

AWBD

Membership Breakfast 2011

Today's Three Rs:
 Recession, Revenue, and Resources –
 Preparing for Tough Economic Times

Tax Collection Trends

% Collection at March 31 of Following Year

Tax Year	MUD 1	MUD 2	MUD 3	MUD 4	MUD 5
2007	94.49%	95.70%	92.14%	96.09%	97.19%
2008	95.06%	94.94%	96.15%	96.43%	97.77%
2009	95.08%	95.97%	95.39%	96.72%	97.51%
2010	97.06%	96.19%	97.08%	96.83%	98.04%

POSSIBLE REASONS FOR INCREASED COLLECTIONS

Foreclosures

- Replaces people unable to pay taxes with people or entities

Mortgage Escrow

- More people escrowing due to refinancing or new borrowing.

Tax Lien Transfer

- Section 32.06 of the Texas Property Tax Code allows for the transfer of the statutory lien from the District to a person authorized to pay the taxes of another.

Delinquent Tax Collection

🕒 Time can be of the essence

- Especially with Business Personal Property
- Delinquent Taxes turned over to your attorney 18 months after January 1 appraisal/assessment date

➤ Early Turnover for Personal Property

- District can provide that personal property taxes are turned over to the attorney on April 1 instead of July 1

👁 Watch for Businesses going out of business!

- Can collect ASAP with a Tax Warrant if business is "leaving the county" and there is not other property to satisfy the debt

Foreclosure Process Delinquent Tax Suit

- **Taxes are a lien against the property**
- **Judicial Foreclosure**
 - Under Texas Law a lawsuit must be filed to foreclose on the lien
 - Must serve all necessary parties with citation by a constable
 - Can be many months while the parties are being served
 - Once served can request a hearing or trial
- **Judgment Signed**
 - Must wait 30 days after the judgment is signed before it becomes final
- **Request an Order of Sale that allows the Constable or Sherriff to sale the property for the taxes due in the judgment**

Foreclosure Process Tax Foreclosure Sale

- **Once the Constable or Sherriff receives the Order of Sale he has to publish notice of the sale**
 - Publish in a paper of general circulation in the county
 - Must run for three consecutive weeks before the sale date
- **Sale Date is the first Tuesday of each month**
- **Sale held at the court house steps**
- **Minimum bid is the amount due under the judgment or the adjudged value, whichever is less**

Foreclosure Process Distribution of Proceeds

- **Proceeds from Tax Sale**
 - Costs paid first
 - Constable's Fees, publication fees for sale
 - Court costs, including ad litem fees
- **Taxes paid**
 - Pay taxes in full
 - If not enough to pay taxes in full, then the taxing units split the proceeds pro-rata in the proportion to the amount of taxes recovered in the judgment
- **Excess Proceeds**
 - Any funds left over are then deposited in the Registry of the Court and the Tax Code states who is entitled to recover the funds

Bankruptcy

- **Controlled by Federal Law**
 - Federal Law trumps state law
 - Once bankruptcy filed state collection remedies no longer apply
 - Bankruptcy Stay is in effect
- **Notice of Bankruptcy**
- **The debtor (property owner) sends a notice of the filing of the bankruptcy to all debtors**
 - May send direct to MUD district office, tax office or operator
 - The notice starts the deadline for the district to file a claim for the taxes they are owed

Bankruptcy The Claim

- **Deadline to file claim – 180 days after notice sent since the district is a governmental entity**
- **Filing of Claim**
 - Claim is filed for the district
 - Claims for taxes are secured by a lien against the property so receive the classification of a “secured” claim which gives the district a higher priority for payment
 - Claim must include all taxes on the property
 - Delinquent taxes
 - Current year taxes
 - Taxes for the year even though not imposed or assessed at the time of the filing of the bankruptcy
 - Penalties
 - The district will receive penalties if they attached before the filing of the bankruptcy
 - Penalties that accrue during the pendency of the bankruptcy do not attach
 - Interest
 - The district receives the statutory interest of 1% per month until paid

Bankruptcy Chapter 7 v. Chapter 13

- **Chapter 7 (liquidation)**
 - Chapter 7 is a liquidation where the trustee (appointed by the court to oversee the debts and claims of the debtor) gathers the debt of the debtor, pays what they can and then discharge any unsecured debt
 - District may have an unsecured claim for personal liability (business personal property where assets are gone) that can be liquidated
 - Debtor can not discharge a tax debt for the year filed and the preceding year
- **Chapter 13 (payment plan)**
 - Chapter 13 is a payment plan where the trustee gathers the debt and claims of the debtor and determines they can pay their debts and develops a plan to pay them over time
 - Chapter 13 plan can last as long as five years
 - Taxes that accrue after the bankruptcy is filed must be paid as they become due and are not a part of the plan
 - Plans must be monitored for compliance and if not paying pursuant to the plan the creditor can ask the court to dismiss the bankruptcy

Average Homestead Value Comparison

Year	Harris	Fort Bend	Brazoria	Galveston
2007	167,127	181,987	139,546	136,712
2008	175,658	193,440	143,347	143,099
2009	176,133	195,645	143,518	139,420
2010	174,672	196,896	143,418	144,357

Tax Rate Study

2010 Tax Rate Study

Year	Assessed Valuation	Tax Year	Tax Rates			99% Tax Collex	Interest @ 0.10%	Debt Service	Annual Change	Ending Balance	% of Next Year's D/S	99% M&O Collex
			D/S	M&O	Total							
2005	\$162,372,900	(2004)	\$0.630	\$0.185	\$0.815							
2006	184,167,928	(2005)	0.560	0.240	0.800							
2007	200,141,178	(2006)	0.505	0.250	0.755							
2008	207,448,298	(2007)	0.505	0.250	0.755							
2009	206,976,286	(2008)	0.515	0.240	0.755							
2010	185,448,880	(2009)	0.685	0.152	0.837					\$1,194,012	96.50%	279,063
2011	174,919,588	(2010)	0.725	0.171	0.896	\$1,255,485	\$1,194	\$1,237,359	\$19,321	1,213,333	97.84%	296,121
2012	174,919,588	(2011)	0.725	0.171	0.896	1,255,485	1,213	1,240,171	16,527	1,229,861	99.07%	296,121
2013	174,919,588	(2012)	0.725	0.171	0.896	1,255,485	1,230	1,241,346	15,369	1,245,229	98.69%	296,121
2014	174,919,588	(2013)	0.725	0.171	0.896	1,255,485	1,245	1,261,793	(5,062)	1,240,168	94.65%	296,121
2015	174,919,588	(2014)	0.725	0.171	0.896	1,255,485	1,240	1,310,283	(53,557)	1,186,611	90.54%	296,121
2016	174,919,588	(2015)	0.725	0.171	0.896	1,255,485	1,187	1,310,658	(53,986)	1,132,625	86.42%	296,121
2017	174,919,588	(2016)	0.725	0.171	0.896	1,255,485	1,133	1,310,630	(54,012)	1,078,613	82.09%	296,121
2018	174,919,588	(2017)	0.725	0.171	0.896	1,255,485	1,079	1,313,935	(57,371)	1,021,242	77.67%	296,121
2019	174,919,588	(2018)	0.725	0.171	0.896	1,255,485	1,021	1,314,768	(58,261)	962,981	73.28%	296,121
2020	174,919,588	(2019)	0.725	0.171	0.896	1,255,485	963	1,314,041	(57,593)	905,388	69.05%	296,121
2021	174,919,588	(2020)	0.725	0.171	0.896	1,255,485	905	1,311,241	(54,851)	850,538	64.54%	296,121
2022	174,919,588	(2021)	0.725	0.171	0.896	1,255,485	851	1,317,810	(61,474)	789,063	59.93%	296,121
2023	174,919,588	(2022)	0.725	0.171	0.896	1,255,485	789	1,316,693	(60,418)	728,645	55.08%	296,121
2024	174,919,588	(2023)	0.725	0.171	0.896	1,255,485	729	1,322,986	(66,772)	661,873	50.36%	296,121
2025	174,919,588	(2024)	0.725	0.171	0.896	1,255,485	662	1,314,386	(58,239)	603,634	45.89%	296,121
2026	174,919,588	(2025)	0.725	0.171	0.896	1,255,485	604	1,315,488	(59,399)	544,236	41.23%	296,121
2027	174,919,588	(2026)	0.725	0.171	0.896	1,255,485	544	1,319,850	(63,820)	480,415		296,121

Notes: **Ending Balance**, 2010, represents August 23, 2010 Debt Service Fund balance

Homestead Exemption Study

No Homestead Exemption Granted		20% Homestead Exemption Granted	
2010 Taxable Value	\$218,098,744	2010 Taxable Value	\$218,098,744
		Less: 20% of \$120,107,040	<u>(24,021,408)</u>
2010 Tax Rate		Reduced 2010 Taxable Value	\$194,077,336
Maintenance Tax	\$0.515		
Projected Debt Tax	<u>0.240</u>	Tax Rate Required to produce	-
	<u>\$0.755</u>	\$1,646,646	<u>\$0.848</u>
2010 Tax Levy	-	Homesteads	-
	<u>\$1,646,646</u>	Total Taxable Value (80%)	\$96,085,632
Homesteads		Average H/S Value	\$97,648
Number	984	Average Tax Bill	\$828.49
Total Taxable Value	\$120,107,040	Effective Savings to Homestead	\$93.06
Average Value	\$122,060	Equivalent Tax Rate	\$0.679
Average Tax Bill	\$921.55	Percentage Savings	10.10%

Sources of Revenues

	<u>Pros</u>	<u>Cons</u>
Cut Expenses	Quick fix	Limited areas to cut
Raise Rates	Quick fix	Homeowners hit hardest; not deductible
Sell Notes	Quick fix	Increased debt service; not good strategy for routine expenses
Sell Bonds	Spread out capital costs	Increased debt service; timing issues; long term tax increase
Raise Taxes	Deductible; spreads cost among commercial/non-homestead properties	Taxes are raised
Secure Grants	Free money is best	Limited funding sources; long process
Standby Fees	Relieve	Limited applicability

Water Rate Study

Water Use		Avg Users	Old Residential Rates			New Residential Rates			Monthly Increase	
From	To		Rate	Billed	Income	Rate	Billed	Income	Amount	Percent
0	1,000	23								
1,001	2,000	38				\$12.00	\$12.00	\$732	(\$1.00)	-7.69%
2,001	3,000	59	\$13.00	\$13.00	\$1,560	1.50	13.50	797	0.50	3.85%
3,001	4,000	81	1.25	14.25	1,154	2.50	16.00	1,296	1.75	12.28%
4,001	5,000	96	1.25	15.50	1,488	2.50	18.50	1,776	3.00	19.35%
5,001	6,000	97	1.25	16.75	1,625	2.50	21.00	2,037	4.25	25.37%
6,001	7,000	90	1.25	18.00	1,620	2.50	23.50	2,115	5.50	30.56%
7,001	8,000	71	1.75	19.75	1,402	2.50	26.00	1,846	6.25	31.65%
8,001	9,000	60	1.75	21.50	1,290	2.50	28.50	1,710	7.00	32.56%
9,001	10,000	44	1.75	23.25	1,023	2.50	31.00	1,364	7.75	33.33%
10,001	11,000	34	2.75	26.00	884	4.00	35.00	1,190	9.00	34.62%
11,001	12,000	30	2.75	28.75	863	4.00	39.00	1,170	10.25	35.65%
12,001	13,000	19	2.75	31.50	599	4.00	43.00	817	11.50	36.51%
13,001	14,000	12	2.75	34.25	411	4.00	47.00	564	12.75	37.23%
14,001	15,000	11	2.75	37.00	407	4.00	51.00	561	14.00	37.84%
15,001	20,000	25	3.00	52.00	1,300	4.25	72.25	1,806	20.25	38.94%
20,001	25,000	7	3.00	67.00	469	4.25	93.50	655	26.50	39.55%
25,001	30,000	3	3.00	82.00	246	4.25	114.75	344	32.75	39.94%
30,001	35,000	1	3.00	97.00	97	4.25	136.00	136	39.00	40.21%
35,001	40,000	1	3.00	112.00	112	4.25	157.25	157	45.25	40.40%
40,001	50,000	1	3.00	142.00	142	4.25	199.75	200	57.75	40.67%
Monthly Income					\$16,691			\$21,273		
Annual Income					\$200,295			\$255,270		\$54,975

Water/Sewer Revenue

➤ **Rate analysis**

- Perform Rate Analysis on a regular basis
- Implement price hikes in the winter months
- Communicate with your customer base

➤ **Insure the district covers their out of pocket costs**

- Regional Water Authority expenditures
- Production costs
- Garbage Collection Expenses

Limit the District's exposure

➤ Review Deposit amounts

- Billings have increased
- Compare the average bill to the current deposit required
- Consider collecting additional deposits from customers that are terminated
 - ✓ The customer has demonstrated they are a higher risk
 - ✓ Discourages further delinquent behavior
 - ✓ Institute a cap for the deposit

➤ Approve Write Offs monthly

- The sooner uncollected balances are given to the agency, the higher the probability they will be able to collect

Limit the District's exposure

➤ Review your delinquent process and timing

- It is easier to pay and easier to collect smaller amounts
- Set up a workshop with your Operator to discuss the delinquent timing
- Consider Rate Order language that requires that once an account receives a delinquent letter all balances due and payable
- Encourage paying earlier in the process
 - ✓ Late fee percentage
 - ✓ Letter fees
- Communicate with your customers
 - ✓ Delinquent Letters
 - ✓ Door Tags
 - ✓ Signage in the district
 - ✓ Robo calls
 - ✓ Ebilling notices

Make it easy for the customer to pay

➤ Offer alternative ways to pay

- Credit Cards
 - ✓ One time transactions
 - ✓ Ability to set up automatic payments
- Automatic Debiting of their checking account
 - ✓ One time transactions over the internet or phone
 - ✓ Recurring monthly debits
- Payments taken at local grocery stores and Wal-Mart

Maximize the revenues already within the District

➤ Electronic meters

- Large Commercial water users
- Could begin requiring electronic meters for new non residential connections

➤ Meter replacement programs

- Institute a program to regularly retire meters

➤ Commercial Testing

- Have your operator test the large meters every 6 months/annually
- Repair meters that are not calibrated correctly

Equipment Failure and Insurance Claims

- **When equipment which is insured fails, should a District claim the replacement on insurance?**
 - What was the normal service life of the equipment?
 - What other insurance claims have the District made recently?
 - Did the District have this equipment budgeted for replacement?
 - Does the District have funds available to pay for the equipment replacement?

Equipment Failure and Insurance Claims

- **Equipment replacement utilizing insurance can be a costly proposition.**
 - Just as with home or auto insurance, boiler and machinery insurance premiums will most likely go up after a claim
 - Emergency replacement is typically more costly than planned replacement
 - Operations without the equipment because of delivery times can be costly
 - Running backup equipment for longer than expected hours or with larger demands can reduce the service life of the backup equipment

Equipment Failure and Insurance Claims

- **Rather than filing an insurance claim for aged equipment, District's should plan for periodic equipment replacement**

Operations and Maintenance Planning

- **Budget review**
 - Annual budgets should reflect any capital expenses expected for the year
 - If there are on-going maintenance projects, which could be considered as capital improvements these projects should be itemized in the budget so that they can be tracked
 - Tracking these costs can be helpful when the District is looking for funding

Operations and Maintenance Planning

➤ Short Term or Capital Improvements Plan (CIP)

- The plan should include equipment and infrastructure replacement or rehabilitation for the next 1 to 5 years
- Having a plan in place can help the District understand future capital outlays
- Advanced notice, will allow the District to find funding

Operations and Maintenance Planning

➤ Long Term or Asset Management Plan

- The plan should include equipment and infrastructure replacement or rehabilitation for the next 5 to 30 years
- This plan should be able to help develop the CIP
- Planning this far out may seem a little extreme, but we should remember that most of our major infrastructure was financed using 20 – 30 year bonds.
- These plans will help the District set tax rates, see future bonding requirements, and perform rate studies