

## Castle Hills at a Turning Point

NOVEMBER 4, 2011 BY PATRICK KELLY AND JOHN EHINGER

The purpose of this article and one to follow in December is to identify the possible benefits of commercial property development to the residential property owners of Castle Hills as well as outline some of the development projects planned. This month's article will provide some insight into the benefits while the article in December will focus on planned projects and the possible impacts of further commercial development.

Development within Castle Hills is shifting from residential to commercial as the last planned residential subdivision goes underway in Phase 6A, the northwest corner of Castle Hills North (although as we write this, plans emerged for a smaller subdivision on the golf course in district 1-C). Increased commercial development may improve the finances of the residential districts, allowing more shared expenses to be allocated to commercial areas but it also creates new challenges for the districts and the city, as commercial property requires different services and raises issues of the potential impacts on existing parts of the development.

As reflected in the 1996 agreement between the developer and the City of Lewisville, Castle Hills has always been intended to include not just the residential subdivisions that exist today, but also significant commercial and multi-family properties. This plan continues more or less in line with that initial vision.

Commercial property can be beneficial to the existing residential districts because of the effect it will have on how expenses are allocated under the current operating agreements. The expectation is that commercial property is less demanding on municipal services than residential areas. Therefore an increase in commercial properties should contribute more than they require in services. This is in part due to fewer water, sewer, solid waste accounts and road connections per taxable dollar and to the "stacking" of commercial taxable property that commercial property provides: multi-story buildings can create a higher improved taxable value per acre, business personal property taxes on equipment and inventory (which again can be stacked vertically), and sales taxes.

New construction in a district increases its tax base and provides the same revenue at a lower tax rate. New taxable value also increases a district's relative share of maintenance and operations (M&O) expenses, which under the Operating Agreements are allocated on the basis of relative value. A district that adds taxable value also increases its share of expenses relative to other districts. Therefore, new value added in one district directly expands that district's tax base and indirectly helps other districts. So long as shared expenses increase at a rate that is less than the valued added, the other districts gain. Shared expenses affect both the districts' M&O tax rates and shared water expenses, mainly "demand fees" charged by the Upper Trinity Regional Water District and by the City of Lewisville.

If these expectations hold, commercial development in Castle Hills will result in the shift of expenses from the residential districts 1-B, 1-D, 1-E to the mostly commercial districts 1-G and 1-H. District 1-F is split between residential areas in Castle Hills North and West and commercial areas. Commercial development in 1-F will directly benefit the 1-F residents in terms of a broader tax base, but they will see less indirect benefit under the operating agreement.

Next month we will review the developments currently in the plan for Castle Hills and wrap up the article with a discussion on the overall impact of these planned commercial projects to you, the residents and property owners of Castle Hills.