

How Stafford Can Afford To End Property Taxes

By CALEB SOLOMON

STAFFORD—Unlikely as it may seem, this southwest Houston suburb, a mix of '40s homes, '70s subdivisions and rapidly growing light industry, is becoming a Shangri-La for property owners.

Why?

Mayor Leonard Scarcella is about to propose, and the City Council is expected to approve, reducing Stafford's municipal property-tax rate to zero in the fiscal year starting Oct. 1. By comparison, Stafford's better-known neighbor Sugar Land levies 45.7 cents for every \$100 of value, a typical rate for the area.

Stafford has been trimming its property taxes for some time. Last year's cut resulted in one of the lowest property-tax rates in the state—0.079%, or about eight cents on every \$100 of valuation. The reasons for this are part budgetary, part philosophy.



Leonard Scarcella

"Our theory is that if you don't need the property tax, you don't assess it," Mr. Scarcella says. He argues that unlike most other forms of taxation, which depend on the generation of some revenue from goods or services, "if you have land and it doesn't make any

income, the property tax is still there."

Any property-tax reduction, particularly to zero, will draw attention in Texas today. This column in May noted that from 1983 to 1992, Texas property taxes more than doubled, and even climbed above a threshold that in other states has sparked tax revolts. And Gov. George W. Bush, prompted in large part by inordinate state and local dependence on property taxes, has called for an overhaul of the state's tax system.

So, how can Stafford make the cut? The answer is classic: The city is raising sales taxes—in its case, paid overwhelmingly by nonresidents—in much the same way that big cities levy a hotel-room tax that only visitors pay. Stafford is taking advantage of a 1987 state law that lets municipalities levy an extra half-cent sales tax to provide property-tax relief.

Though many cities have done the same thing, few have eliminated property taxes. Stafford can because of its unusual economy and demographics. About 12,000 people live in the city. But it's also home to 1,200 businesses that employ 22,000 people, so it collects huge amounts of sales tax from nonresidents who work here. Stafford has such a high proportion of businesses to homes that sales-tax revenue already pays for 68.5% of the city's \$6.8 million annual budget.

"You get people who don't live in the city to pay as much of the freight as possible," says Charles Gilliland, associate research economist at Texas A&M University's Real Estate Center.

Stafford property owners must still pay other taxes, including ones for schools, the county and water control. But they're in line with area rates, and with lowered city property taxes, the total tax bill is lower.

So, can Stafford serve as a model for other Texas cities? John Kennedy, a tax specialist at the Texas Research League, a business-backed think tank in Austin, thinks not. Stafford's situation is unusual, he says: "I can't believe there are more than one in a million spots where you could get away with doing this." Mr. Kennedy also wonders if Stafford offers quality municipal services.

It looks as if the city does: Its streets

aren't pothole causeways, schools are new, student test scores are among the highest in the Houston area, and police service appears comparable to other local suburbs. In a bond issue, Stafford will soon raise \$3.1 million for street improvements, a new police station, a revamped firehouse and park enhancements.

Mr. Scarcella, 54 years old and mayor since 1969, says Stafford does offer lessons. He says other cities could cut taxes if they were more fiscally conservative and adds that he scrutinizes every line of Stafford's budget. "Our budget could be double what it is now and still be 'justified,'" he says. As an example of prudence, he says, the city set up one facility to maintain police cars, school buses, tractors and other equipment.

Stafford is also undertaking an unusual economic-development effort. Using city bonds, it will build a \$7.5 million expansion to an existing Houston Community College site, which trains workers for nearby companies. The college will pay rent that covers Stafford's debt payments.

But Stafford's business-friendly stance has an aesthetic price. City Hall sits across the street from a railroad yard where a futuristic crane scoops construction material out of rail cars, stacking it in mountains before it's loaded into trucks for delivery around Houston.

Driving along Murphy Road past a lumberyard, an auto-parts store and a nursery, Mayor Scarcella says, "All these places generate sales tax." He says the nearby Wal-Mart kicks in \$250,000 to \$300,000 a year to city coffers.

Stafford continues to draw businesses and has become a center for valve makers, but it's an open question how much impact the tax cut will have in attracting new industry. As for home sales, Roger

Tax Haters' Havens

Lowest municipal property-tax rates in Texas, in cents per \$100 of valuation, for cities of 2,500 people or more

CITY, COUNTY	Tax Rate
Livingston, Polk	0
Onalaska, Polk	0
Buckholts, Milam	0.1165
Robinson, McLennan	1.258
Inks Lake Village, Llano	1.28
China Grove, Bexar	1.653
Round Top, Fayette	1.92
Edmonson, Hale	2.33

Source: Texas Comptroller's Office

Chambers, a Century 21 real-estate broker for Stafford and neighboring cities with higher taxes, says, "It hasn't made any noticeable difference" to buyers. "It's certainly made residents happy," he adds, himself included.

And the cut will put pressure on neighbors. Sugar Land lowered its city property tax 8.6% from 50 cents two years ago and expects to cut it below 40 cents next year. David Neeley, city manager, says Sugar Land, home to new, enormous master-planned residential communities, is growing so much faster than Stafford that it can't cut its property-tax rate to zero because it needs to build more infrastructure. He adds, nonetheless, that "Stafford sets a good, aggressive standard for us to try to follow."

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