

## **Brief on Budgetary Growth Cap creates challenges in keeping up with required services and recommendations on amendments to the legislation.**

Joseph W. Neeb

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The 3.5% cap on budgetary growth, which was implemented by the Texas legislature in 2019 through Senate Bill 2, limits the amount by which property tax revenues can increase year-over-year without voter approval. While this cap was intended to curb rapidly rising property taxes and provide relief to homeowners, it poses significant challenges for border cities like Laredo, where rapid population growth and increasing demands for services far outpace this limit.

### **Challenges Faced by Border Cities Due to the 3.5% Cap**

#### **1. Inability to Match Service Demands with Population Growth:**

- Border cities, including Laredo, often experience higher-than-average population growth due to their proximity to international borders, economic opportunities, and migration patterns. This influx of residents increases demand for public services such as infrastructure, public safety, healthcare, and education.
- However, the 3.5% cap restricts the city's ability to generate sufficient revenue through property taxes to meet these growing needs. This creates a gap between the services required by the expanding population and the resources available to provide them.

#### **2. Strain on Infrastructure and Public Services:**

- As the population grows, so does the need for expanded infrastructure, including roads, water systems, and public transportation. Additionally, public safety services such as police, fire departments, and emergency medical services must scale up to serve more residents effectively.
- The cap on budgetary growth restricts the city's ability to invest in these critical areas, leading to deteriorating infrastructure, longer response times, and reduced service quality.

#### **3. Limited Flexibility in Addressing Emergencies and Unforeseen Costs:**

- Border cities face unique challenges, such as managing the impact of cross-border trade, immigration, and natural disasters. These situations often require immediate and significant financial resources.
- The 3.5% cap limits the city's flexibility to respond to such emergencies without resorting to borrowing or seeking voter approval for a tax increase, both of which

can be time-consuming and may not provide the necessary funds in a timely manner.

#### **4. Increased Reliance on State and Federal Funding:**

- Due to the limitations imposed by the cap, border cities may become increasingly dependent on state and federal grants or aid to fund essential services and infrastructure projects. This reliance can lead to uncertainty, as these external funds are often subject to political and economic fluctuations.
- Additionally, reliance on external funding may limit the city's ability to prioritize local needs and make long-term strategic investments.

#### **5. Potential for Voter Fatigue and Budgetary Instability:**

- While the cap allows for voter-approved increases beyond the 3.5% limit, frequent requests for tax rate increases can lead to voter fatigue, making it difficult to secure the necessary approval. This can result in budgetary instability, where the city is unable to plan effectively for future needs due to uncertain revenue streams.
- If voters repeatedly reject proposed increases, the city may be forced to make cuts to essential services, further exacerbating the challenges of managing a growing population.

### **Conclusion**

The 3.5% cap on budgetary growth significantly hampers border cities' ability to manage their resources effectively in the face of rapid population growth and increasing service demands. While intended to provide property tax relief, the cap creates a financial constraint that can lead to deteriorating infrastructure, reduced service quality, and increased reliance on external funding. To address these challenges, border cities may need to advocate for greater flexibility in their budgetary growth or seek alternative revenue sources to ensure they can meet the needs of their growing populations.

## **Recommendations on Legislation Requests to address challenges**

To address the challenges posed by the 3.5% cap on budgetary growth, the City of Laredo can pursue legislative amendments that provide greater flexibility in managing its finances while still adhering to the overall goals of Senate Bill 2. Here are some strategies and specific requests Laredo can make:

### **1. Request a Population Growth Adjustment**

#### **Proposal:**

Laredo can request an amendment that allows cities experiencing higher-than-average population growth to adjust the 3.5% cap proportionately. This adjustment would enable cities like Laredo, where population growth is significantly higher than the state average, to raise additional revenue without requiring voter approval.

#### **Specific Request:**

- Amend the legislation to allow cities with population growth exceeding a certain threshold (e.g., 2% annually) to increase their property tax revenue cap by an additional percentage point (e.g., up to 5.5%) corresponding to the growth rate.
- Implement a formula that ties the allowable revenue growth directly to verified population increases, ensuring that cities can meet the demands of a growing population.

### **2. Introduce a Border City Exception**

#### **Proposal:**

Given the unique challenges faced by border cities, Laredo could advocate for an exception or special provision within Senate Bill 2 that acknowledges the distinct economic, social, and logistical demands on these municipalities. This exception would allow for a higher cap or additional revenue-generating mechanisms tailored to border cities.

#### **Specific Request:**

- Create a specific exemption within Senate Bill 2 for border cities, allowing them to exceed the 3.5% cap up to a predetermined limit (e.g., 6%) without requiring voter approval, recognizing the higher costs associated with border management and infrastructure needs.
- Alternatively, permit border cities to levy special assessments or targeted taxes that are exempt from the cap to fund border-related expenses.

### **3. Allow for Capital Improvement Flexibility**

#### **Proposal:**

Laredo can request that capital improvement projects, such as infrastructure development and maintenance, be excluded from the 3.5% cap. This would enable the city to fund necessary infrastructure projects without being constrained by the overall revenue cap.

#### **Specific Request:**

- Amend the legislation to exclude revenue raised for capital improvement projects from the 3.5% cap, provided these funds are used strictly for long-term infrastructure investments such as roads, bridges, water systems, and public safety facilities.
- Implement a provision that allows cities to issue bonds for capital projects without the bond repayments being counted against the cap.

### **4. Advocate for Enhanced State and Federal Funding Support**

#### **Proposal:**

Laredo could also advocate for increased state and federal funding or grant opportunities specifically designated for high-growth and border cities. This would help alleviate the financial pressure without directly raising local taxes.

#### **Specific Request:**

- Request the establishment of a state-level grant program for high-growth cities, which would provide additional funds for infrastructure, public safety, and other essential services.
- Advocate for federal funding programs targeted at border cities, with a focus on supporting border security, immigration-related services, and infrastructure needs.

### **5. Seek Greater Flexibility in Emergency Situations**

#### **Proposal:**

The city can request an amendment that provides greater flexibility to exceed the 3.5% cap in emergency situations, such as natural disasters, public health crises, or significant economic disruptions, without requiring immediate voter approval.

#### **Specific Request:**

- Amend the legislation to allow cities to temporarily exceed the 3.5% cap in the event of a declared state of emergency, with a requirement that any excess revenue raised is directly tied to addressing the emergency.
- Include a provision that permits cities to defer voter approval for up to one year following the emergency, providing time to address urgent needs without delaying necessary funding.

## **6. Advocate for a Sunset Clause or Periodic Review**

### **Proposal:**

Laredo can propose that the cap include a sunset clause or require periodic review to assess its effectiveness and impact on high-growth cities like Laredo. This would allow for adjustments based on the changing economic landscape and city needs.

### **Specific Request:**

- Request the inclusion of a sunset clause in Senate Bill 2, requiring the legislature to review the cap every five years, with an opportunity to amend or repeal the law based on its impact on cities.
- Propose that a task force be established to monitor the effects of the cap on high-growth cities, with a mandate to recommend adjustments to the legislature.

## **Conclusion**

By pursuing these specific legislative amendments, Laredo can seek to mitigate the negative impacts of the 3.5% cap on its ability to manage city growth and provide essential services. The key is to advocate for flexibility, recognizing the unique challenges faced by high-growth and border cities, and to work collaboratively with state legislators to ensure that local governments have the tools they need to serve their communities effectively.