



CITY OF HOUSTON – CITY COUNCIL

Meeting Date: 10/09/24

Item Creation Date: 10/02/24

Prop A – CNL Proposed Tax Rate: \$0.55160

Summary:

SET A PUBLIC HEARING DATE to place a proposed tax rate of \$0.55160 on each \$100 of taxable value on the October 16, 2024 agenda with adoption of such a tax rate expected to result in an increase of the City's ad valorem tax revenues for the current fiscal year in an amount greater than five percent more than the ad valorem property tax revenues collected during the immediately preceding fiscal year.

HEARING DATE – OCTOBER 16, 2024 – 9:00 AM

Amount and Source of Funding:

No-New Revenue Tax Rate and Voter-Approval Tax Rate

Section 26.04(e) of the Tax Code requires that the No-New Revenue Tax Rate and the Voter-Approval Tax Rate be reported to the governing body of each taxing unit. The No-New Revenue Tax Rate for Tax Year 2024 is \$0.519926 on each \$100 of taxable value and the Voter-Approval Tax Rate is \$0.569718 on each \$100 of taxable value. These numbers are based on Certified Initial Roll information from the Harris Central Appraisal District, Fort Bend Central Appraisal District, and the Montgomery Central Appraisal District.

Public Hearing

Section 26.05(d) of the Tax Code provides that a taxing unit may not adopt a tax rate that exceeds the lower of the No-New Revenue Tax Rate and the Voter-Approval Tax Rate until the governing body has held a public hearing. A proposed tax rate of \$0.55160 on each \$100 of taxable value exceeds the lower of the No-New Revenue Tax Rate and Voter-Approval Tax Rate.

City Council must pass a motion to place a specific proposed tax rate on a future City Council Agenda. The City Council meeting to adopt the proposed tax rate may occur following the publication of notice on October 11, 2024, but may not be later than October 28, 2024.

A proposed tax rate of \$0.55160 on each \$100 of taxable value must be apportioned between Maintenance and Operations (M&O) and Interest and Sinking Fund (I&S). The M&O rate is \$0.411015 on each \$100 of taxable value and the I&S rate is \$0.140585 on each \$100 of taxable value which, when combined, equals a total tax rate of \$0.55160 on each \$100 of taxable value.

It is therefore recommended that City Council adopt the recommendation of the undersigned councilmembers that the No New Revenue Tax Rate for Tax Year 2024 is \$0.519926 on each \$100 of taxable value and the Voter-Approval Tax Rate is \$0.569718 on each \$100 of taxable value, place a proposed tax rate of \$0.55160 on each \$100 of taxable value for Tax Year 2024 on the October 16, 2024, City Council agenda, and schedule a public hearing on the proposed tax rate in the Anna Russell Council Chamber on October 16, 2024, at 9 AM.

The proposed rate is expected to increase the City's ad valorem tax revenues for the current fiscal year in an amount greater than five percent more than the ad valorem property tax revenues collected during the immediately preceding fiscal year. Thus, pursuant to Section 44-25 of the City's Code of Ordinances, the ordinance to adopt the tax rate must be approved by two-thirds of the full City Council. Further, pursuant to Section 44-27 of the Code, before the passage of such ordinance, the City must publish in the major Houston newspaper an analysis of the anticipated increased revenues in a form required by state law and hold a public hearing not earlier than seven days before the date of passage. The public hearing may be combined with any hearing required by state law.

Background

On September 9, 2024, at a meeting of the Budget and Fiscal Affairs Committee, the City's Finance Director made two presentations: one on the financial impact of the two recent disasters, the Derecho (DR-4781) and Hurricane Beryl (DR-4798), and one on the City's ad valorem tax rate and Charter revenue cap limitation.

The Director stated that the estimated financial impact of the two disasters is an amount of \$210,628,730. FEMA is expected to reimburse the City for 75% of these costs, to the tune of an amount of \$157,971,547. Thus, the City's local share, 25%, is an amount of \$52,657,182 -- \$39,906,661 General Fund and \$12,750,521 Non-General Fund.

During her presentation, the Director presented five scenarios for a potential tax rate. All five are in compliance with state and local laws.

1. Scenario A – tax rate of 0.519190. Setting this tax rate would require \$86 million in expenditure cuts to cover the shortfall and the 25% General Fund local share of the disasters.
2. Scenario B – tax rate of 0.536480. Setting this tax rate would require \$40 million in expenditure cuts to cover the shortfall and the 25% General Fund local share of the disasters.
3. **Scenario C – tax rate of 0.55160. Setting this tax rate would require no expenditure cuts in FY2025 and would allow the City to obtain revenues up to the FY2025 adopted budgeted amount, in compliance with the Charter revenue cap, in addition to the full \$39,906,661 General Fund local share (25%) of disaster expenses.**
4. Scenario D – tax rate of 0.564026. Setting this tax rate would provide sufficient revenues to cover the 25% General Fund local share of the disasters and generate \$33 million in additional cash flow.
5. Scenario E – tax rate of 0.581393. Setting this tax rate would provide sufficient revenues to cover the 25% General Fund local share of the disasters and generate \$79 million in additional cash flow.

Based on this information, and in anticipation of a potential \$230 million budget shortfall in FY2026, the undersigned council members feel it is fiscally responsible to adopt Scenario C and place a proposed tax rate of \$0.55160 on each \$100 of taxable value on the October 16, 2024 agenda and schedule a public hearing for consideration of same.

Council Member Sallie Alcorn
At-Large 5

Council Member Letitia Plummer
At-Large 4

Council Member Joaquin Martinez
District I

Council Member Mario Castillo
District H