



# Finance Department

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## Budget and Fiscal Affairs City of Houston Revenue Cap

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# Proposition 1 + H

## Local Revenue Cap Limitation

### Background:

- Local Property Tax Revenue Cap:
  - Prop. 1 enacted by voters in 2004, limits the City's property tax revenues to the lower of:
    - The prior year's cap plus population and inflation growth or
    - The prior year's revenues plus 4.5%.
  - Prop. H enacted by voters in 2006 permits for the addition of \$90 million to any base used to calculate revenue limitations for public safety purposes.



# Texas Tax Code State Revenue Limitations

## Background:

- Senate Bill 2 (SB2) enacted by the 86<sup>th</sup> Legislature in 2019
- Renamed various terms, created a transparency database, reduced the number of required public hearings, and expedited the timeline for tax rate adoption.
- The most impactful changes related to further limiting the tax rate:
  - Reduction in rate related to property value subject to an appeal
  - Reduction in rate due to changing multiplier from 8% to 3.5%



# Texas Tax Code

## State Revenue Limitations

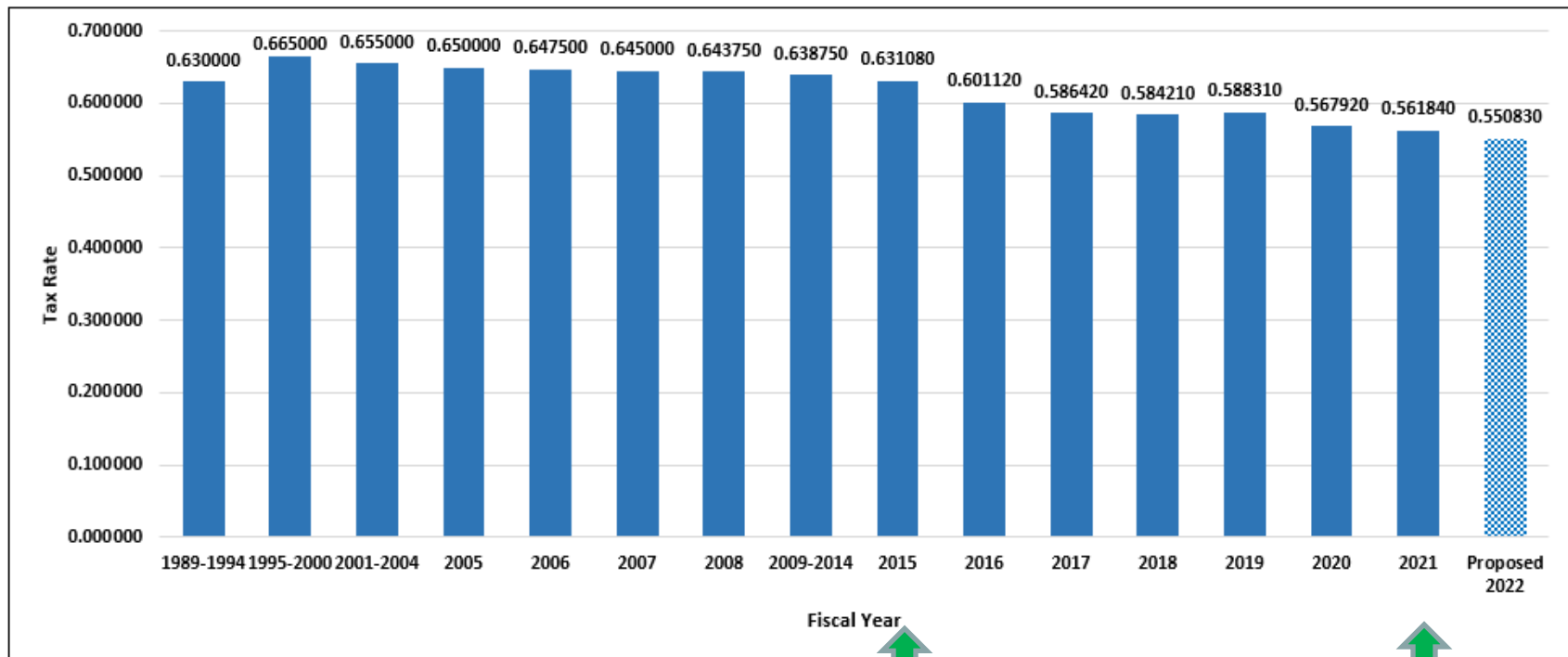
### Background:

- No-New-Revenue Tax Rate (NNR)
  - Tax rate enables the public to evaluate the relationship between taxes for the prior year and for the current year based on a tax rate that would produce the same amount of taxes if applied to the same properties that are taxed in both years.
- Voter-Approval Tax Rate (VAR)
  - Maximum rate allowed by law without voter approval. Calculation splits the tax rate into two separate components - a maintenance and operations (M&O) rate and a debt service rate
    - Debt Service Rate equals the rate necessary to make debt service payments
    - M&O Rate equals the prior year's M&O revenues plus 3.5% (or 8% in the case of a disaster)



# Historical Property Tax Rates

- Fiscal Year 2015 was the first year that the City was impacted by Prop 1 + H and Fiscal Year 2021 was the first year that the City was impacted by the SB2 cap, which has resulted in the year over year lowering of the property tax rate.



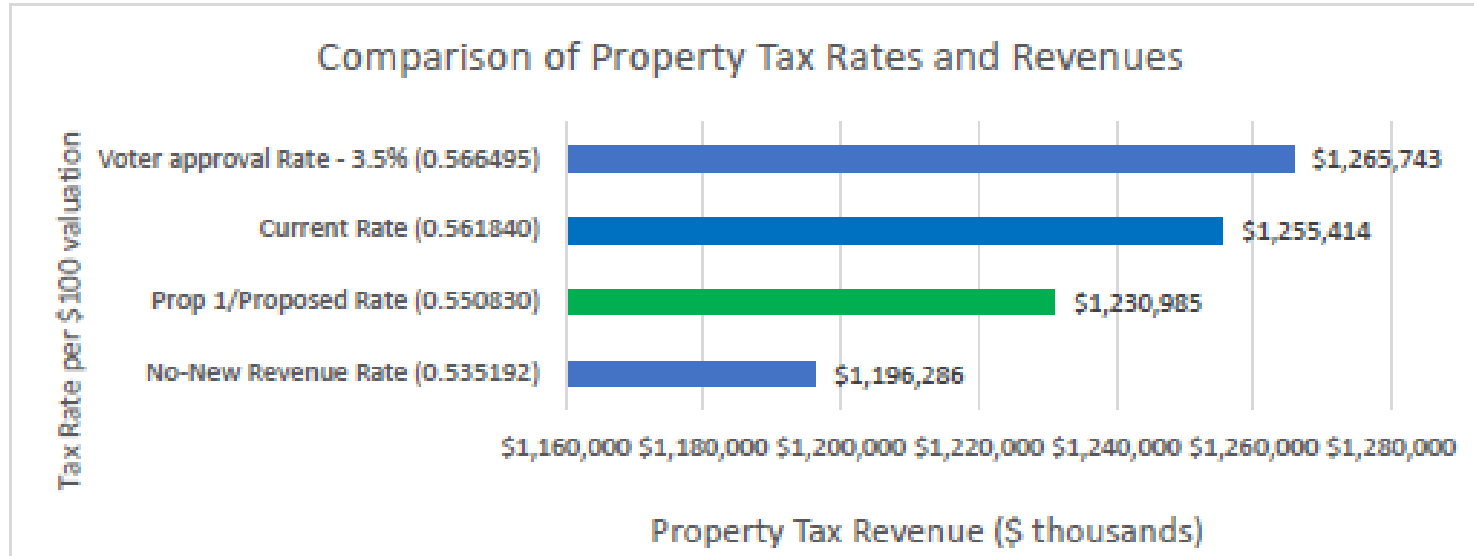
Prop 1 + H



SB2



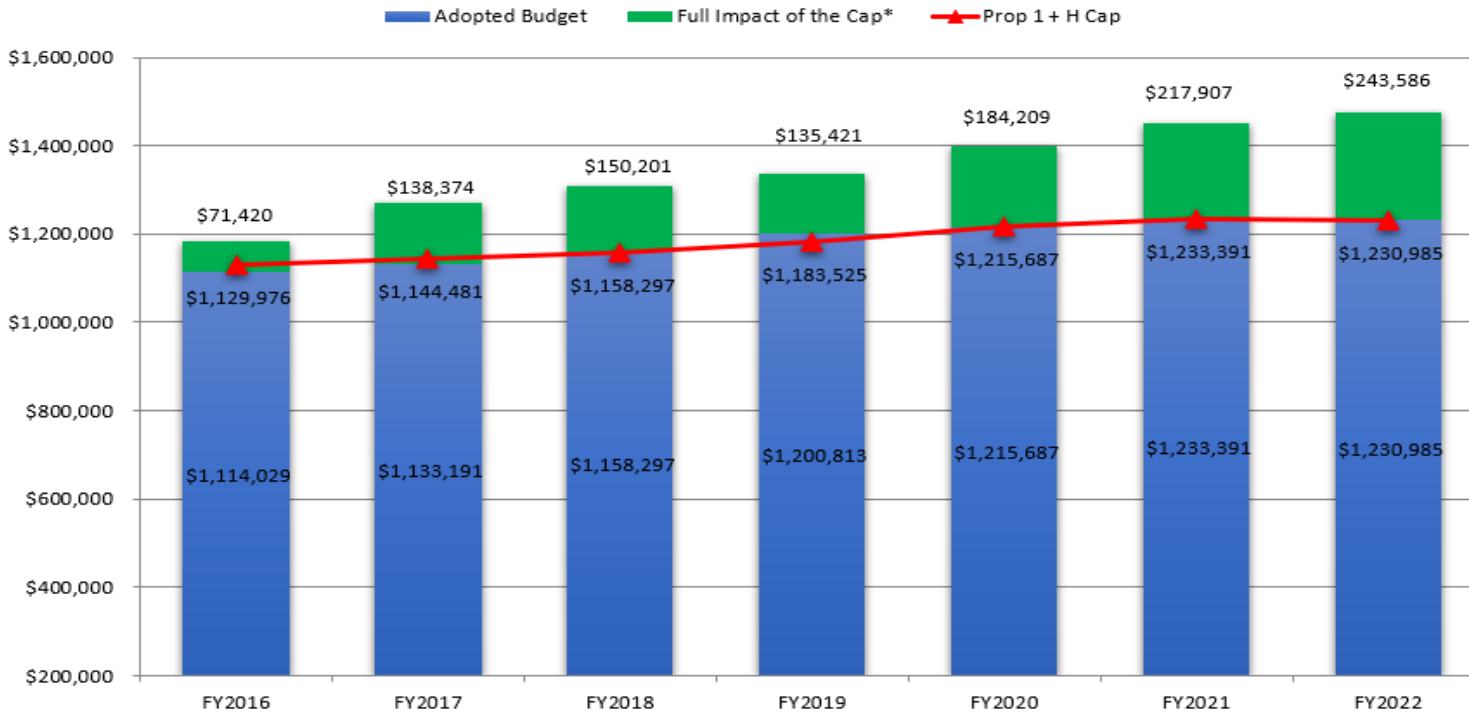
# Tax Year 2021/Fiscal Year 2022 Proposed Rates



Tax Rate Comparison	Tax Rate (\$ per \$100 valuation)	Property Tax Revenue (\$ Thousands)	Variance from FY22 Budget (\$ Thousands)
Voter Approval Rate - 3.5%	0.566495	\$ 1,265,743	\$ 34,758
Current Rate	0.561840	\$ 1,255,414	\$ 24,429
<b>Prop 1/Proposed Rate</b>	<b>0.550830</b>	<b>\$ 1,230,985</b>	<b>\$ -</b>
No-New Revenue Tax Rate	0.535192	\$ 1,196,286	\$ (34,699)



# Adopted Budget vs. Charter Cap



Property Tax Revenue	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
Adopted Budget	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985
Prop 1 + H Cap	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,183,525	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985
Full Impact of the Cap*	\$ 71,420	\$ 138,374	\$ 150,201	\$ 135,421	\$ 184,209	\$ 217,907	\$ 243,586

- Since FY2015, the full impact of the property tax revenue cap is estimated at \$1.16 billion.
- Calculation of the Full Impact of the Cap is based on the FY2014 tax rate of 63.875 cents per \$100 of assessed valuation.



# Timeline – Subject to Change

- July 25 Receipt of certified estimate.
- July 28 RCA#1 - City Council Meeting to submit the appraisal roll, certify the anticipated collection rate, and appoint the designated officers.
- Aug 4 RCA#2 - City Council Meeting to submit the no-new-revenue and voter-approval rates.
- Aug 16 Receipt of certified roll.
- Sept 8 RCA#3 - City Council Meeting to propose tax rate and submit no-new-revenue and voter-approval rates and set hearing date for Sept 22.
- Sept 10 Notice in Houston Chronicle, HTV and City website
- Sept 22 Public Hearing on tax rate; continue supplemental notices and RCA#4 - City Council Meeting to adopt tax rate
- Oct 15 Deadline to adopt tax rate





Questions?