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DATE: March 24, 2020

TO: Board of Directors, Denton County Fresh Water Supply District No. 1-A

FROM: Ross Martin, Winstead PC

RE: Frequently Asked Questions for Evaluation of Strategic Partnership Agreement with the City of Lewisville

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In connection with the approval of an amendment to the Strategic Partnership Agreement (“SPA”), and the potential subsequent annexation of Castle Hills development by the City of Lewisville after adoption of the SPA, the Boards of Directors of the fresh water supply districts that cover the Castle Hills development and residents have requested information to evaluate the Strategic Partnership Agreement and annexation. This memorandum is a short compilation of facts as they currently exist pertaining to the approval of the Strategic Partnership Agreement amendment and the impact of the amendment on a potential annexation by the City. This document is not intended to represent and does not represent a legal opinion, nor does it provide any recommendation or opinion as to whether the Boards of Directors of the districts should adopt an amendment to the Strategic Partnership Agreement.

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## 1. Is Castle Hills Currently Located in the City?

**Answer:** No. Even though many residents have a Lewisville address, Castle Hills does not fall in Lewisville’s city limits; rather, it lies in the City’s extraterritorial jurisdiction, sometimes called an ETJ. Properties within the ETJ are not subject to the City’s property taxes, but they do not by default receive the benefits of services provided by the City. Many of the services that would normally be provided by a city are currently provided by the fresh water supply districts that cover Castle Hills (the “Districts”).

The commercial properties within Castle Hills (offices, retail shops and restaurants) have been annexed for limited purposes by the City through a Strategic Partnership Agreement. Because of this limited-purpose annexation, the City imposes a sales and use tax on activities within those commercial properties. This sales tax is collected and used primarily to pay the City to provide law

enforcement and fire-fighting services within Castle Hills. Any remaining funds from the sales tax are split between the City and the Districts. No residential properties within Castle Hills are subject to this limited-purpose annexation.

## **2. How would Castle Hills be annexed into the City?**

**Answer:** The annexation would be accomplished through either (i) an amendment to the existing SPA or (ii) an election held within Castle Hills.

An election is not required to annex Castle Hills into the City if the Districts agree to the annexation through an amendment to the SPA. Under Chapter 43 of the Texas Local Government Code, a SPA may be entered into between the City and the Districts to provide for full annexation of the Districts' property on terms acceptable to the City and the Districts. The current SPA, which covers only commercial property, could be amended to allow for full annexation by the City by including the residential property in Castle Hills. Approving a SPA amendment would require two public hearings in the City, approval by City Council, two public hearings by each District, and approval by the District boards. After approval of the SPA, the City may then annex Castle Hills without an election.

Without such an amendment to the SPA, state law currently requires that in order for a city to annex property, the city must hold an election within the boundaries of the property to be annexed—in this case, Castle Hills. All residents of Castle Hills who are registered to vote at a Castle Hills address would be eligible to vote in such an election. A majority vote would approve the annexation of Castle Hills into the City of Lewisville.

## **3. When would the annexation of Castle Hills occur?**

**Answer:** The proposed annexation timeline would depend on the method of annexation; however, the City has been preparing for an annexation during the summer of 2021.

## **4. How would property tax rates change? Would homestead/over 65/disabled exemptions change?**

**Answer:** While tax rates are subject to change annually, the City currently levies a tax rate of \$0.443301 per \$100 of assessed valuation. This is lower than the corresponding tax rate currently levied by any of the Districts. Many of the Districts have lowered their tax rates in recent years.

The City does not currently offer a homestead exemption. The Districts vary in whether they offer a homestead exemption and the amount of such exemption. The City does offer the maximum exemption of \$60,000 for residents who are over 65 or disabled. The City also provides a tax ceiling to residents who are over 65 or disabled, so that their property taxes will never increase after the year the resident turns 65 or becomes disabled. Each District Board determines its own exemptions, and the Districts vary in whether they currently offer over 65 or disabled persons exemptions and the amounts of such exemptions. No District currently offers a property tax ceiling for those over 65 or disabled.

The chart below illustrates the differences between the tax rates and exemptions currently imposed by the City and the Districts and their effects on a theoretical property valued at \$500,000.

Taxing Entity	2019 Tax Rate	Exemptions Offered		Annual Taxes on \$500,000 Property	Annual Taxes with Exemptions
City of Lewisville	\$0.443301	Homestead	-0-	\$2,217	\$2,217
		Disabled Homestead	\$20,000*		\$1,951*
		Over 65 Homestead	\$60,000*		\$2,128*
District 1-B	\$0.63	Homestead	15%	\$3,150	\$2,678
		Disabled Homestead	\$10,000		\$2,615
		Over 65 Homestead	\$10,000		\$2,615
District 1-C	\$0.78	Homestead	-0-	\$3,900	\$3,900
		Disabled Homestead	-0-		\$3,900
		Over 65 Homestead	-0-		\$3,900
District 1-D	\$0.45	Homestead	8%	\$2,250	\$2,070
		Disabled Homestead	\$10,000		\$2,025
		Over 65 Homestead	\$10,000		\$2,025
District 1-E	\$0.59	Homestead	8%	\$2,950	\$2,714
		Disabled Homestead	\$10,000		\$2,655
		Over 65 Homestead	\$60,000		\$2,360
District 1-F	\$0.54	Homestead	20%	\$2,700	\$2,160
		Disabled Homestead	\$20,000		\$2,052
		Over 65 Homestead	\$60,000		\$1,836
District 1-G	\$1.00	Homestead	20%	\$5,000	\$4,000
		Disabled Homestead	-0-		\$4,000
		Over 65 Homestead	-0-		\$4,000
District 1-H	\$1.00	Homestead	-0-	\$5,000	\$5,000
		Disabled Homestead	-0-		\$5,000
		Over 65 Homestead	-0-		\$5,000

\*Note, the City of Lewisville also offers a tax ceiling limitation for disabled persons and persons over 65. On the year of qualification, the City property tax amount becomes a ceiling and future years' tax amount will not exceed that ceiling no matter the increase in home value or tax rate.

##### 5. Would water or wastewater rates change after annexation?

**Answer:** Users could see a change in water and wastewater rates in the event of annexation.

**Water:** All the Districts use an escalating scale for water rates, where a higher water usage results in a higher rate. District 1-B's rates are different from the other Districts, as shown below:

Districts 1-C through 1-H:

\$34.75	Basic Charge (Includes 1st 2,000 gallons)
\$ 3.74/1,000	2,001 – 15,000 Gallons
\$ 4.24/1,000	15,001 – 25,000 Gallons
\$ 5.06/1,000	25,001 – 35,000 Gallons

\$ 6.06/1,000	35,001 – 45,000 Gallons
\$ 7.06/1,000	45,001 – 55,000 Gallons
\$ 8.06/1,000	55,000 + Gallons

District 1-B:

\$13.34	Basic Charge (Includes 1st 2,000 gallons)
\$ 3.74/1,000	2,001 – 12,000 Gallons
\$ 4.24/1,000	12,001 – 22,000 Gallons
\$ 5.06/1,000	22,001 – 32,000 Gallons
\$ 6.06/1,000	32,001 – 42,000 Gallons
\$ 7.06/1,000	42,001 – 52,000 Gallons
\$ 8.06/1,000	52,000 + Gallons

Water rates for residential users in the City are currently \$15.83 for the first 2,000 gallons of water used in a billing cycle and \$3.26 for each 1,000 gallons used over that. The City is exploring switching to an escalated rate scale similar to those employed by the Districts. A water study is currently underway that will determine the actual rates that would be needed to support the entire system and is projected to be presented to City Council in July of 2020.

Wastewater: All the Districts and the City use a four-month average of winter water usage to estimate the monthly wastewater production for a given home. Then, the resident is charged a rate per thousand gallons of wastewater produced. The rates for the Districts and City are as follows:

Districts 1-C through 1-H:

Monthly Minimum Bill:	\$10.70
Charge per 1,000 Gallons:	\$4.90

District 1-B:

Monthly Minimum Bill:	\$8.20
Charge per 1,000 Gallons:	\$3.30

City:

First 2,000 Gallons:	\$9.58
Each Add'l 1,000 Gallons:	\$3.30

**6. What would happen to the fresh water supply districts covering Castle Hills in the event of annexation?**

**Answer:** The Districts would automatically dissolve after annexation by operation of law. Any assets of the Districts would then become the property of the City. Likewise, any debts or obligations of the Districts would become the City's debt and obligations.

**7. After the districts are dissolved, how will Castle Hills residents receive water and wastewater service? Who will maintain and repair the roads?**

**Answer:** If annexation occurs, those municipal services previously provided by the Districts would be provided by the City. Residents would receive water and wastewater service from the City and would be billed directly by the City for those services. The City already provides a large portion of Castle Hills' drinking water and processes the wastewater produced in Castle Hills by way of agreements with the Districts. The remainder of Castle Hills' drinking water is provided by the Upper Trinity Regional Water District, and the City is currently exploring which combination of water suppliers would best serve Castle Hills in the event of annexation.

The City would be responsible for the repair, maintenance and replacement of any roadways within Castle Hills that are not gated. The City has an established roadway repair and maintenance program and is in the process of evaluating the current status of the roadways and other infrastructure in Castle Hills to understand impacts on long range plans prior to annexation.

**8. The Districts currently have a program to pay for half of sidewalk repairs, if a homeowner pays the other half. Who will repair the sidewalks in the event of annexation?**

**Answer:** The City maintains, repairs and replaces all sidewalks located in City easements. Sidewalks not located in a City easement, including the sidewalks leading up to a front door, would be the sole responsibility of the resident.

**9. Who would provide police and fire services in the event of annexation?**

**Answer:** Police and fire fighting services within Castle Hills are already provided by the City pursuant to agreements with the Districts, paid for by the sales tax generated within the commercial properties of Castle Hills. In the event of annexation, the City would provide police and fire fighting services to Castle Hills in the same manner as the rest of the City.

**10. Would trash service remain the same?**

**Answer:** Trash service is currently provided to Castle Hills by Community Waste Disposal through an agreement with the Districts. The City also contracts with a private company, Republic Services, to provide trash collection services to City customers. In the event of annexation, the City would determine whether to contract with Community Waste Disposal, Republic Services, or another company to serve Castle Hills in the event of annexation. The current rates and services are shown below.

	District	City
Pickup Frequency	2x per week	1x per week
Monthly Charge – 1 cart	\$18.45	\$12.62
Monthly Charge – 2 carts	\$24.45	\$18.13
Sr. Discount?	No	Yes (-\$2.52 per month)
Who owns carts?	Resident	Republic
Who owns recycle bins/carts?	CWD	Republic
Charge for repairing carts	\$25.00	None
Charge for new cart?	\$50.00	None **

\*\* Rare occasion to charge for new cart; for example, if a resident used his cart to burn trash. In such a case, a replacement would cost the resident \$71.60.

**11. Who would maintain the parks in Castle Hills in the event of annexation? What about the pools and community centers?**

**Answer:** All parks, pools, and community centers would be operated and maintained by the Castle Hills Master Association. To the extent the Districts have improved or maintained parks, the responsibility to improve or maintain the parks would pass to the Master Association and will be paid for out of Master Association dues. However, any ponds or open spaces that are a part of the storm water drainage system within Castle Hills would pass to the City and become the maintenance responsibility of the City.

**12. Would annexation provide any City services that are not currently available to Castle Hills residents?**

**Answer:** Yes. In the event of annexation, Castle Hills residents would be full voting residents of the City of Lewisville with access to all City facilities and services, including:

- Animal control services
- Library and recreation center access
- City health inspections of restaurants and similar businesses
- Access to City landfill facilities
- Application and enforcement of City ordinances, including noise standards
- Police “beat” presence twenty-four hours per day, 7 days per week

**13. What happens if annexation does not occur?**

**Answer:** If annexation does not occur, the Districts would not be dissolved and would continue to serve Castle Hills with the services traditionally provided by a municipality. However, below is an overview of long term utility and road considerations in such a case:

- Water Service. Castle Hills currently obtains a portion of its drinking water from the City through an agreement with the Districts; the remaining water is provided to Castle Hills by the Upper Trinity Regional Water District through a separate agreement. The agreement

with the City expires in 2032, at which time the Districts would have to locate a new source of water at potentially higher rates, should the City opt not to continue service.

- Wastewater Service. The City currently provides Castle Hills with wastewater treatment service through an agreement with the Districts. The agreement expires in 2026, at which time the Districts would have to locate a new source of wastewater treatment services, at potentially higher rates, or build a wastewater treatment plant, should the City opt not to continue service. There are currently no available tracts in the vicinity of Castle Hills suited for construction of a wastewater treatment plant.
- Police, Fire, and Emergency Medical Services. The City currently provides Castle Hills with emergency services through an agreement with the Districts. This agreement renews annually, so if the City elected not to continue providing these services, Castle Hills would need to locate a new source of police and fire services. Alternatively, the Districts could provide these services, which would involve large capital expenditures and likely increased taxes.
- Utility and Road Facilities. Due to the debt structure used to finance the construction of Castle Hills' roads and utilities, these structures are all owned by the City and are paid for by District tax revenues generated within Castle Hills. It is possible that the Districts would need to acquire these facilities from the City, which may increase taxes in the Districts. Additionally, given the age of the roadways and utilities within Castle Hills, continuing maintenance and repair might require an increase in the Districts' maintenance tax rates.

Upon your approval, this memorandum may be distributed to the Board of Directors of the Districts. Please feel free to contact me with any further questions at (214) 745-5353 or by email at [rmartin@winstead.com](mailto:rmartin@winstead.com).

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