CITY OF HOUSTON

Sylvester Turner
Mayor

P.O. Box 1562
Houston, Texas 77251-1562

Telephone – Dial 311
www.houstontx.gov

July 24, 2017

The Honorable Members of the House Committee on Ways and Means:

While many Texas cities are expressing concern about the potential impacts of House Bill 4 on public safety and economic development, the City of Houston may be the only municipality able to speak from experience about the detrimental effects of revenue caps. It is for this reason we oppose HB 4.

As Mayor, I would like to share our unique perspective on the impact of a revenue cap similar to the one proposed in HB 4, and would also like to point out this approach is viewed negatively by the agencies that rate our credit. Drawing from our experience, we believe there is reason for extreme caution in further limiting the ability of cities to fund essential and necessary services.

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.

As a result of these changes, Houston's tax rate for the 2017 fiscal year is 5 cents lower than the 2014 rate and the lowest it's been since 1987. The City estimates the cap has resulted in more than $396.6 million in lost revenue since 2014, when the cap's impact was first felt.

Just in the most recent year, the City estimates that property tax revenue was reduced by $29.5 million, enough to fund a year's worth of salaries, special pay and benefits for 280 police officers. Houston's current total of approximately 5,200 officers is well below what we need to keep our community safe. And when viewed in context, it hardly seems worth the savings:

- From 2017 to 2018, we expect the cap to yield savings of approximately $32.44 for the average Houston homeowner, which translates to $2.70 a month.

As the average Houstonian enjoys little benefit from the revenue cap, the community pays the price of 280 fewer police on the street.

- Over the four years the revenue cap has shown an impact, we estimate that the owner of the average Houston homestead has saved $346.27. That's about $7.21 a month.

This approach doesn't just cost us in terms of critical services like public safety and police protection. It has harmed the City of Houston's credit, an outcome suggested nearly a decade ago by Standard & Poor's in a report that asked whether property tax caps were an "unnecessary fix" and cited analysis that found "caps on tax rate hikes and appraisal increases … could cause more harm than good."

More recent correspondence from rating agencies supports this perspective. When Moody's Investors Service downgraded the City's general obligation debt in March 2016, the property tax cap was one of four contributing factors along with decreases in oil prices, high fixed costs, and large unfunded pension liabilities. Similar concerns were raised by Standard & Poor's in downgrading the City's rating around the same time, as S&P laid out the need for pension reform and encouraged lifting of the revenue cap:

"Over the long term, we believe any modifications to existing charter-imposed revenue-raising limitations that reduces the amount of lost property tax revenue could provide additional credit strength."

Moody's was more explicit, listing four factors that could lead to an upgrade: a stabilized economy with a return to strong growth, a sustainable plan for managing pension liabilities and achieving structural budget balance, increased financial reserves, and "removal of revenue cap, providing city with flexibility to capture growth in assessed values."

Houston continues working to improve our situation by addressing the factors we can influence or control. We are developing a long-range financial plan that will chart a path to structural budget balance, where expenditures are equal to or less than revenues. Thanks to the Legislature, we have passed pension reform that is to reduce the City's liability and limit long-term pension costs.

But while we work to implement financial reforms recommended by the ratings agencies, HB 4 holds the potential for making our task more difficult. In two of the past four years, the requirements of HB 4 would have forced the City of Houston to reduce its property tax rate below even the rate required by the locally adopted revenue cap. This means the City would have been compelled to cut taxes beyond levels that already generate concern among those who gauge our creditworthiness.

We ask that this committee and the Texas Legislature consider these effects – lower credit ratings, higher borrowing costs, and reduced revenue for public safety – and question whether Mayors and City Councils should be making these local decisions for their communities. The Houston experience shows the consequences of what this policy means locally.

Sincerely,

Sylvester Turner
Mayor