Property Tax Equity in Harris County
Introduction

The purpose of this study is to estimate the extent to which property taxes paid by City of Houston residents, businesses, and property owners financially support County services provided in Harris County outside the City of Houston. In other words, do Houston city taxpayers subsidize services provided by Harris County outside the city?

About half of Harris County’s population of 4.8 million people lives inside the City of Houston, which has a population of 2.3 million people. (Small portions of the city are located in Fort Bend and Montgomery counties.) About 500,000 people live in other cities in Harris County. But almost 2 million people live in unincorporated Harris County—by far the largest unincorporated population in the country. Furthermore, the vast majority of the county’s recent population growth has occurred in the unincorporated area.¹

Although much of the unincorporated area is served by municipal utility districts², the county government is responsible for providing many services, such as law enforcement and road maintenance, that are typically provided by cities. For this reason, the question of whether city taxpayers subsidize services outside the city has long been debated. At the same time, it should be noted that the county provides many services, such as justice administration and hospital care, to all residents of the county no matter where they live.

This study was initiated as the result of a budget amendment from Houston City Councilmember Abbie Kamin to identify the amount of County property taxes paid by City of Houston residents and businesses compared to the cost for County services provided within City of Houston limits. Although residents and businesses pay a variety of taxes, this report is limited to property taxes. It does not take into account, for example, sales tax revenue generated inside the city as a result of purchases by Harris County residents who live outside the city.

The Kinder Institute retained the firm of TischlerBise to conduct the technical analysis. Financial support for this report was provided by both the City of Houston and Arnold Ventures. Harris County, especially the Budget Management Office and the Commissioners Court Analyst’s Office, provided critical information and advice.


Findings

Overview

The Harris County government collects and spends about $2 billion per year in property tax revenue. The Harris County Hospital District collects and spends about $700 million per year in property tax revenue. As we will explain below, approximately half of the county’s property tax base is located inside the City of Houston.

Based on our analysis, we estimate that:

• In FY 2019, City of Houston residents, businesses, and property owners contributed $210 million more in tax revenue than they received in general government services and received $68 million more in hospital services than they contributed, meaning City of Houston taxpayers contributed $143 million more in revenue than they received in county services.

• In FY 2020, City of Houston residents, businesses, and property owners contributed $230 million more in tax revenue than they received in general government services and received $61 million more in hospital services than they contributed, meaning City of Houston taxpayers contributed $169 million more in revenue than they received in county services.

• This subsidy amounts to approximately 6% of the county’s total expenditures derived from property tax revenues.

Revenue

Based on data provided by the Harris County Appraisal District, we estimate that in FY 2019 approximately 50.5% of Harris County’s revenue came from inside the City of Houston, while in FY 2020 approximately 51.3% of that revenue came from inside the City of Houston.

Based on these percentages, we estimate that:

• In FY 2019, City of Houston residents, businesses, and property owners contributed approximately $1.003 billion to Harris County government for general activities and flood control and approximately $357 million to the Harris County Hospital District.

Expenditures

Figure 3 shows the allocation of expenditures inside and outside the city based on the methodology below. In sum, we estimate that:

• In FY 2019, Houston residents and businesses received approximately $793 million in general government services from Harris County government (about 40% of the total) and approximately $425 million in services from the Harris County Hospital District (about 60% of the total), for a total value in services of approximately $1.218 billion in county services.

• In FY 2020, Houston residents and businesses received approximately $893 million in general government services from Harris County government (about 41% of the total) and approximately $420 million in services from the Harris County Hospital District (about 60% of the total), for a total value in services of approximately $1.314 billion in county services.

Tax Equity

Figures 1 and 2 summarize our tax equity conclusions. Based on the calculations explained above, we estimate that:

In FY 2019:

• City taxpayers paid $1.003 billion in general property taxes to the county and received $793 million in services from the county, resulting in a subsidy by city taxpayers to the county of $210 million.

• City taxpayers paid $357 million in property taxes to the county hospital district and received $425 million in services from the county hospital district,
resulting in a subsidy by the county hospital district to city taxpayers of $68 million.

- Overall, city taxpayers paid $1.36 billion in property taxes to the county and the hospital district combined and received $1.218 billion in services in return, resulting in a subsidy by city taxpayers to the county and the hospital district of $142 million.

In FY 2020:

- City taxpayers paid $1.123 billion in general property taxes to the county and received $893 million in services from the county, resulting in a subsidy by city taxpayers to the county of $230 million.

- City taxpayers paid $360 million in property taxes to the county hospital district and received $420 million in services from the county hospital district, resulting in a subsidy by the county hospital district to city taxpayers of $60 million.

- Overall, city taxpayers paid $1.482 billion in property taxes to the county and the hospital district combined and received $1.314 billion in services in return, resulting in a subsidy by city taxpayers to the county and the hospital district of $169 million.

*Fiscal year 2019 only. Allocation for fiscal year 2020 was slightly different.
Methodology

Revenue Estimates

Using data from the Harris County Appraisal District, we aggregated the real and personal property tax base, which is about $500 billion, and then divided it between property inside the City and property outside the City. This resulted in a split of 50.5%-49.5% for FY 2019 and 51.3%-48.7% for FY 2020. We then applied the FY 2019 and FY 2020 tax rates for the county and the flood control district (which we combined) and the hospital district. However, this had the effect of creating a “surplus”—generating more revenue than the county expended. Therefore, we then applied an “equalized rate” that generates the same amount of funds that the county expends. All these calculations, including the equalized rates, are shown on pp. 25–31 of TischlerBise’s underlying technical report.

Expenditure Allocation

This study used actual (not budgeted) revenues and expenditures from fiscal years 2019 and 2020. We worked with Harris County staff to obtain financial data and to understand the services provided by the County—specifically, the provision of countywide services in the City of Houston compared to the remainder of the County. Methodologies were developed and applied to countywide services to allocate costs to the City of Houston and elsewhere in the County. The methodologies were applied to property-tax-funded services to derive a bottom-line distribution of costs allocated to the City of Houston and outside the City. More detail on these allocations can be found on pp. 7–21 of the underlying TischlerBise technical report.

Administration of Justice

Administration of Justice is the largest general government service provided by the county. It includes a wide variety of activities: constables, the sheriff’s office, courts, the district attorney’s office and other functions. We allocated costs with a weighted average based on four factors: the population split between the city and county, a “functional population and employment” estimate that takes into account business and employee presence at employment centers during the day, services provided only outside the city, and an allocation of the sheriff’s patrol and administration inside and outside the city. We calculated this allocation of services to be 42.5% to the city and 57.5% to the county territory outside the city.

Parks

As Harris County maintains only parks outside the city, we allocated 100% of the cost to the remainder of the county.

County Administration

We allocated county administration costs based on the “functional population and employment” estimate (explained above), which allocates 54.1% of the cost to the city and 45.9% to the county.

Health and Human Services

We allocated health and human services costs based on the actual population split, with is 49.5% inside the city and 50.5% outside the city.
Flood Control
Flood control costs were allocated based on the amount of impervious surface inside and outside the city. This resulted in an allocation of 59% to the city and 41% to the county.

Tax Administration
Tax administration costs were allocated on a weighted average based on the indirect cost (derived from division of direct costs), as well as vehicle counts, the value of parcels, and population split inside and outside the city. This weighted average resulted in an allocation of 48.5% to the city and 51.5% to the county.

Roads and Bridges
Road and bridge costs were allocated on the number of lane miles owned and maintained by Harris County inside and outside the city. This resulted in an allocation of 10.5% to the city and 89.5% to the county.

Interest and Financial Charges
Allocation of interest and financial charges was based on indirect costs in support of direct county services. The numbers varied slightly over the two fiscal years examined but the approximate allocation was 40% to the city and 60% to the county.

Hospital District
The cost allocation for the Hospital District was based on an average of the estimated percentage of residents under the age of 65 without insurance and the percentage of the county population below the poverty line. This resulted in an allocation of 60% to the city and 40% to the county.
Mission

The Kinder Institute for Urban Research builds better cities and improves people’s lives by bringing together data, research, engagement and action.