



CITY OF HOUSTON

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Mayor

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April 6th, 2021

The Honorable Morgan Meyer
Chairman, House Ways & Means Committee
Texas House
Austin, Texas 78711-2068

Re: HB 3376

Dear Chairman Meyer,

Over the interim and during the early parts of this session, there has been some confusion regarding the City of Houston's adopted tax rate and the provisions set forth under Senate Bill 2 passed during the 86th Legislative Session. In order to clear up misinformation, the Government Relations team offers the following to set the record straight.

To be clear, Houston **reduced** our tax rate for the 6th time in 7 years. The savings are reported at \$12.16 for the homeowner of a \$200,000 and is projected to raise \$11 million more in total revenue, reflecting an increase of .9%.

The confusion comes from the fact the City of Houston has our own property tax cap. The City of Houston's revenue cap, added to the City Charter by voters in 2004, requires voter approval for increases in ad valorem taxes in future years above a limit equal to the lesser of the actual revenues in the preceding fiscal year, plus 4.5%, or a formula that is based upon the actual revenues received in fiscal year 2005 adjusted for the cumulative combined rates of inflation and the City's population growth.

The City of Houston has a property tax cap that has been in effect since FY 2006 (voter-approved as Proposition 1). In FY 2007, voters approved collecting additional revenues above the cap of \$90 million for police, fire, and emergency medical services (Proposition H).

In establishing a tax rate for FY 2021, the city started with last year's rate. The City calculates the proposed property tax rate after the receipt of the Certified initial roll from Harris County, Fort Bend County, and Montgomery County Appraisal District. The property tax rate calculations includes numerous variables and assumptions, a couple of variables including current year collection rate, Tax Increment Reinvestment Zone transfer, and delinquent tax year collections. Since the City must comply with Proposition 1 revenue cap, the total property tax revenue is a known factor in the property tax rate setting process.

After applying the city’s own revenue cap tax rate, the rate was applied to the calculations laid out in Senate Bill 2. The Chart below depicts the City of Houston calculations based on the various tax rates and the impact to the Budgeted/Proposition 1 Revenue Cap.

The key lines include the Voter Approval Rate (VAR) at 3.5% and at 8% and revenue collected under each in comparison to the Current Rate of .56792.

Tax Rate Comparison	Tax Rate (\$ per \$100 valuation)	Property Tax Revenue (\$ Thousands)	Variance from FY21 Budget (\$ Thousands)
Current Rate	0.56792	\$ 1,246,658	\$ 13,267
Voter Approval Rate - 8%	0.562174	\$ 1,234,130	\$ 739
Prop 1/Proposed Rate	0.56184	\$ 1,233,391	\$ -
No-New Revenue Tax Rate	0.549742	\$ 1,207,025	\$ (26,366)
Voter Approval Rate - 3.5%	0.544532	\$ 1,195,666	\$ (37,725)

So to be clear, the Voter Approval Rate with a 3.5% cap would yield almost \$38 million in less revenue for the City of Houston. Using the 8% calculation would yield Houston with less than \$1 million over the Revenue Cap.

The reason these numbers are more complicated to calculate are because of Houston’s own revenue cap.

- Members of the Texas House of Representatives unanimously adopted an amendment that would have eliminated this duplicitous situation by making Senate Bill 2 a uniform statewide property tax policy.

When the Conference Committee failed to adopt this amendment, Houston was forced to comply with both property tax caps - a situation not anticipated in either statute. Houston did not use “a loophole” in Senate Bill 2 (which capped revenue growth up to 3.5%) to land at a rate raising less than 1% higher than last year’s.

Loopholes are made to avoid consequences; Houston has endured both restrictions.

We hope the calculations laid out in this letter dispel any of the misconceptions about Houston’s lower tax rate.

As such, we would respectfully ask that any city with an additional revenue cap that is more restrictive than the parameters laid out from Senate Bill 2 be exempted from the requirements of House Bill 3376.

Sincerely,

Bill Kelly
 Director of Government Relations, Mayor’s Office – City of Houston