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LOCAL NEWS

Half of sales tax payers not from city

BY KATHY WILLIAMS

HERALD DEMOCRAT

Sherman voters will go to the polls Tuesday to decide whether to shift some of the tax burden from property tax payers to sales tax payers, half of whom live outside the city limits.

Voters will see two sales tax issues on the ballot, which also includes state constitutional amendments. One tax initiative would add an eighth-cent to the sales tax to be used for road maintenance. The other eighth-cent would go reduce property taxes. The city council pledged in a resolution to increase the property tax reduction to 20 percent if both sales tax measures pass. The goal behind the street portion of the sales tax issue, councilors said during last summer's budget sessions, is to put the city far ahead on its street maintenance schedule. Rather than pay for those repairs and upgrades from the General Fund, which comes from a variety of sources, the money would come from the special sales tax. This one-eighth cent tax would expire in four years.

The other sales tax voters are considering would go toward reducing property taxes.

Sherman is eyeing growth from the south. How fast that growth arrives is unclear, councilors and city staff have said, but the fact that it will come is certain. The additional resources for repairs will free up funds to build new streets and lengthen others to reach toward new regional arteries, like the extension of State Highway 289. The city also will issue certificate of obligation bonds to build better east-west thoroughfares and new park features as well as upgrade and beautify portions of Brockett Street.

Councilors unanimously approved putting both measures on the ballot and the resolution to lower property taxes to 32 cents per \$100 property valuation. Figures from the Texas Municipal League shows that Sherman is the 53rd largest city of the 603 in the state. It is 60th largest in the value of property upon which it can assess taxes and has the 380th highest property tax rate, at its current 40 cents per \$100. An 8-cent reduction in the property tax rate would rank Sherman about 440th among the 600 or so cities. Some who oppose the new sales taxes point to the fact that sales taxes are regressive taxes. That means that the tax burden falls disproportionately higher on those with lower incomes.

Dick Lavine is senior fiscal analyst with the Center for Public Policy Priorities, a non-partisan, non-profit organization that studies and advocates for policies that affect middle and low income Texans. Lavine said that is true: Sales taxes are more regressive than property taxes, which are themselves somewhat regressive. He added that Texas' current taxation system that relies heavily on both sales and property taxes, is far more regressive than states that balance those taxes with income taxes. Income taxes can be indexed or designed to evenly affect those at both ends of the wealth spectrum. Also, currently only those who are wealthy enough to itemize their federal income tax deductions can deduct sales tax from their federal tax bills. If the law were changed to allow a federal income tax credit for state sales tax, that would make sales taxes more equitable.

If sales taxes replaced property taxes statewide, Texas families making less than \$25,000 a year would pay 5.5 percent of their income in taxes rather than the current 4.5 percent. And families making more than \$109,000 a year would see their tax burden fall from the current 2 percent of their income to 1.75 percent. However, he said, the plan before Sherman voters does not have that large an effect. First, it is not replacing all property tax. Second, a little more than half of the additional sales tax will be paid by people who don't live in Sherman.

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Texas Public Policy Foundation is a non-partisan, non-profit organization "guided by the core principles of individual liberty, personal responsibility, private property rights, free markets and limited government." David Guenther, the foundation's director of media and government relations, said he would rather not get into the particulars of a local issue.

"In general, we have for a long time supported replacing property taxes with sales taxes," Guenther said. "Sales taxes are simple, transparent and difficult for local government to manipulate."

Guenther said everyone pays property taxes whether they own or rent their homes. "Most people who rent probably would see some benefit from a reduction in property taxes... but it would more likely be apparent in not finding an increase in their rents that would happen eventually if property taxes went up."

TPPF, Guenther said, looks more at efficiency — how carefully tax money is budgeted and used — than equity issues like whether sales taxes are regressive.

"The larger concern is what protections have they (Sherman City Council) put in place that property taxes don't go back up the next year. Are they paying more money into an exchange (of sales tax for property tax) and then raise the property tax rate? There needs to be a permanent tax reduction. The issue for the voters up there is what they would want to do, whatever the voters decided, is how, in going forward they need to keep tabs on the city budget and closely monitor the tax dollars going in and any change in the size of the budget."

When councilors passed the resolution that promises to lower the property tax rate by 20 percent if both measures pass, they stated that they could only pledge their intentions. They cannot legally bind future councils to their decisions. However, they said, they felt a unanimous pledge was something voters could hold them accountable to in future elections.

Retail construction is on the rise in Sherman and its revenue from sales taxes have steadily risen since late 2003. After the World Trade Center and Pentagon attacks in 2001, retail sales here suffered as they did across the country. Sherman's budget suffered from that. And the utility fund suffered when Sherman lost industry in the late 1990s. But the city currently is in fine financial shape, Assistant City Manager Robby Hefton said recently.

Although some financial analysts are predicting a rocky retail picture in the short term, Texas and Sherman are currently doing fine. Hefton said taking on additional debt through issuing the contractual obligation bonds, and relying more heavily on sales tax carry slightly higher risk than past city councils have been willing to engage in financial planning. But the rewards are potentially great in positioning for future growth rather than reacting to it, he said.

"I think the city is in better shape than it was five years ago from a property tax standpoint and from diversifying our property tax base, because we are now spreading a lot of our burden from percentage standpoint from industrial taxpayers to retail tax payers. Sherman Town Center and Woodmont (Sherman Commons) ... I think people may not realize that those people generate a lot of property tax, not just sales tax. My recollection is that Sherman Town Center is the largest property tax payer in the city."

Also, the soundness of the decision to risk some debt and tax swapping is fortified by the diversity of Sherman's tax base — from high tech manufacturing to retail shops — and its cash reserves.

"In terms of worst case scenarios that could have a horrible affect on the city, I would feel much less comfortable if our reserve levels weren't as high as they are," Hefton said. "Because if we go back to the sales tax, over the last eight or 10 years, what's the worst loss that we've had? It was \$600,000 to \$700,000. Let's say that happened again. We could absorb that for many years even if something starts to really go south."

"And, the thing is, we might let it go without taking any action for one year or two. ... But with the cyclical nature of the economy, and our reserve levels at \$5 million, I don't see anything that could go horribly wrong... I am comfortable with this plan."

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