



CITY OF HOUSTON

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The Honorable Paul Bettencourt
Chairman, Senate Committee on Local Government
P.O. Box 2910
Austin, TX 78768

Dear Senators,

We urge you to preserve the amendments added to HB 1869 in the House. As filed, HB 1869 amends the definition of “debt” in the Tax Code in a dangerous manner which would be harmful to local governments as they seek to provide critical services to their constituents. The bill would modify the definition of “debt” for purposes of the debt service tax rate calculation to only include debt approved at an election. Thus, non-voted debt obligations that are secured by property tax—such as certificates of obligation--would need to be paid through the maintenance & operations portion of a local government’s property tax rate.

Additionally, debt refinancing is generally not voted upon. HB 1869 would appear to funnel the debt service on refunding bonds away from the debt service tax rate into the maintenance & operations tax rate. As this committee is aware, the 86th Legislature capped the maintenance & operations tax rate at 3.5% through the enactment of Senate Bill 2. Refunding bonds are issued by the City of Houston (the “City”) primarily for two purposes: to refinance existing debt at a lower cost and to reduce the City’s exposure to variable rate debt issued in the form of commercial paper. Both of these purposes ultimately benefit City residents. Higher interest rate costs have the effect of increased costs of services for City residents and prevent the City from adequately funding critical services such as public safety and capital improvements.

Certificates of obligation give local governments the flexibility to respond quickly and nimbly to ongoing challenges to benefit their constituents. If HB 1869 is passed in its filed form, local governments could only use this debt alternative if they were able to finance the expenditures through their maintenance and operations revenue. Senate Bill 2 already limited this component of the tax rate.

Certificates of obligation authorize a local government to provide a variety of public services. Specifically, the City has used certificates of obligation to demolish dangerous buildings. Passage of HB 1869 would strip the City of this agility, if needing to wait for approval for this critical function at one of the two uniform election dates.

Adopting the filed version of HB 1869 would make it impossible for City officials to finance the City's operations in an efficient and financially responsible manner. Ultimately, it would be the taxpayer who is harmed. For the above-mentioned reasons, we respectfully request this committee to preserve the amendments added to HB 1869 in the House.

Sincerely,

Bill Kelly
Director of Government Relations