



CITY OF HOUSTON

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The Honorable Morgan Meyer
Chair, House Committee on Ways & Means
Texas House of Representatives
P.O. Box 2910
Austin, Texas 78768

Dear Chairman Meyer,

The City of Houston appreciates the opportunity to provide testimony on **H.B. 19**, which would radically curtail home-rule municipalities' abilities to issue new debt to finance critical public projects and remove the necessary flexibility cities need to calculate the tax rate. Specifically, the bill would prohibit a city from authorizing additional debt if the resulting annual debt service exceeds 20 percent of the average of property tax collections for the three preceding fiscal years. Further, H.B. 19 creates confusion as to whether cities may continue to use important financing tools such as variable rate debt or early payments once cities will be forced to calculate a firm "minimum dollar" amount of debt service at the time of their tax rate adoption. Finally, the bill's repeal of certain provisions under Chapter 26 of the Tax Code would appear to eliminate uses of debt for necessary services on city buildings and facilities and to acquire vehicles and equipment.

Prohibition of "additional debt"

Houston is unique among all Texas cities because it is subject to a local annual property tax cap under its charter. This property tax cap limits how much the City may increase tax revenues each year by the lower of either (1) the combined rates of CPI and population growth or (2) 4.5 percent. In addition, Houston has the highest population in the state and the fourth-highest population in the U.S. To serve this population, while under a self-imposed property tax cap, Houston necessarily must issue debt to finance public improvement projects, including projects to support public safety, parks, and libraries. Houston further relies on debt backed by ad valorem taxes to secure its short-term commercial paper notes, a portion of its pension programs, and certificates of obligation. Presently, Houston's annual debt service would far exceed 20 percent of the average of its property tax collections for the preceding three fiscal years. This means H.B. 19 would stop Houston from issuing any additional debt to finance public projects until the City pays off enough principal and interest on its current debt to go below the 20 percent threshold.

In addition, H.B. 19 fails to define what "additional debt" means. Therefore, cities do not know if the bill would prohibit issuances of debt for new money or to refund existing debt or both.

“Minimum dollar” amount to be paid for debt from property tax revenue

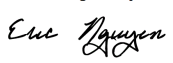
H.B. 19 would require cities to calculate the minimum dollar amount required to pay their debt from property taxes before they may adopt a tax rate. This requirement forces cities to calculate a fixed amount at a moment in time and months before they may know if important factors such as internal financing needs, the economy, market forces, or interest rates may change and require different financing strategies. Further, the bill creates uncertainty about whether cities may continue to use variable rate debt or short-term notes. In addition, cities periodically review their debt program and pay off eligible debt early to generate debt service savings. H.B. 19 would call into question the use of variable rate debt and the flexibility of cities to adjust their debt service payment throughout the year.

Repeal of Tax Code provisions relating to uses of debt

Chapter 26 of the Tax Code defines “debt” to include a list of uses, of which taxing units may pay debt service from property tax revenue. H.B. 19 would repeal the provisions stating that debt may be issued for designated infrastructure; renovating, improving, or equipping existing buildings or facilities; and for vehicles or equipment. Like other cities, Houston has issued debt for renovating, improving or equipping public property and to finance acquisitions of vehicles or equipment to defray the burden on the maintenance and operation component of the tax rate. The elimination of these uses under the Tax Code would push the cost to the maintenance and operation tax rate at the expense of providing critical services to the public.

For the above reasons, Houston values this opportunity to raise its opposition to H.B. 19.

Respectfully submitted,

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