking you to confront anyone, just be vigilant and watch out for your neighbors. We don't have a revenue line in the budget for traffic fines, but we will do what has to be done to maintain our quality of life.

**PARK IMPROVEMENTS ARE ALSO COMING.** Pictures will be taken next month as we finalize the project. The project includes a new fence along Lakecrest (three feet tall), additional shade trees (100 gallon, 20 feet tall), and benches. Funds permitting, we will be looking at potential new equipment and equipment shading options. You should also see new larger banners along our town entrance as we celebrate the holidays.

**DEVELOPMENT.** We are continuing to monitor activity outside the town along Eldorado Parkway. We are also continuing our dialogues with other stakeholder entities (Oak Point, Little Elm, LEISD) on our shared vision of the West Eldorado area. The situation is very dynamic and changes may happen very quickly. Should the need arise, your Town Council is committed to taking swift action to maintain our unique quality of life.

Lots of numbers in the letter this month due to the budget cycle. Things are getting busy all around us. **It's never been a better time to be in Lakewood Village.**

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