



TEXAS MUNICIPAL LEAGUE

*Empowering Texas cities to serve their citizens*

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President **Eddie Daffern**, Mayor, Staples  
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September 11, 2020

The Honorable Dustin Burrows  
Chairman, House Committee on Ways and Means  
Texas House of Representatives  
P.O. Box 2910  
Austin, TX 78768-2910  
Via E-Mail: [Dustin.Burrows@House.Texas.Gov](mailto:Dustin.Burrows@House.Texas.Gov)

**Re: Texas Municipal League Comments on Ways and Means Interim Charges No. 1.3, 2, and 3:** *Charge 1.3: Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 86th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure intended legislative outcome of all legislation, including the following: HB 4347, which relates to the use of hotel occupancy, sales, and mixed beverage tax revenue for qualified projects. Examine the effectiveness and efficiency of the hotel projects, qualified hotel projects, and uses of local hotel occupancy tax revenue. Examine the negative fiscal impact to the state resulting from the dedication of the state portion of those taxes.*

*Charge 2: Study and consider possible methods of providing property tax relief, including potential sources of revenue that may be used to reduce or eliminate school district maintenance and operations property tax rates.*

*Charge 3: Study the role of the local option sales and use tax, including: an analysis of the available uses for those taxes, specifically economic development agreements; the statewide distribution of local tax rates; the proportion of the local government budget supported by sales and use taxes; the application of consistent sales sourcing rules; and the impact of shifting from origin to destination sourcing.*

Dear Chairman Burrows:

The Texas Municipal League (TML) is a non-profit association of 1,161 incorporated cities. TML provides legislative, legal, and educational services to its members. Thank you for the opportunity to provide written comments on the above-mentioned interim charges during the Coronavirus pandemic. Please accept our input on Charges 1.3, 2, and 3.

**Charge 1.3: H.B. 4347 and the Renewed Importance of Public-Private Partnerships**

For years, the legislature has prioritized qualified hotel and convention center projects in designated communities across the state. The policy rationale is fairly straightforward: using some state and local tax dollars to leverage private investment has typically paid off. When the legislature overwhelmingly passed H.B. 4347 in 2019, it reinforced its commitment to promoting tourism-based economic development in those communities (and in new ones). Additionally, H.B. 4347 brought some much needed streamlining

and transparency reforms to the qualified convention center and hotel program, including imposing parameters on use of state and local tax dollars.

Undoubtedly, the COVID-19 pandemic has created some challenges for assessing the program that weren't readily apparent when interim committee charges were released last year. The tourism industry has been hit as hard – if not harder – by COVID-19-related shutdowns and social distancing than any other. This makes continued state and local cooperation to promote tourism across the state all the more imperative.

Comptroller Hegar commented this summer that “it likely will take some time to recover from the economic damage done by the deep recession caused by the virus.” The recovery process must include as much collaboration between state and local governments as possible. Due in large part to the reforms made by H.B. 4347, the qualified hotel and convention center program is a good example of a cooperative program that is well-positioned to help get the Texas economy get back on track.

### **Charge 2: Property Tax Relief – Increased Homestead Exemption Flexibility for Cities**

Texas city councils maintain a range of options to address the property tax burden on local residents in addition to the general property tax rate setting authority that city councils exercise every year. Among these tools are the local option homestead exemption, local option exemption for senior and disabled homeowners, property tax freezes for senior and disabled homeowners, Freeport and Super Freeport exemptions for certain commercial and manufacturing facilities, as well as various property tax abatements and rebates used as economic development incentives. Most Texas cities use some combination of these programs (and others) to lessen the property tax burden on city taxpayers. But that's not to say that there aren't additional steps the legislature can take to provide additional property tax relief to city taxpayers.

Increased local option homestead exemption flexibility is one option that would provide additional relief to homeowners. Under current law, a city council has the option of exempting a percentage, not to exceed 20 percent, of the value of residential homesteads for all homeowners in the city. The minimum application of the exemption to any property is \$5,000.

In April 2019, the Cedar Park city council adopted a city homestead property tax exemption equal to one percent of the appraised value of any residential homestead property, but not less than \$10,000. The goal was to provide more tax relief to city residents in a more predictable manner than is authorized under state statute. Just before the 2019 legislative session, the attorney general opined in KP-215 that a court would likely conclude that a city lacks authority to increase the floor above \$5,000, and that cities desiring to increase the homestead exemption must do so by raising the tax exemption percentage, up to twenty percent, as authorized in the Texas Constitution.

As a result of KP-215, several bills were filed in 2019 that would have given cities increased flexibility to provide property tax relief through the use of local option homestead exemptions. Among them were House Bill 4139 by Representative Capriglione and Senate Bill 1072 by Senator Watson, both of which would have increased the homestead exemption floor. Other bills, like House Bill 3127 by Middleton, would have given city councils the discretion to increase local homestead exemptions beyond the 20 percent maximum threshold. Legislation authorizing a city to raise the floor of the optional homestead exemption or provide for a flat-dollar amount exemption would help make homestead exemptions a more useful tool to cities and city taxpayers alike.

### **Charge 3: Sales Taxes a Vital Revenue Source for Infrastructure, Public Safety, and Economic Development**

The importance of local sales and use taxes for funding the essential services and infrastructure that Texans rely upon on a daily basis cannot be overstated. TML member survey data shows that city sales taxes, on average, make up nearly 30 percent of cities' general funds. In fact, sales tax is the primary revenue source

for many cities' general fund. Simply put, city sales taxes ensure that residents receive public safety and quality of life services that make Texas such a great place to live and work.

Voters in the vast majority of Texas cities have adopted the general revenue sales tax. Additionally, voters have approved various dedicated sales taxes in cities across the state to fund — among other things — street maintenance, crime control and prevention districts, property tax relief, and economic development corporations. Through sales tax elections, city residents across the state have prioritized certain expenditures and have placed their trust in local officials to carry out those spending priorities. Local sales taxes are a prime example of the strong bond that exists between citizens and their local governments.

Not surprisingly, the COVID-19 pandemic has taken a toll on local sales tax receipts in cities across the state. This is not only reflected in [local sales tax data](#) from the comptroller's office, but from data reported to TML, as well. A recent [TML survey](#) of member cities shows that 67 percent of cities have lost sales tax revenue due to the impact of the pandemic. That revenue loss will likely continue in the coming months.

Perhaps softening the pandemic's impact on local sales tax collections is the legislature's action last session to collect state and local sales taxes on remote sales following United States Supreme Court's decision in *South Dakota v. Wayfair*. Texas cities appreciate your leadership on both H.B. 1525 and H.B. 2153, and look forward to working with the committee next session to ensure that local sales tax revenue bounces back to support the services and projects that Texans rely upon.

**Prayer**

TML respectfully requests that your office consider these comments when issuing your interim report.

Please contact me if I may be of assistance.

Sincerely,



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