



# Legislative UPDATE

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## **Property Tax Roadshow: Deceptive Comparison Misleads Texans about Property Taxes**

The Senate Select Committee on Property Tax Reform and Relief Property held a hearing in Arlington last Wednesday and once again presented tax and household income growth comparisons that make no sense. The committee, appointed to examine local property taxes, has been deceiving Texans about property tax increases by making an “apples to oranges” comparison between the growth in total property taxes and median household income.

The League does not dispute the data from the comptroller’s office on city property taxes but the comparison is wrong on two counts. First, you don’t compare the increase in a total number with the increase in a median number. Second, there’s no relationship between median household income and the growth in total tax collections caused by new construction.

The Senate Select Committee on Property Tax Reform and Relief, appointed by Lt. Gov. Dan Patrick and chaired by Sen. Paul Bettencourt (R – Houston), has held hearings in San Antonio, Harlingen, and Lubbock displaying [charts](#) that show the total amount of city property taxes levied statewide increased 60 percent from 2005 to 2014, while median household income increased 26 percent. The same chart was presented at the committee hearing last Wednesday in Arlington.

The committee’s leadership is trying to convince Texans that city taxes on their individual homes are increasing at the same rate as total tax revenue. Texas and our major cities are near the top in every measure of population and economic growth, so it’s obvious total property tax levies and collections would increase with the construction of new homes, apartments, office buildings,

stores and factories. Unfortunately, many news stories have accepted and reported the committee's comparison without questioning the basic premise behind it.

According to data from the comptroller's office and the U.S. Department of Commerce, from 2005 to 2014 the 60 percent growth in *total* city property taxes levied statewide is in line with the 62 percent increase in *total* gross state product, and the 62 percent increase in *total* personal income and the 54 percent increase in *total* state tax collections.

Cities collect just 16 percent of the property taxes paid by Texans, while 55 percent goes to school districts. The committee wants Texans to believe cities are the cause of high property taxes to justify imposing new statewide restrictions on the ability of local communities to make their own taxing and spending decisions.

Texans deserve an honest discussion about property taxes based on accurate, objective information instead of the misleading comparisons offered up the senate committee."

The League has prepared [charts](#) showing an accurate picture of total statewide city property tax collections. City officials made a strong showing at the Arlington hearing. Everyone who took the time to do so should be commended for their efforts.

The [next meeting](#) of the committee will be in Houston on May 10.

## **Senate Property Tax Committee Meetings Continue: Next Stop is May 10 in Houston**

The next meeting of the Senate Select Committee on Property Tax Reform and Relief will be at the University of Houston Student Center Ballroom at 9:00 a.m. on Tuesday, May 10, 2016, in Room 210. The Center is located at 4455 University Dr., Houston, TX, 77204

The agenda is available [here](#).

The Committee will hear invited, resource, and public testimony on the following interim charges: (1) study the property tax process, including the appraisal system; (2) recommend ways to promote transparency, simplicity, and accountability by all taxing entities; and (3) examine and develop options to further reduce the tax burden on property owners. It is widely believed that one goal of these hearings is to begin the push for harmful revenue caps heading into the 2017 legislative session.

It is imperative that the Committee hear from city officials about the detrimental effects of revenue caps. Please plan to attend the hearing in Houston, and note that remarks will be limited to three minutes. If you prepare written testimony, please bring 20 copies to the hearing. The League has prepared [talking points](#) to assist your preparation.

Please contact Monty Wynn, the League's Assistant Director of Legislative Services, at [monty@tml.org](mailto:monty@tml.org) if you plan to testify and/or have questions.

## **PUC Seeks Jurisdiction over City Water and Sewer Utilities**

In a case of déjà vu, the Public Utility Commission of Texas (Commission) has issued an [Order Requesting Briefing](#) on the question of “What is the Commission’s jurisdiction on an appeal of a municipality’s water and sewer rates over the rates of the in-town residents of the municipality?” The order stems from a rate case involving the City of Woodloch's water and sewer customers outside the city's limits.

The Commission has jurisdiction over appeals from the water or sewer rates charged by a municipally owned utility (MOU) to customers outside the city's limits. That has been the case for decades. But the Commission does *not* have jurisdiction over the in-city rates of an MOU.

What began as a typical appeal of rates by customers outside the City of Woodloch's city limits may turn into an attempt by the Commission to usurp authority over all city utilities. Section 13.042(f) of the Texas Water Code clearly provides that it “does not give the utility commission power or jurisdiction to regulate or supervise the rates or service of a utility owned and operated by a municipality, directly or through a municipally owned corporation, within its corporate limits.” Nonetheless, the Commission is seeking comments on the question.

The present docket is not the first time the Commission has asked the question. In 1981, the chair of the Commission requested an [attorney general opinion](#) on exactly the same question, and the attorney general concluded that “the Texas Public Utility Commission does not have authority to set rates for customers inside the city limits.”

The League, along with several cities, filed [comments](#) in support of the City of Woodloch. Initial comments were due on April 28. However, reply comments can be sent in prior to 5:00 p.m. on May 5, 2016. City officials who wish to file reply comments should consult with their city attorney on that process. Please copy the league with your comments to [ford@tml.org](mailto:ford@tml.org).

## **NLC Releases Infrastructure Report**

U.S. cities are struggling under the weight of an infrastructure deficit, with a growing backlog of projects made worse by a slow economic recovery. A new report from the National League of Cities, [Paying for Local Infrastructure in a New Era of Federalism: A State-by-State Analysis](#), presents a national comparison of the local tools available for cities to fund infrastructure. The analysis, conducted in collaboration with state municipal leagues, explores local option taxes and fees, including sales taxes, fuel taxes, and motor vehicle fees, as well as emerging mechanisms like state infrastructure banks and public-private partnerships.

The report notes that declining funding, increasing mandates and misaligned priorities at the federal and state levels have placed even greater strain on local governments to maintain roads, upgrade water and wastewater systems, and accommodate increasing transit ridership. The shift

in responsibility, however, has not been matched with increased funding authority at the local level.

Local option taxes are a set of commonly used tools to fund infrastructure construction and maintenance. NLC's research found that 28 states authorize local option sales taxes, 16 authorize local option fuel taxes, and 26 authorize local option motor vehicle registration fees. Not all cities in states that authorize these taxes use them. Many states require voter approval, which is often a significant barrier to adoption.

Local option taxes and fees have provided cities with additional revenues to maintain and expand critical infrastructure. Despite the proliferation of these local sources of revenue, the lack of flexibility in the administration and utilization of these tools as well as an anti-tax state political environment have encouraged cities to continue to pursue new ways to pay for infrastructure. Some emerging tools, including public-private partnerships (P3s) and state infrastructure banks, help cities leverage existing revenues through innovative financing and, in some cases, provide new revenues.

Many states in the U.S. have created state infrastructure banks, referred to as "SIBs" or "I-banks" for short. These typically consist of revolving investment funds that can provide loans and grants to infrastructure projects within the state. These are currently authorized in 27 states, 22 of which have active I-banks.

Missouri and Virginia are the only states that authorize cities to access all five tools (sales taxes, fuel taxes, motor vehicle fees, I-banks, and P3s).

Despite the fact that infrastructure is a critical part of daily life for all Americans, the infrastructure deficit in the United States grows with each passing day. Traditional means of paying for infrastructure no longer cover the costs of building, operating and maintaining elements, such as roads and wastewater management facilities.

The report argues that cities need strategic and predictable investment from federal and state governments, better communication between cities and states on funding priorities and greater local authority to raise revenue and implement creative solutions with multisector partners. Overall, a more deliberate approach that recognizes the central role of infrastructure in the success of our nation's economic engines is needed.

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## **Local and Municipal Health Care Choice Act**

Proposed federal legislation addresses a critical city-related problem with the 2010 Affordable Care Act, which mandates health insurance in most cases. The *Local and Municipal Health Care Choice Act* (H.R. 2869 by Kenny Marchant (R – Irving) would permit state league health benefit pools to join forces to serve customers across state lines, a necessity in the highly competitive world of health exchanges and health care reform.

The League extends its thanks to Congressmen Kenny Marchant, Mac Thornberry, Rick Crawford, and Steve Womack for their [letter of support](#) encouraging the federal Task Force on Health Care Reform to consider this legislation.

## **2015 Legislation Impacts City Property Tax Rate Setting Process for 2016 and Beyond**

In 2015, the legislature passed H.B. 1953 and S.B. 1760. The bills, which became effective on January 1, 2016, modify certain aspects of the property tax adoption process. Of particular interest to cities, the legislation makes the following changes:

- **[H.B. 1953](#)**: allows a city or county to provide the required property tax rate notice not later than the later of September 1 or the 30th day after the first date the taxing unit receives each applicable certified appraisal roll. This beneficial change gives a city more flexibility if it receives the certified appraisal roll later than normal.
- **[S.B. 1760](#)**: this bill, among other things: (1) requires at least 60 percent of the members of the governing body of a city to vote in favor of an ordinance setting a property tax rate that exceeds the effective tax rate; (2) requires a city that proposes a tax rate that exceeds the lower of the effective tax rate or the rollback rate to include a sentence describing the proposed use of the additional revenue attributable to the tax rate increase; and (3) allows for the same tax rate notice flexibility as provided by H.B. 1953 (and described above).

The League recently posted the [2016 Budget and Taxation Deadlines](#) memo on the TML website. The changes made by H.B. 1953 and S.B. 1760 are highlighted in the memo.

## **Payday Lending Clearinghouse Updates**

The League's "Payday Lending Clearinghouse" webpage, available at [www.tml.org/payday-updates](http://www.tml.org/payday-updates), includes information related to the regulation of payday and auto title lenders. It is updated from time-to-time to reflect recent developments. Interested city officials should note that another city, the City of Harker Heights, has adopted payday business regulations.

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