



Finance Department

Budget and Fiscal Affairs City of Houston Revenue Cap

Presented By:

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Finance Department
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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.



Proposition 1 + H

Local Revenue Cap

- FY2025 Calculation: FOR ILLUSTRATIVE PURPOSES ONLY*: (thousands)
- The lesser of:
 - Prior year's cap plus population and inflation growth
 - FY24 Prop 1 Cap = \$1,286,668
 - 2023 Inflation (CPI) = 3.46%
 - 7/1/2023 Population Estimate = 0.49% TOTAL = 3.95%
 - CALC: $\$1,286,668 * (1 + 3.95\%) = \$1,337,475$
 - Prop H: $\$1,337,475 + \$90,000 = \mathbf{\$1,427,475}$
 - Prior year's revenues plus 4.5%
 - FY24 Actual Revenues = \$1,376,668
 - CALC: $\$1,376,668 * (1 + 4.5\%) = \$1,438,618$
 - Prop H: $\$1,438,618 + \$67,129^{**} = 1,505,747$

* Actual figures differ due to rounding.

** The \$90 million must be adjusted each year based on "usage"



Texas Tax Code State Revenue Limitations

Background:

- Senate Bill 2 (SB2) enacted by the 86th 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

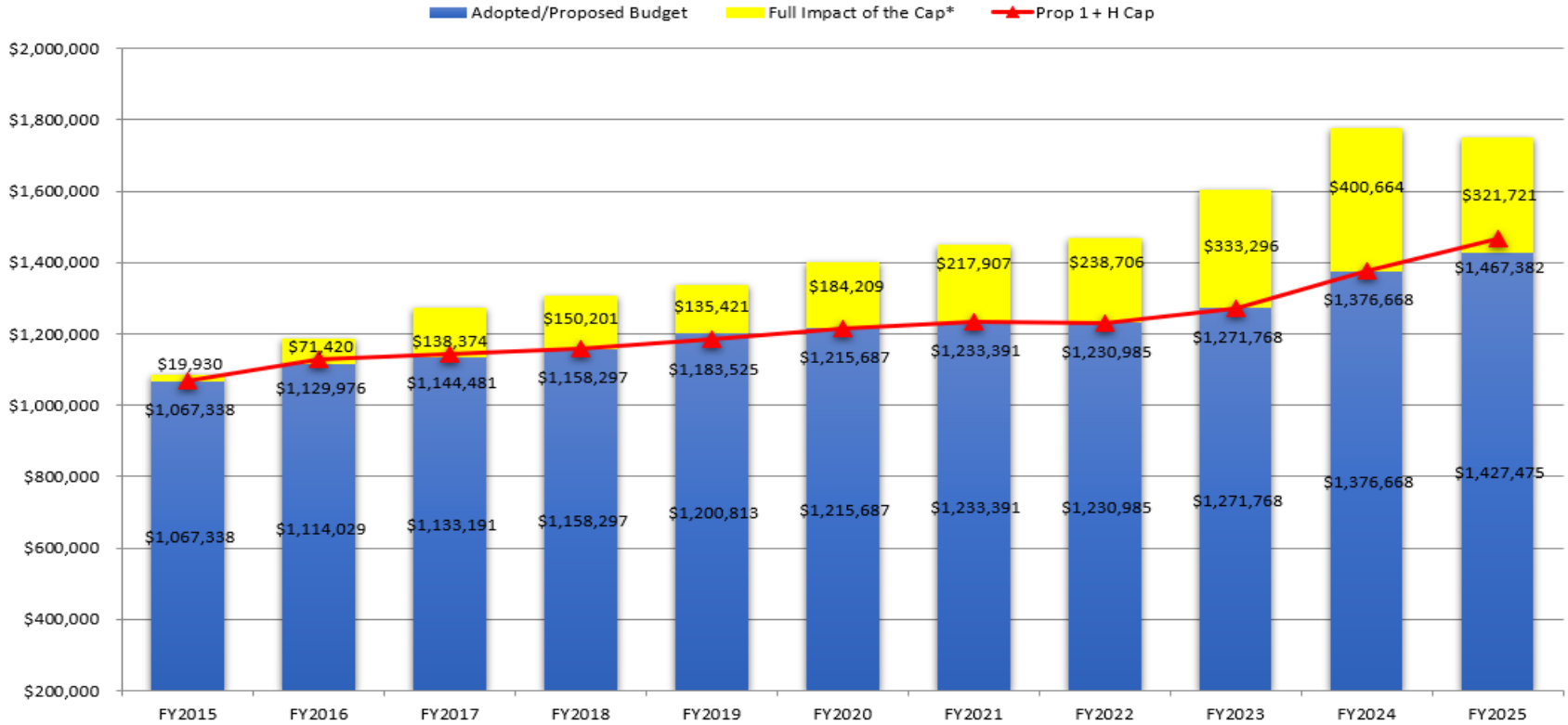
State Revenue Limitations

Background:

- **No-New-Revenue Tax Rate (NNR)**
 - Enables the public to evaluate the relationship between taxes for the prior year and 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:** rate necessary to make debt service payments
 - **M&O Rate:** prior year's M&O revenues plus 3.5% (or 8% in the case of a disaster)



Adopted Budget vs. Charter Cap



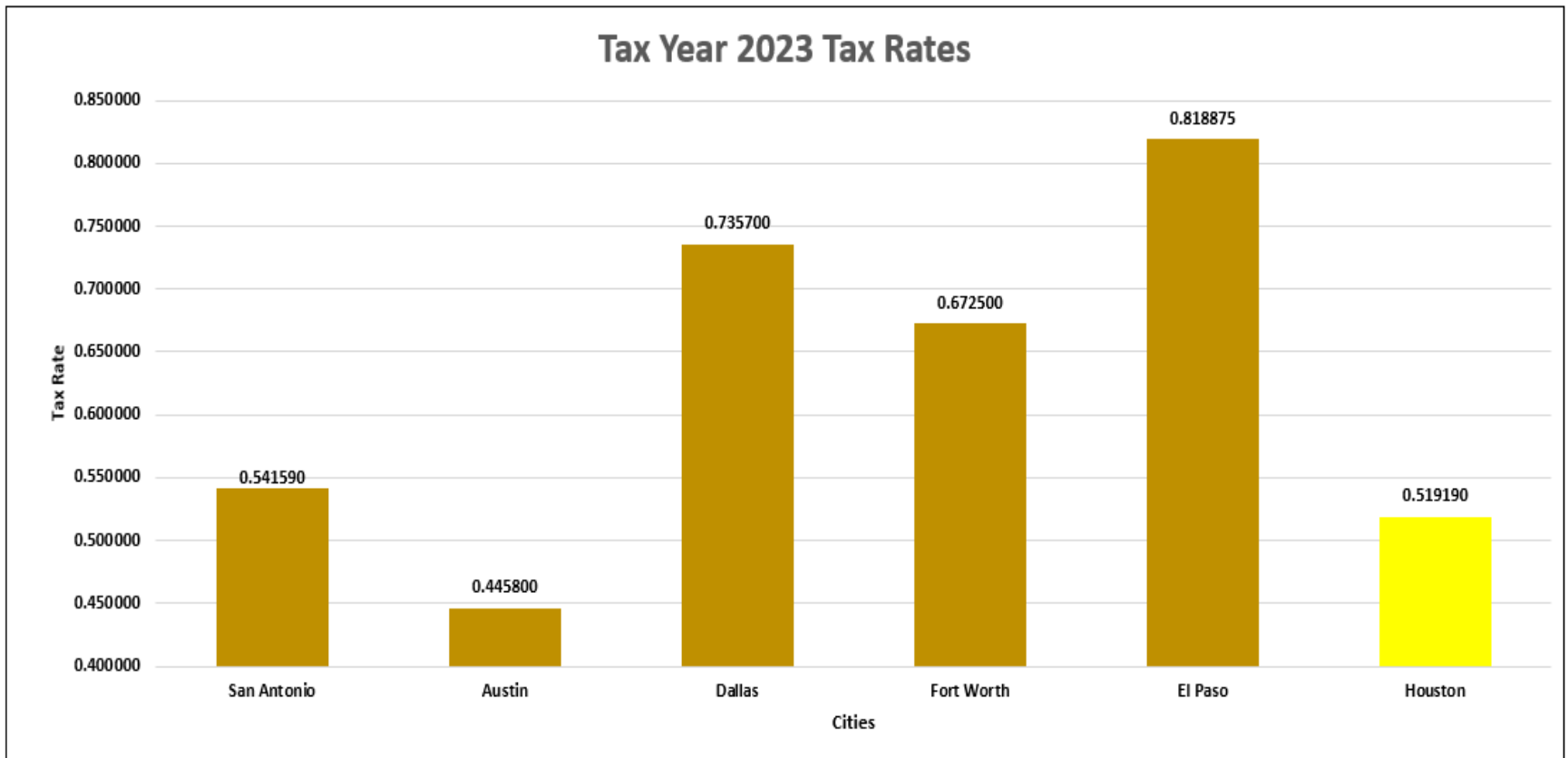
Property Tax Revenue	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Adopted/Proposed Budget	\$ 1,067,338	\$ 1,114,029	\$ 1,133,191	\$ 1,158,297	\$ 1,200,813	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985	\$ 1,271,768	\$ 1,376,668	\$ 1,427,475
Prop 1 + H Cap	\$ 1,067,338	\$ 1,129,976	\$ 1,144,481	\$ 1,158,297	\$ 1,183,525	\$ 1,215,687	\$ 1,233,391	\$ 1,230,985	\$ 1,271,768	\$ 1,376,668	\$ 1,467,382
Full Impact of the Cap*	\$ 19,930	\$ 71,420	\$ 138,374	\$ 150,201	\$ 135,421	\$ 184,209	\$ 217,907	\$ 238,706	\$ 333,296	\$ 400,664	\$ 321,721

- Since FY2015, the full impact of the property tax revenue cap is estimated at \$2.2 billion.



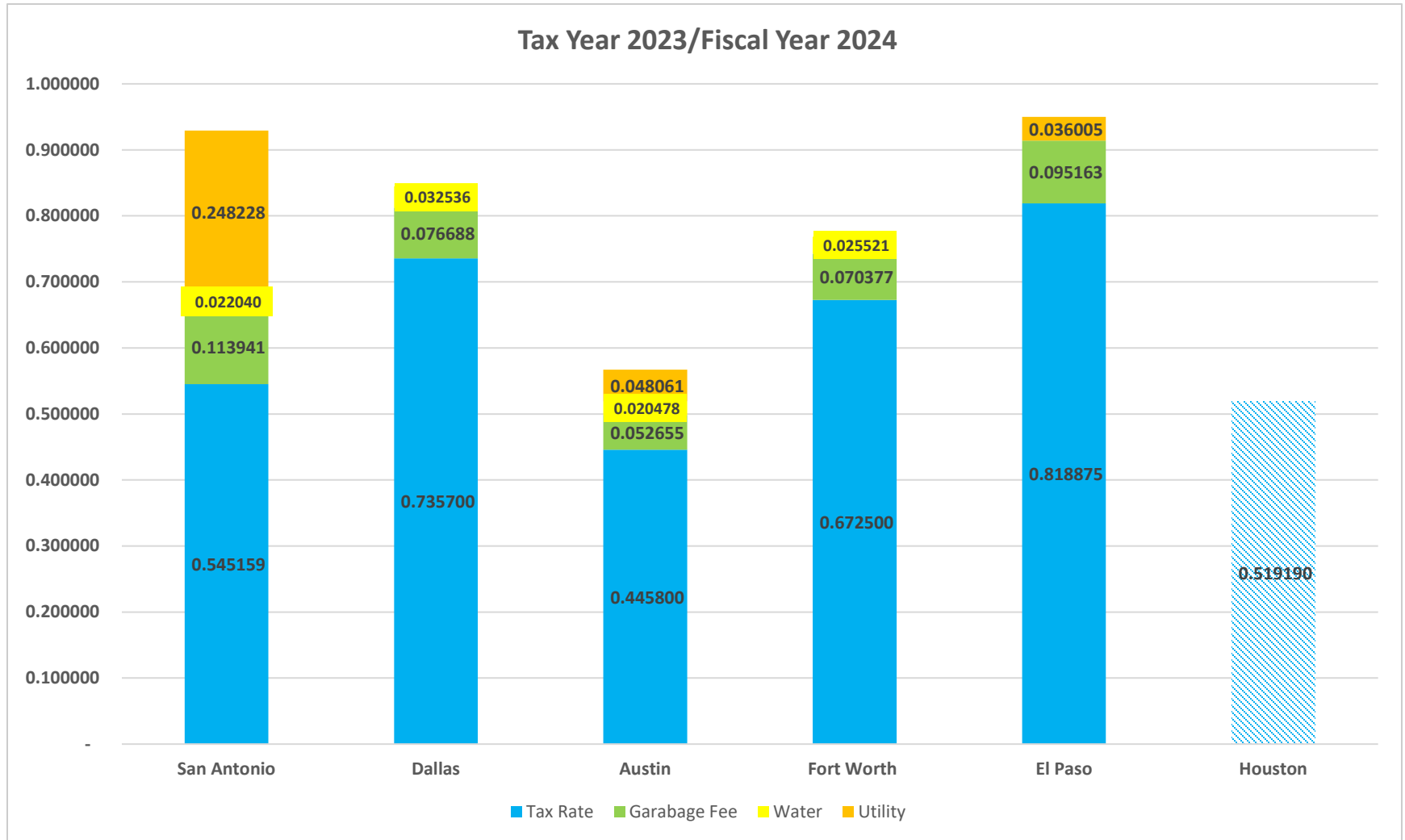
Property Tax Rate Comparison

- The City of Houston property tax rate is lower compared to other major Texas cities.



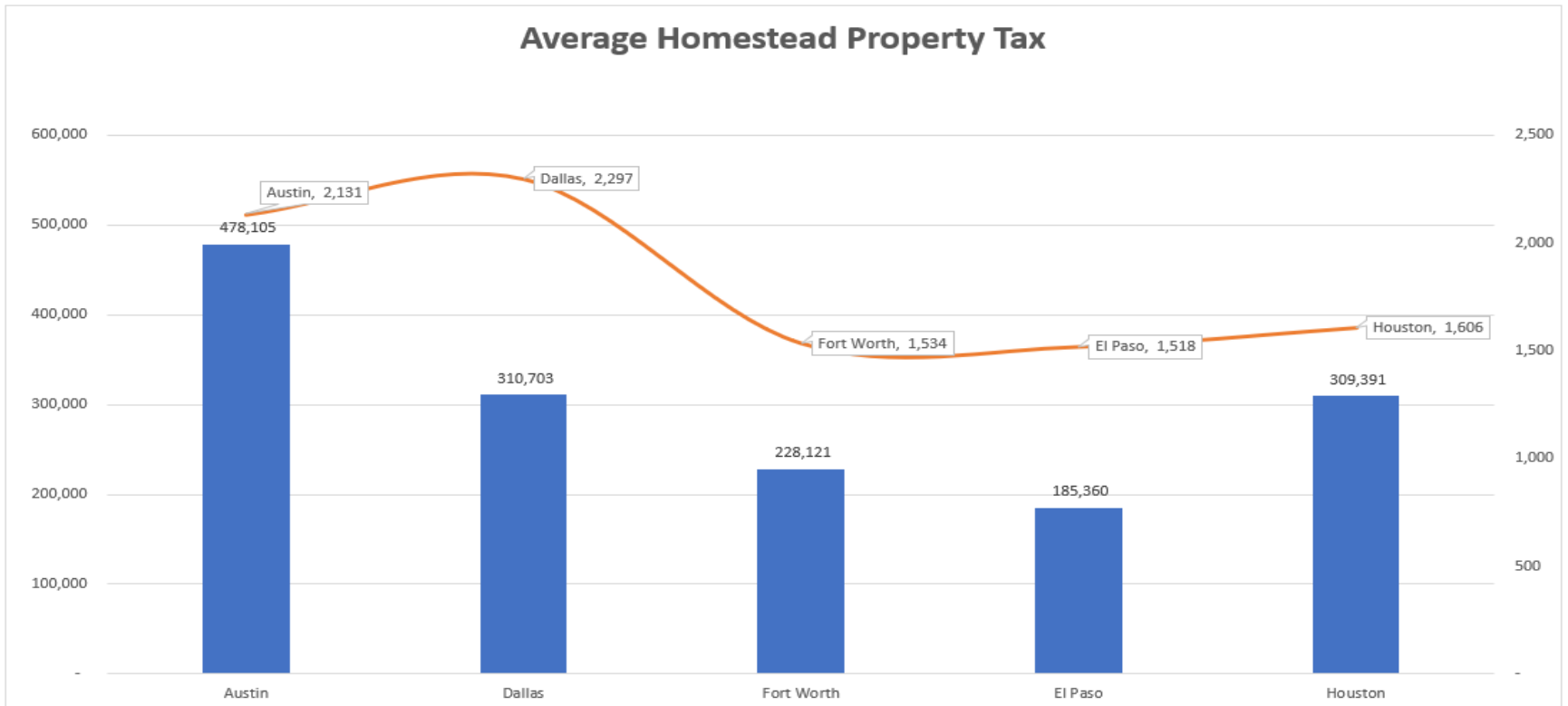


Tax and Fee Comparison





Average Homestead Property Tax Comparison



City	Austin	Dallas	Fort Worth	El Paso	Houston
Average Homestead Taxable Value	478,105	310,703	228,121	185,360	309,391
Adopted Tax Rate	44.580	73.570	67.250	81.888	51.919
Tax Bill @ Current Tax Year Rate	\$ 2,131	\$ 2,297	\$ 1,534	\$ 1,518	\$ 1,606



Derecho and Beryl Estimated Expenses

- Based on the preliminary estimate the City would need to increase the tax rate to collect the allowable Prop 1 + H amount. Tax Year 2024 taxable value is 3.85% over prior year.
- Prop 1 annual increases does not apply to additional revenues necessitated by disaster related expenses.
 - Local Share of Derecho and Beryl expenditures estimates are approximately \$39.9 million.



Derecho and Beryl Estimated Expenses Cont.

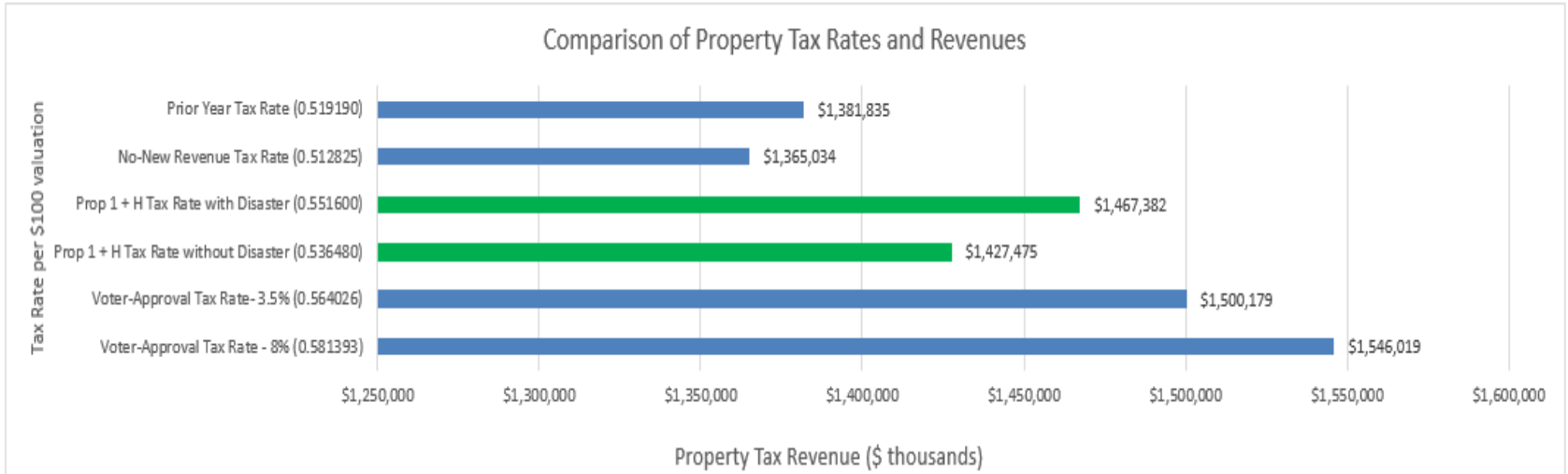
Preliminary Cost Estimate as of August 2024

	Total Estimate	General Fund Portion	Local Share of General Fund Portion (25%)
Derecho			
Debris Removal (A)	\$ 35,505,085	\$ 35,505,085	\$ 8,876,271
Emergency Protective Measures (B)	\$ 2,976,827	\$ 1,076,827	\$ 269,207
Roads/Bridges (C)	\$ -	\$ -	\$ -
Buildings/Equipment (E)	\$ 4,998,144	\$ 4,845,291	\$ 1,211,323
Utilities (F)	\$ 259,756	\$ -	\$ -
Parks, Recreational, and Other (G)	\$ 150,000	\$ 150,000	\$ 37,500
Derecho Total	\$ 43,889,812	\$ 41,577,203	\$ 10,394,301
Beryl			
Debris Removal (A)	\$ 95,292,464	\$ 95,292,464	\$ 23,823,116
Emergency Protective Measures (B)	\$ 32,285,175	\$ 19,835,629	\$ 4,958,907
Roads/Bridges (C)	\$ 8,827,100	\$ -	\$ -
Buildings/Equipment (E)	\$ 3,338,403	\$ 1,819,348	\$ 454,837
Utilities (F)	\$ 8,995,776	\$ 102,000	\$ 25,500
Parks, Recreational, and Other (G)	\$ 18,000,000	\$ 1,000,000	\$ 250,000
Beryl Total	\$ 166,738,918	\$ 118,049,441	\$ 29,512,360
Total Disaster	\$ 210,628,730	\$ 159,626,644	\$ 39,906,661

Note: Data estimates are based on a combined effort between OEM and Finance in collaboration with departments. Estimates are based on the best available data as of the Damage Inventory (DI) submission request deadline of August 9, 2024.



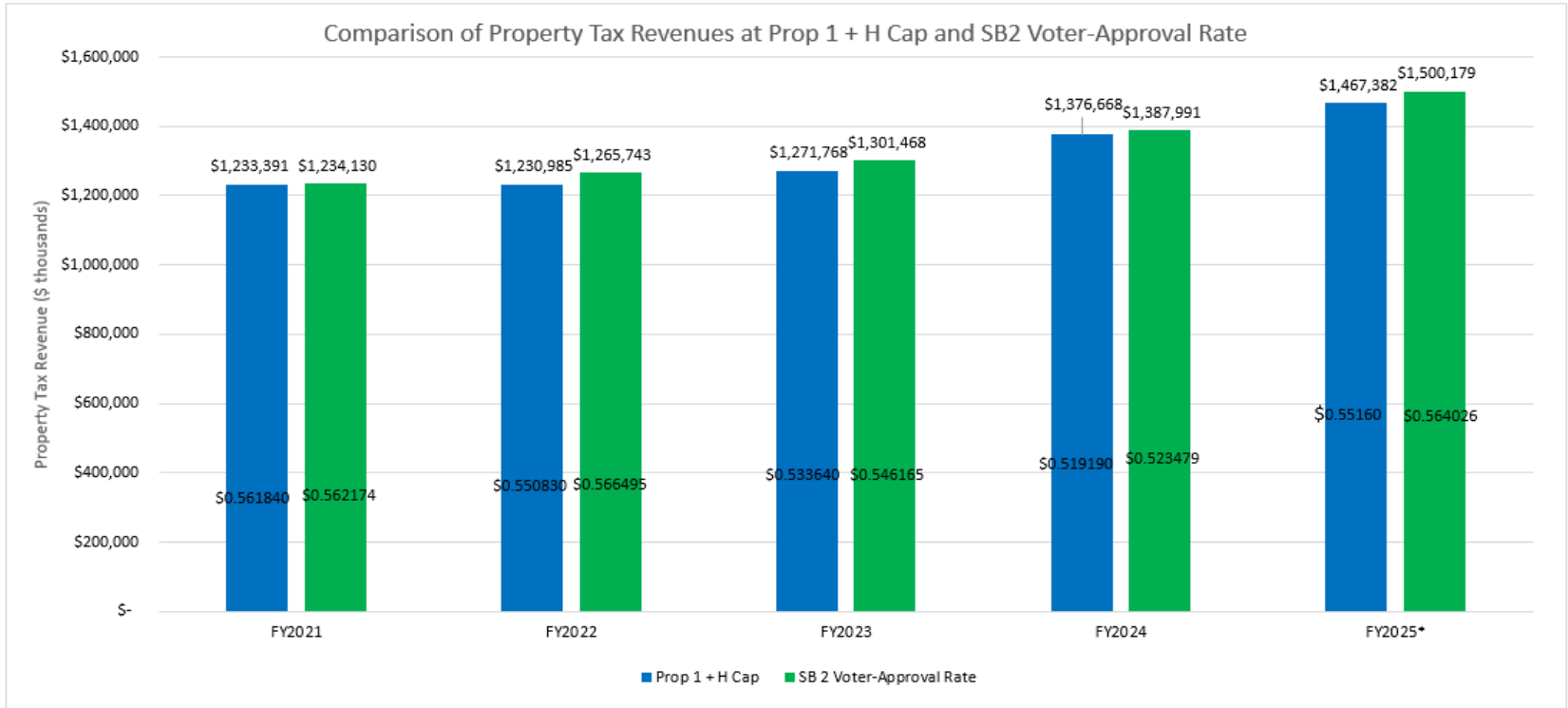
Tax Year 2024/Fiscal Year 2025 Preliminary Tax Rates



Tax Rate Comparison	Tax Rate (\$ per \$100 valuation)	Property Tax Revenue (\$ Thousands)	Variance from FY25 Budget (\$ Thousands)
Prior Year Tax Rate	0.519190	\$ 1,381,835	\$ (45,640)
No-New Revenue Tax Rate	0.512825	\$ 1,365,034	\$ (62,441)
Prop 1 + H Tax Rate with Disaster	0.551600	\$ 1,467,382	\$ 39,907
Prop 1 + H Tax Rate without Disaster	0.536480	\$ 1,427,475	\$ -
Voter-Approval Tax Rate	0.564026	\$ 1,500,179	\$ 72,704
Voter-Approval Tax Rate - 8%	0.581393	\$ 1,546,019	\$ 118,544



Property Tax Revenues at Prop 1 + H Cap and SB2 Voter-Approval Rate

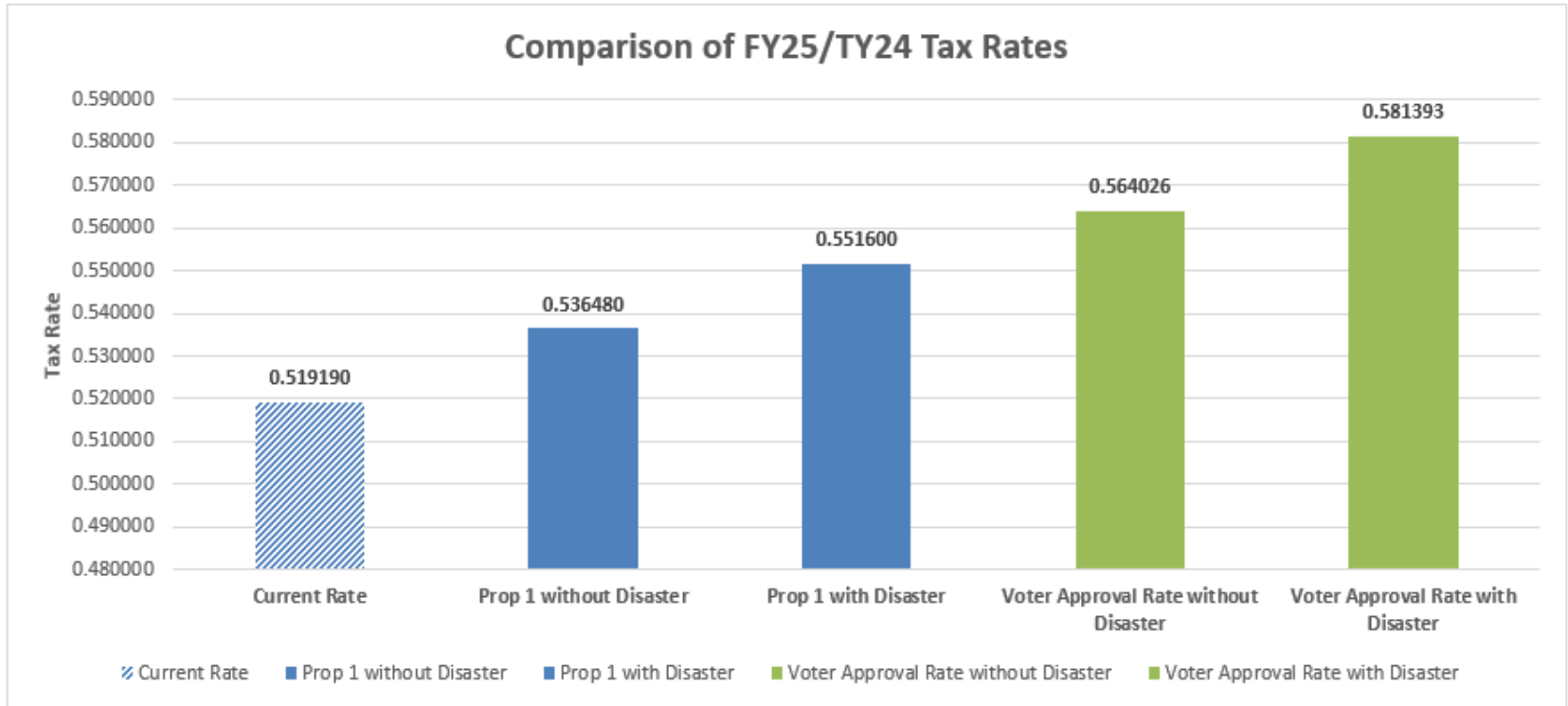


Property Tax Revenue	FY2021	FY2022	FY2023	FY2024	FY2025*
Prop 1 + H Cap	\$ 1,233,391	\$ 1,230,985	\$ 1,271,768	\$ 1,376,668	\$ 1,467,382
SB 2 Voter-Approval Rate	\$ 1,234,130	\$ 1,265,743	\$ 1,301,468	\$ 1,387,991	\$ 1,500,179
Variance from Proposed Revenue	\$ (739)	\$ (34,758)	\$ (29,700)	\$ (11,323)	\$ (32,797)

*FY2025 contains preliminary figures.



Preliminary Tax Rates



FY25 Tax Rates	Tax Rate
Current Rate	0.519190
Prop 1 without Disaster	0.536480
Prop 1 with Disaster	0.551600
Voter Approval Rate without Disaster	0.564026
Voter Approval Rate with Disaster	0.581393



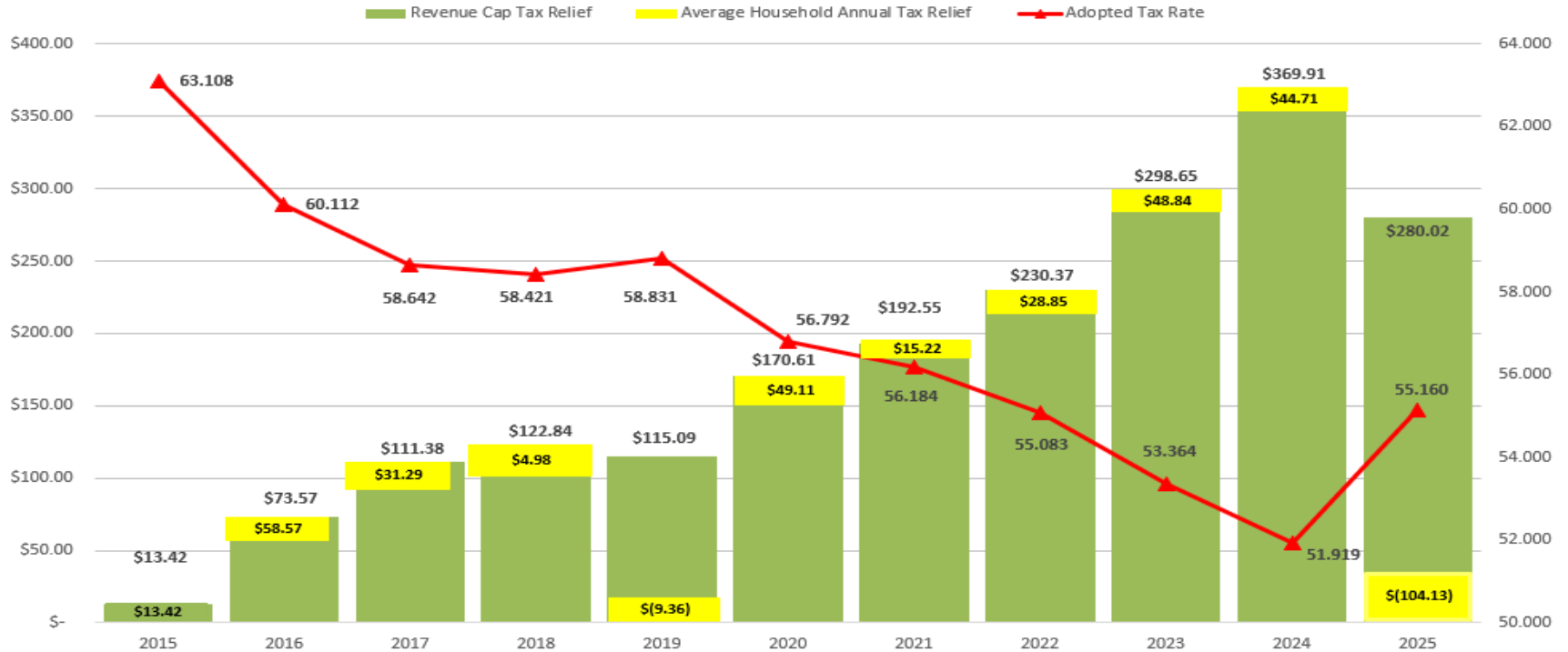
Budgetary Impact

Options to Cover Shortfall and Disaster Costs

	Change from Current Rate	Tax Rate	\$ vs. Budget	Expenditure Cut Needed	Notes
A	-	0.519190	(\$46M)	\$86M	Cut needed to cover shortfall and 25% of disasters
B	1.7 cents	0.536480	-	\$40M	Cut needed to cover 25% of disasters
C	3.2 cents	0.551600	\$40M	-	No cuts needed in FY25, sufficient revenues to cover 25% of disasters
D	4.5 cents	0.564026	\$73M	(\$33M)	Sufficient revenues to cover 25% of disasters and act as additional cash flow for disaster recovery
E	6.2 cents	0.581393	\$119M	(\$79M)	Sufficient revenues to cover 25% of disasters and act as additional cash flow for disaster recovery



Revenue Cap Homeowner Relief



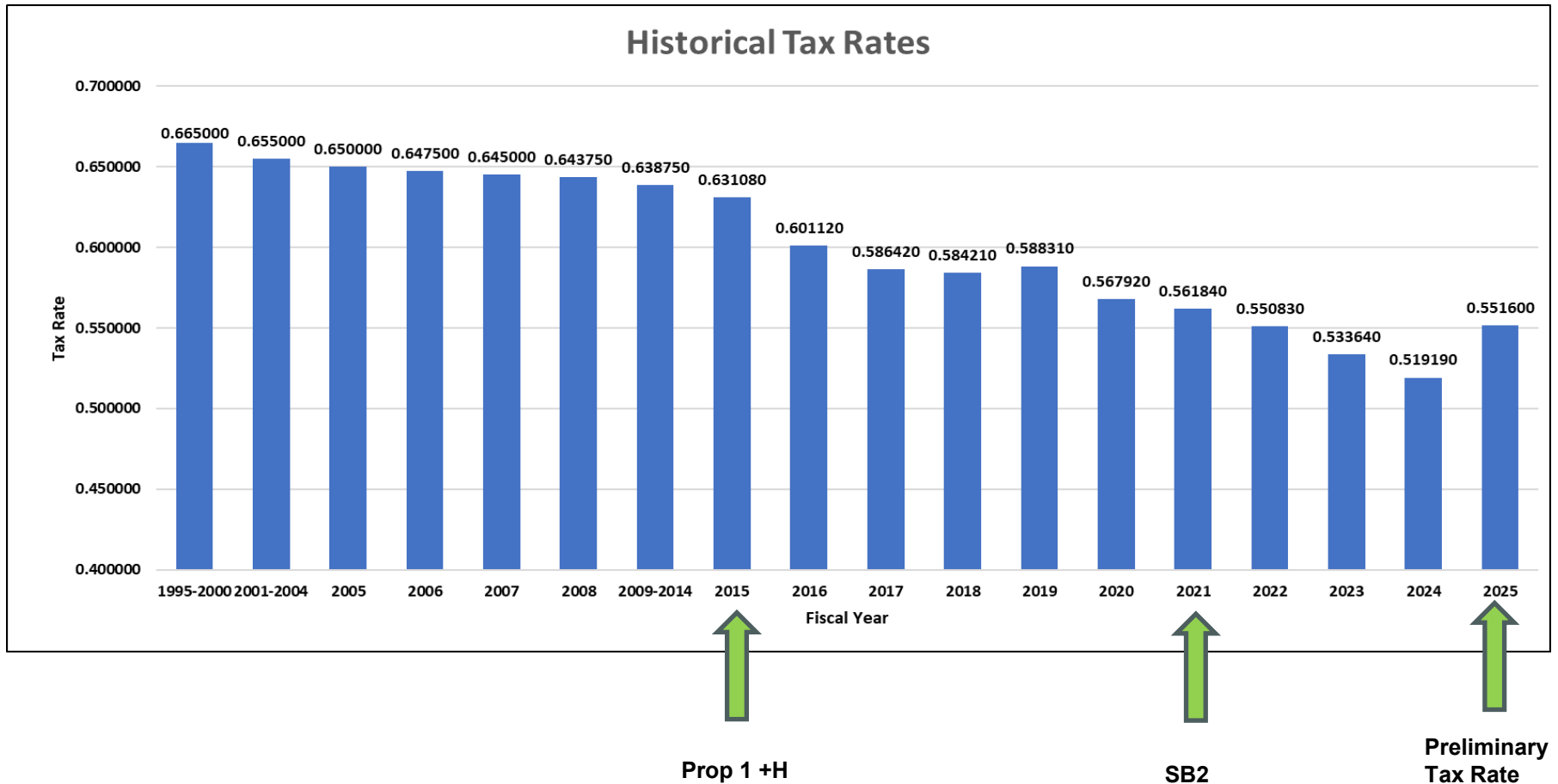
Fiscal year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Average Homestead Household Value	157,494	174,926	195,504	212,843	225,225	228,176	240,875	250,355	262,026	284,130	309,391	321,303
Adopted Tax Rate	63.875	63.108	60.112	58.642	58.421	58.831	56.792	56.184	55.083	53.364	51.919	55.160
Tax Bill @ Current Tax Year Rate	\$ 1,006	\$ 1,104	\$ 1,175	\$ 1,248	\$ 1,316	\$ 1,342	\$ 1,368	\$ 1,407	\$ 1,443	\$ 1,516	\$ 1,606	\$ 1,772
Average Household Annual Tax Relief		\$ 13.42	\$ 58.57	\$ 31.29	\$ 4.98	\$ (9.36)	\$ 49.11	\$ 15.22	\$ 28.85	\$ 48.84	\$ 44.71	\$ (104.13)
Revenue Cap Tax Relief		\$ 13.42	\$ 73.57	\$ 111.38	\$ 122.84	\$ 115.09	\$ 170.61	\$ 192.55	\$ 230.37	\$ 298.65	\$ 369.91	\$ 280.02

- Since FY2015, the total tax relief for average homestead household is estimated at \$1,978.40 16



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.





TNT Timeline

- July 25 Receipt of certified estimate.
- Aug 14 RCA#1 - City Council Meeting to submit the appraisal roll, certify the anticipated collection rate, and appoint the designated officers.
- Aug 21 RCA#2 – City Council Meeting to submit the estimated no-new-revenue and voter-approval rates.
- Aug 30 Receipt of certified roll.
- Sept 25 RCA#3 – City Council Meeting to propose tax rate and submit no-new revenue and voter-approval rates and set hearing date for Sept 25.
- Sept 27 Notice in Houston Chronicle, HTV, and City web site.
- OCT 09 Public Hearing on tax rate; continue supplemental notices.
RCA#4 – City Council Meeting to adopt tax rate.
- Oct TBD Deadline to adopt tax rate.