Grand Prairie
TEXAS

February 4, 2020

House Committee on Ways and Means
1100 Congress Ave
Austin, Texas 78701

Re: Interim Charge 1.2

Mr. Chairman and Members of the Committee:

The City of Grand Prairie ("City") appreciates the Texas Legislature's work on HB 1525 and HB 2153. The City also appreciates the Comptroller's efforts to revise Rule 3.334 in response to HB 1525 and 2153. The City understands the unique position in which the Comptroller's Office is placed regarding the varying impacts that the sales and use tax collection has on cities and businesses in Texas.

While HB 1525 and HB 2153 are anticipated to generate revenue increases, elements of the proposed changes to Rule 3.334 are concerning to the City. Based on our internal analysis, we have identified several potential negative impacts upon the City including lost revenue, reduced flexibility to provide the same level of service to our citizens, and a potential downgrade to the City's credit rating.

The proposed changes to Rule 3.334 address businesses selling to other businesses using traveling salespeople and internet orders. In the past, the City would realize the sales tax revenue from a business in Grand Prairie selling a product with traveling salespeople. Our understanding of the Comptroller's proposed changes would shift that revenue out of Grand Prairie to the final destination of the product, resulting in lost revenue for the City.

The City has five outstanding Sales Tax Revenue Debt issuances, with an estimated $109 million in outstanding principal that will be paid off between 2022 and 2040. Ratings on the outstanding debt range from A+ to AA- with S&P and AA+ by Fitch. Pledged Revenue and Debt Service Coverage are both key drivers in the rating process.

The City's August 1, 2019 Fitch upgrade report noted that "material increases in leverage or declines in pledged revenues that diminish the coverage cushion outside of Fitch's expectations after discussion with city management would likely result in downward rating action."

In total, the City receives approximately $66 million in sales tax revenue annually. The City's sales tax includes one cent for general operations ($33 million), as well as quarter cents for parks ($8.3 million), street maintenance ($8.3 million), crime control ($8.3 million), and our Epic venue ($8.3 million). Sales tax represents about 25% of total general fund revenues.

At the time of the rating discussion, the City did not anticipate any declines in revenue outside of the normal economic cycle. However, this rule change alters this prediction and could impact the City's credit rating. Based both on internal analysis and a third party study, the City anticipates potentially losing between $4 million and $6 million in revenue on an annual basis due to the traveling salesperson exclusion. The City has a number of business-to-business customers in the area in which we would anticipate revenue losses. This represents between 6% and 10% of total sales tax revenues.

While we appreciate that some of this revenue loss may be offset by new revenues created by the rule change, the City sees no practical methodology for predicting any new revenues from the rule change. Without the ability to determine some realistic estimate for potential net losses, this rule amendment creates substantial difficulty when establishing the City's annual budget for next year.

The City sees natural ebbs and flows with businesses within the City. However, the rule change could affect our ability to support these businesses, in spite of the fact that no change has occurred with the actual business operations within city limits.

In the 2019 legislative session, the ability for cities to fund current or expanded service levels was severely limited due to the passage of SB2 as well as franchise fee reductions. Further limiting new revenues due to this rule change could reduce services, including a direct impact to public safety, streets and parks.

The City of Grand Prairie requested additional fact-based analysis of these rule changes but have not received any impact analysis from the Comptroller's Office to date. It is also the understanding of the City that the Comptroller's Office does not intend to do any in-depth analysis on the cities this rule change will affect. The City asks the House Ways and Means Committee to consider requesting additional analysis from the Comptroller's Office on these proposed rule changes.

Sincerely,

Tom Hart
City Manager