

Office of the City Manager

City of Richland Hills, Texas

## Memorandum

To: Honorable Mayor Bill Agan and members of the Richland Hills City Council  
From: Eric Strong, City Manager  
Date: May 19, 2015  
Subject: Update on Community Recreation Activity Center Project Funding

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### **Council Action Requested:**

Informational only

### **Background Information:**

Over the past several years the City has been planning for a proposed new Community Activity Center (CAC). In order to move forward with funding this project, a full understanding of the costs is important. This memo will serve to outline various funding options that we will have going forward.

#### Hotel Fund

The City of Richland Hills has two hotels within the city limits. These two hotels provide a funding stream for the City, as each occupant that stays there must pay a Hotel Occupancy Tax (HOT) which is remitted to the City. Current revenues in the HOT fund are approximately \$200,000 per year. We do have some ongoing, recurring expenses out of this fund now, which limits available funds for debt financing. However, with the available funds, it is reasonable to assume we could secure \$1.3 million in bond funds.

It should be noted that HOT funds are restricted in how they may be spent. There are a number of things that the funds can be used on. In this case, the two applicable allowances are that HOT funds can be used to fund a visitor center and a convention/meeting center. The new CAC will have a museum space that serves as a

visitor's center as well as community rooms that can be rented for conventions and meetings.

### Type B Funds

In addition to the 1 cent sales tax that is levied for the General Fund, the City of Richland Hills also has elected to levy the other 1 cent allowable by state law. The other 1 cent is currently allocated as follows:

Type B	1/8 cent
CCPD	3/8 cent
The T	1/2 cent
<b>Total</b>	<b>1 cent</b>

Currently, there is a debt issuance that is supported by the Type B fund. This debt was issued for the Burn Street realignment. This debt issuance will expire and be fully repaid in 2016.

At the current allocation rate of 1/8 cent, the Type B fund could support \$2.05 million in bond funds.

### General Fund

Another source of major potential funding is the General Fund. As with the Type B fund, there is a prior debt issue that will be repaid and expiring in 2016. This means that if no action is taken, our tax rate will drop by almost 5 cents in 2016. It also means that council can reissue that 5 cents worth of debt and keep the tax rate the same. Reissuing the debt would raise \$2.045 million in bond funds.

In addition to that, a bond election can be held (or, certificates of obligation can be issued), to raise the tax rate.

Staff has looked at several tax options, and raising the tax rate 7 cents, in addition to reissuing the expiring 5 cents of debt, would raise approximately \$6 million dollars. It should be noted that the \$6 million number was calculated on last year's tax appraisal

numbers. Preliminary reports show that our appraised value has increased substantially, in large part to new businesses and economic development efforts. This means we will likely be able to bond as much as \$7 million, or possibly more, with a 7 cent tax increase.

To help the Council understand both how our current tax rate compares to other surrounding and/or similar cities, I have prepared the chart below. You will also note that the chart shows where our rate would fall with the increases listed in the chart above.

City	Tax Rate
Euless	0.47
Lake Worth	0.482083
Bedford	0.4948303
Saginaw	0.51
Richland Hills Current Rate	0.528094
Watauga	0.591216
RH 7 Cent Increase	0.598094
Hurst	0.6084978
NRH	0.61
Arlington	0.648
Benbrook	0.6575
Azle	0.6595
Crowley	0.696829
Haltom City	0.69999
Sansom Park	0.733655
Kennedale	0.7475
River Oaks	0.850351
Ft. Worth	0.855
Everman	1.255205

You will note that even if the tax rate were to increase by as much as 7 cents, we would still be among the lower third of the cities listed in the chart above.

#### Excess Sales Tax

Another option to consider is leveraging our recent increase in sales tax into bond dollars. As we have discussed previously, we have seen a surge in economic development activity over the past few years. Projects such as the Walmart, Buyers Barricade, Renovation of the old Sam's Club building, Advanced Glass and Smith Lawn and Tree (to name only a few of the several major projects) have really boosted our

sales tax. Fortunately, we have not committed most of those dollars to recurring projects. As such, we can use some of that funding to pay for additional debt issues. It should be noted that all debt is technically backed by the property tax, but we could use the sales tax to pay for some additional bond financing without increasing the property tax. Based on the sales tax, we could probably obtain an additional \$1 million to \$2 million using the sales tax..

### Drainage Fund

A significant portion of this project is earthwork and paving that has a significant affect on the drainage of the property. As such, significant portions of this project can be paid for from the Drainage Utility Fund. We will have a better idea of how much this is as we move into design of the facility, but without any trouble we could use cash or bond financing (or a combination of the two) to pay for as much as \$1 million on this project. This would not be possible if there wasn't so much earthwork and drainage considerations that were tied specifically to this project, but there is a large amount of both.

### Funding Summary

To get a clear picture of the financing options, all of the funding options that have been referenced are listed on the chart below. Some of these options might require an election, and if an election were to be required, you could do it as early as mid to late 2015. Bonds could be voted on in 2015 and funded by early 2016 in order to be timed to coincide with the expiration of previous bond issues.

<b>Fund/Amount</b>	<b>Debt Funds Available</b>
H.O.T.	\$1,330,000
Type B	\$2,050,000
Drainage	\$1,000,000
Bond Issue	\$7,000,000
Sales Tax	\$2,000,000
<b>TOTAL</b>	<b>\$13,380,000</b>

The chart above basically becomes a “menu” for funding. You can look at the various options from each of the sources, and determine how much you want to pull from each source. It should also be noted that this exceeds the estimated project cost. Also, it should be noted that the project cost is likely estimated high at this point. We want to make sure we overestimate at this point and not underestimate because we don't want to run out of funds as the project progresses.

In addition to the project being estimated high, it is also important to realize that over the next 3-6 months we will continue to refine the size and costs of the building, which will also help to drive costs down. So, in all likelihood, we will not need the full project amount as it is estimated currently.

Finally, remember that these are all options, and nothing needs to be decided now on specific funding sources. The main thing that we should be aware of is that a bond election will be required, and we can do that as soon as November of this year.

**Board/Citizen Input:** Finance Committee

**Financial Impact:** N/A

**Staff Contacts:**

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**Attachments:** N/A