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Fitch: TX Tax Cap Bill Could Put Some Local Governments on Edge.

Fitch Ratings-New York-09 March 2015: The proposal to lower the annual property tax levy increase threshold could limit local governments' revenue-raising capability and restrict flexibility, Fitch Ratings says. Texas' State Senator Paul Bettencourt of Harris County proposed the change in a bill filed last week.

The proposal would lower the state's threshold of the annual property tax levy increase that subjects local governments to rollback petitions from 8% to 4%. It also expands the list of entities that must hold a tax ratification election if their levy increases beyond the rollback level. Texas law currently requires such election only of school districts but under SB 182 would include all local taxing agencies.

Statutory restrictions can constrain local governments' revenue-raising capabilities. However, compared with many other states, the current 8% rollback limit is generous, and the proposed 4% limit is not draconian. We believe the tax ratification election requirement may discourage boards and councils from seeking to increase levies beyond the threshold, given the cost and risk of voter disapproval.

In our view, most local government entities will likely not feel constrained by the 4% cap in most years. However, population growth creates demands for additional services, which could result in tax rate pressures that eclipse the 4% cap in a given year. According to the Census Bureau, seven of the fastest growing U.S. cities in 2013 were in Texas. Also, the 4% cap could seem insufficient if there were a notable increase in the rate of inflation.

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The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article, which may include hyperlinks to companies and current ratings, can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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