



CITY OF HOUSTON

Sylvester Turner

Mayor

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July 21, 2017

The Honorable Paul Bettencourt, Chair, and the Honorable Members of the Senate Select Committee on Government Reform,

This letter is to convey the City of Houston's strong opposition to Senate Bill 18, which outdoes even proposed statewide revenue caps on cities in its potential to devastate local governments' service quality, financial stability, and quality of life in Houston and across our great state.

SB 18 as filed is flawed from the start. Imposing a one-size-fits-all approach on Texas cities runs directly counter to our state's greatest strength – its expanse and diversity. No one would ever say that Texas is the same from the Red River to the Gulf of Mexico, or from the Big Thicket to Big Bend, but this bill assumes every city in Texas will have the same needs and see its population and economy grow at the same rate as the state average. A quick review of economic data for our different metropolitan areas proves that false.

We strongly encourage the Senate to give appropriate time and thought to proposals that could decimate municipal service delivery and credit ratings, and offer the following problems found with the bill's language during this limited time the city has had to study the proposed legislation.

Indications are that SB18 as filed would undercut the revenue cap already put in place by Houston voters. Providing any fiscal analysis of the bill's impact is difficult, as the Bureau of Labor Statistics does not issue a CPI for Texas. The state comptroller does provide a Texas CPI online, but indications are that the comptroller's number omits food and energy costs, while SB18 suggests the Texas CPI provided by the LBB should include "all items."

We have performed two analyses – one using the federally generated CPI for the Houston area, another using the comptroller's Texas CPI – and found that in either case, the proposed spending cap would have forced City spending below even the levels possible under the existing revenue cap. SB18 is estimated to have cost the City between \$24 million and \$34 million a year from FY2015 through FY2018. The City could have collected these funds; it just couldn't have spent them on public safety, parks and libraries, or any other service.

The CPI doesn't include health insurance, according to the federal Bureau of Labor Statistics, and may not be a good reflector of other things cities must pay for, like pensions, heavy equipment, legal services or chemicals that treat our sewage. But it does include water and sewer charges and sales taxes, so the bill proposes to regulate City expenditures with a statistic influenced by expenditures. We encourage careful analysis of the potential for this to strangle cities slowly.

Cities deliver a variety of important services, and our accounting – arranged for transparency – includes different funds. SB 18 ignores that, and treats hotel occupancy taxes the same as property taxes, airport fees the same as building permit revenue. Some operations – the City's water and sewer systems, airports, convention and tourism functions – are funded with dedicated revenue already limited in its purpose by laws and bond agreements.

Additionally, SB 18 overlooks the fact that governments at all levels – city, county, state, federal – ride economic cycles, responsibly setting aside funds when times are good to provide resources during harder times. Combined with Houston's revenue cap, this legislation would force our city to operate without recognition of economic forces from the local to the international level.

It also appears SB 18 could prevent a City from engaging in major investments to critical infrastructure without voter approval. Proceeds from voter-approved bonds are exempt, but not those from bonds backed by enterprise revenue from utility and airport operations, among others. Cities forced to undertake major utility investments under federal consent decrees could find themselves unable to comply without voter approval, leaving legal confusion if funding is not approved.

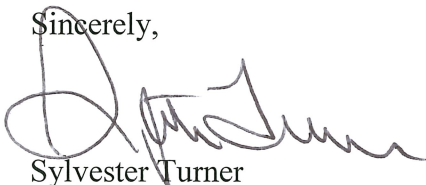
While SB 18 addresses some bond proceeds, it does not speak to debt service. If debt service is part of spending, the bill could easily incentivize cities to backload debt repayment schedules, keeping short-term costs low to invest in services.

From Houston's direct experience, there is no evidence that caps solve problems; there are good reasons to believe caps create problems. Houston's property tax revenue cap has already been cited by credit rating agencies in downgrading the City's credit. The city's revenue cap gives the average homeowner just a few dollars a month, but cost Houston the equivalent of 280 police officers last year.

SB 18 tells Houstonians they can't run Houston, and echoes the same message to voters in every other community across the state. There is fundamental conflict with the longstanding Texan commitment to local control.

If the Legislature wishes to address the problem of rising property taxes, fix school funding. If the Legislature wishes to micromanage municipal finances, run for City Council. But please do not burden mayors and councilmembers of this state with legislation that threatens to choke the life out of our state's many vibrant, thriving and growing communities.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Sylvester Turner', written over a horizontal line.

Sylvester Turner
Mayor, City of Houston