

## Time to Talk Turkey on Debt

### By Mayor Pro Tem John Montgomery

Harold B. Schlesinger, West U's first mayor, who served from 1925–1933, left a complicated legacy. On one hand, Mayor Schlesinger is credited with having led the development of critical city infrastructure, including streets, sewerage, drinking water, storm drainage, police and fire departments, and the West University Independent School District. Without these building blocks, our incipient city might not have survived a later annexation request by Houston in 1939.

On the other hand, the cost of this infrastructure buildout fantastically exceeded West U's ability to pay. By 1933, the City of West University Place was on the edge of insolvency. The combination of high operating cost per capita, a 26% tax delinquency rate, and steep bond interest created a massive cash flow shortage. The ensuing financial crisis cost Mayor Schlesinger his position, leaving his successor, Mayor Ralph G. Hyett, to clean up the mess.

Mayor Hyett immediately invited unpaid West U vendors to a meeting at the Rice Hotel, where he offered 50 cents on the dollar, take it or leave it. Most were happy to be paid anything at all. Even the vendor who made West U's only firehose at the time received pennies on the dollar. Despite this negotiating success with West U's general creditors, Mayor Hyett hit a wall with the bond market.

In May of 1933, Mayor Hyett was summoned, Corleone-style, to a come-to-Jesus meeting with bond holders at the Second National Bank. Led by the Equitable Insurance Company, bondholders offered Mayor Hyett a deal he couldn't refuse: there would be no discount or forgiveness of bond principal. We can surmise that the coffee at this meeting was tepid at best. As a small concession, West U would receive a 50% interest rate reduction and an extension of payment terms for past principal due.

A humble beginning for our City indeed, but lesson learned.

Fast forward 100 years, and mayors Schlesinger and Hyett wouldn't believe their eyes. Modern-day West U is an exemplary model of City services and financial discipline. As an example, West U's Police Department utilizes cutting-edge Virtual Gate camera technology. Our finances are copacetic, too, with S&P granting West U their highest AAA municipal bond issuer rating. It would seem, then, that the prioritization of infrastructure investment, balanced by sound fiscal policy, has been a legacy embraced by decades of successive City Councils.

We should keep it that way.

Once again, we find ourselves at an infrastructure crossroads. For too long, portions of West U have had to endure inadequate storm water drainage, particularly on the west side. Some of our streets and sidewalks are due to be replaced, and our water system needs upgrading to meet current and future needs. Additionally, some of our important

City buildings that were built in the 1940s, 1950s and 1960s have outlived their useful life by decades.

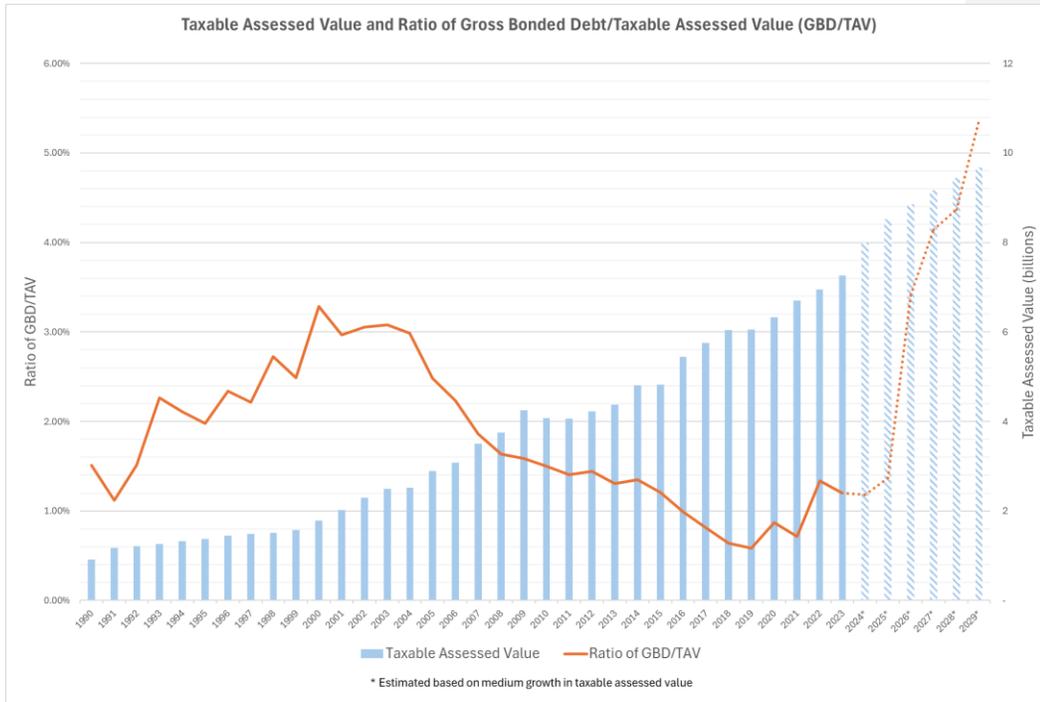
This future investment won't come cheap. City Council is exploring ways to potentially finance the updating of this infrastructure, including the use of cash on hand, grants, and public debt. As for the public debt portion, proposed investments identified in the five-year Capital Improvement Plan (CIP) may require the sale of bonds totaling approximately \$310 million, including the following estimated costs:

- \$21 million for facilities construction and renovation
- \$203 million for west-side drainage improvements
- \$9 million for street and sidewalk replacements
- \$22 million for Civic Center urban planning improvements
- \$55 million for water system upgrades (financed by water rates)

But, wait, there's more. To eliminate restrictions on recent and future drainage projects, an estimated \$50 million of bonds may be needed for the acquisition of 200 acre-feet of stormwater detention to comply with Harris County Flood Control District requirements.

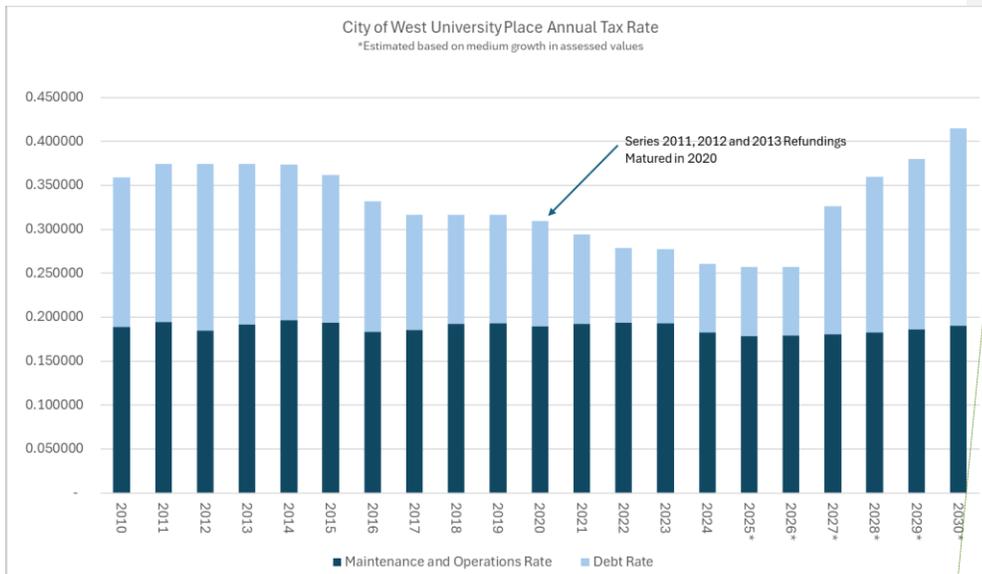
Are you sitting down? That's a total of \$360 million in potential new bond issuance over the next five years. Yes, Virginia, that's a lot of dough!

For historical context, the chart below shows debt issued by the City of West University Place during times of high investment in infrastructure. As a percentage of taxable property value, the amount of debt proposed in the CIP today would ultimately exceed the recent historical range, topping 5.35% by 2029.



City staff has done an outstanding job budgeting and modeling the potential impact of this proposed financing on our debt service tax rate under a variety of ad-valorem growth scenarios. Under the City’s medium growth forecast, we could expect an estimated 187% increase in the debt service portion of our tax rate by 2030. Keep in mind that the debt service rate is only one part of our total tax rate, with the other portion made up of maintenance and operations. Over the same time frame and growth forecast, our estimated total tax rate would rise by 59%.

**Commented [DB1]:** Need to update chart with new numbers



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Like you, I have long supported the idea of lower taxes, without compromising our high level of City services. I am loath to reverse that trend, but infrastructure investments are needed if we are to maintain our best-in-class standard of service. Exactly how much is a matter for residents to decide. Given the scope of bond financing at hand, City Council would be well served to put elements of this plan to the test in a future bond election so that residents can have the final word.

While there is a five-year plan in place for these projects, nothing is ever a done deal until City Council authorizes funding for each piece. Further, project costs are only estimates, so they may change considerably as the City works with our engineering firm to come up with the best solution. Please reach out and share your thoughts on this plan with City Council now. We are in this together.

Thank you for the continued honor of serving you on City Council.

*The author would like to credit West U historian, Richard Cunningham, for his research, along with Janice Holt Lang for her 1985 University of Houston thesis entitled "Suburban Pioneers: The Origin of West University Place, 1919–1939."*