Texas Public
POLICY FOUNDATION

INVITED TESTIMONY TO THE HOUSE COMMITTEE ON WAYS & MEANS:
PROPERTY TAX-RELATED INTERIM CHARGES

BY **James Quintero,** Texas Public Policy Foundation
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Chairman Meyer and Members of the Committee,

My name is James Quintero, and I am a policy director with the Texas Public Policy Foundation, a nonpartisan research institute based in Austin, Texas. Thank you for the opportunity to address the committee today on last session's historic property tax relief package and the current environment.

My written remarks this afternoon will explore the Legislature's intended effect with its relief, survey the current environment, and offer ways that future policymakers can ensure the longevity of any 2025 reductions that may be implemented.

INTENDED EFFECT

As you know, the 88th Texas Legislature passed a sweeping $18 billion tax relief package that returned a substantial amount of surplus revenue to homeowners, renters, and business owners in the form of reduced ISD maintenance and operations (M&O) tax rates and an increase in the homestead exemption. The goal of this effort was to deliver meaningful and long-lasting tax relief to a weary public—and the expected benefits were to be considerable.

Using a modified version of a chart prepared by Sen. Bettencourt's office, we may observe that a non-elderly homesteader with a home valued at $331,000 could see his or her school tax bill decrease by $1,266.30 in the current tax year. About 55% of the proposed savings ($681.42) resulted from the increase to the homestead exemption, while the remaining 45% ($584.88) came on account of tax rate compression that reduces the ISD maximum compressed tax rate by approximately 20-cents per $100 of value. That represents a rate reduction of more than 22 percent that will last as long as the Legislature wills it. In year two (FY 2025), the two mechanisms (i.e. homestead and rate compression) may provide the hypothetical homeowner with $1,312.31 in savings.

For elderly and disabled Texans, the savings in Year One and Year Two are even greater thanks to the inclusion of "a 'catch-up' for over-65 and disabled for the $15,000 homestead exemption increase adjustment from May 2022 state-wide election." That additional provisions will increase the savings to $1,436.66 in the first year and $1,482.67 in the second year.

continued

Table 1
Average Homestead Relief

Senate Bill 2 Plan	Policy	Year 1 Relief	Year 2 Relief
1	State Compression Percentage Decrease ($0.0939 cut in 2024, $0.1098 cut in 2025)	$273.51	$319.52
2	Maximum Compressed Rate Reduction (10.7 cent cut in 2023-2024 school year, continuing)	$311.37	$311.37
3	+$60k Homestead Exemption Increase	$681.42	$681.42
4	+$15k tax ceiling adjustment for May 2022 relief	$170.36	$170.36
	Regular Homeowner Total (1+2+3)	**$1,266.30**	**$1,312.31**
	Over 65/Disabled Homeowner Total (1+2+3+4)	**$1,436.66**	**$1,482.67**

Note 1: Calculations assume savings on a $331,000 homestead, and a total school district taxing rate of $1.1357
*Prepared by the Office of Senator Paul Bettencourt

However, while the Legislature intended for the average homeowner to enjoy substantial relief across a two-year period, many local governmental entities have gone about eroding these gains to a great extent. They have done so by way of adopting aggressively high tax rates, proposing large bond packages, and issuing certificates of obligation—knowing that any public criticism would be dulled by the fact that state lawmakers lowered everyone's taxes.

As a result of poor local decision-making, there has been a noticeable level of erosion in the level of relief that was originally planned.

CURRENT ENVIRONMENT

In spite of the Legislature's intent to provide meaningful and long-lasting tax relief, many local governmental entities have continued to noticeably increase property taxes on their own. These tax hikes are observable when considering the average homeowner's tax bill over the current and coming fiscal years.

Using data gathered from adopted and proposed budgets, public notices, and other sources, the following figures approximate the changes in city, county, and school district taxes for the first two fiscal years in which the relief package was fully in effect. *Note these estimates exclude the property tax impact resulting from special purpose districts.* The values relate the experience of the average homeowner in major metropolitan areas around the state. In most cases, one may observe a modest decrease in the first year—often less than the original ~$1,300 expected to accrue to the benefit of the most homeowners—followed by a noticeable uptick in the second year, which suggests further erosion.

Table 2
Comparison of Texas Local Goverments Tax Hike on Average Homesteads

HOUSTON-AREA GOVERNMENTS: Tax Hike on Avg. Homestead	2023-24	2024-25
City of Houston*	$88.13	$166.00
Harris County	$77.78	$114.73
Houston ISD**	($276.62)	$47.35
NET TAX INCREASE/(DECREASE)	**($110.71)**	**$328.08**

* Assumes an adopted tax rate of $0.55160 per $100 of value.

** Assumes an adopted tax rate of $0.8683 per $100 of value for FYs 2023-24 and 2024-25 and uses an average taxable value of $284,737 and $293,190, respectively.

SAN ANTONIO-AREA GOVERNMENTS: Tax Hike on Avg. Homestead*	2023-24	2024-25
City of San Antonio	($45.22)	$109.87
Bexar County	$149.22	($50.42)
San Antonio ISD	($1,039.11)	$306.27
NET TAX INCREASE/(DECREASE)	**($935.11)**	**$365.72**

****Source***: Sample Property Tax Statements from city of San Antonio adopted and proposed budgets for FYs 2022, 2023, and 2024.

DALLAS-AREA GOVERNMENTS: Tax Hike on Avg. Homestead	2023-24	2024-25
City of Dallas	$55.35	$181.07
Dallas County	$61.63	$77.51
Dallas ISD*	($310.13)	$330.75
NET TAX INCREASE/(DECREASE)	**($193.15)**	**$589.33**

*Assumes the following taxable values less $10,000 optional exemption: $256,720 (2022-23); $267,768 (2023-24); and $305,236 (2024-25).

AUSTIN-AREA GOVERNMENTS: Tax Hike on Avg. Homestead	2023-24	2024-25
City of Austin	$101.98	$102.26
Travis County	$86.18	$287.77
Austin ISD*	($1,120.00)	$305
NET TAX INCREASE/(DECREASE)	**($931.84)**	**$695.03**

*Excludes a November 2024 VATRE that could add another $412 if passed.

FT. WORTH-AREA GOVERNMENTS: Tax Hike on Avg. Homestead	2023-24	2024-25
City of Ft. Worth	$115.15	$53.58
Tarrant County	($44.74)	($35.70)
Ft. Worth ISD	($660.00)	$107.00
NET TAX INCREASE/(DECREASE)	**($589.59)**	**$124.88**

Of course, the tax increases noted above may not fully represent the tax increase that may ultimately result in 2025. That is because there are numerous voter-approval tax rate elections (VATREs) and tax ratification elections (TREs) on the horizon that voters will decide in the November election. If these measures are successful, then some voters may see a significant increase in their tax bill. For example, if Austin ISD's VATRE is successful, then the average homeowner could see an additional $412 increase in their annual tax bill.

Average Value Home in Austin ISD

	FY 2023-24	FY 2024-25	FY 2024-25 with Prop A
Average Home Taxable Value	$518,021	$553,493	$553,493
Homestead Exemption	$100,000	$100,000	$100,000
AISD Tax Rate per $100 value	$0.8595	$0.8595	$09505
Estimated Taxes to AISD	$3,593	$3,898	$4,310
Change from prior year		$305	$717
Change between Prop A			**$412**

Source: Austin ISD

Other VATREs and TREs that the Foundation's scholars have thus far been able to track include:

Austin ISD
Liberty Hill ISD
Manor ISD
Marble Falls ISD
San Marcos CISD
Northwest ISD
Spring ISD
Magnolia ISD
Grapevine-Colleyville ISD
Alief ISD
Canyon ISD
Argyle ISD
Rockwall ISD
Frenship ISD
Coppell ISD
Montgomery ISD
City of Cibolo

These measures along with numerous bond propositions threaten to further erode the gains made by the Legislature last session and exacerbate today's cost-of-living crisis.

RECOMMENDATIONS

The data make clear that, despite the Legislature's historic tax relief package, local governmental entities have reversed much of the gain. As a result of these actions, homeowners, renters, businesses, and property owners of all types are being forced to absorb much higher taxes than intended.

Moving forward, it would be prudent for the Texas Legislature to consider policy changes that pairs property tax relief with property tax reform. Such reforms should center around improving transparency, accountability, sustainability, and uniformity and might include:

TRANSPARENCY

- Rename difficult-to-understand tax terminology for improved public understanding and more informed decision-making. Ex.: Rename VATREs and TREs to Tax Increase Elections (TIEs).
- Require all political subdivisions to disclose the following statement on their bond propositions and tax ratification elections: "THIS IS A PROPERTY TAX INCREASE."
- For bond propositions and TREs, include a cost estimate on the ballot that discloses the average annual tax bill increase expected if the measure is passed.
- Strengthen the Voter Information Document (VID) by requiring reasonable assumptions and compelling methodological disclosure.
- Require all taxing entities to notify the Texas Bond Review Board of a pending bond election; task the agency with maintaining an up-to-date website for every election cycle.
- In accordance with 556.0055 of the Government Code, require political subdivisions to specify the source of funds used to engage in legislative lobbying activities, if any.

ACCOUNTABILITY

- Include the value of new property growth and development in the VATR calculation.
- Prohibit the use of M&O tax revenue from being dedicated or directed to paying off long-term debt.
- Further limit the allowable use of nonvoter approved debt instruments, like certificates of obligation and tax anticipation notes, and strengthen the public's right to petition for an election to prevent their issuance.
- Establish a minimum voter turnout requirement as a prerequisite for the approval of bond propositions and TREs.
- Require regular audits of capital projects paid for with bond proceeds.

SUSTAINABILITY

- Include debt paid for with property taxes in VATR calculations.

- Require taxing entities to return excess fund balance proceeds beyond a certain amount, i.e. 90 days of operating expense.

- Provide an avenue for qualified voters to petition to reduce city and county property tax rates.

- Limit local government spending growth to population and inflation and require a two-thirds supermajority to exceed the threshold.

- Require taxing entities to undergo a third-party efficiency audit of their budget and operations if they received above a certain amount of pandemic-related aid and make the findings publicly available. Here is a database for the allocation amounts provided to cities and counties.

UNIFORMITY

- Set the VATR threshold to 2.5% or less for all taxing units.

- Subject all taxing entities to the same VATR requirement. Currently, community colleges, hospital districts, and other smaller taxing unit operate under the old standard.

- Require all bond elections and tax ratification elections to be held in November.

- Amend Section 26.012 of the Tax Code to tighten the definition of "designated infrastructure" to require that certain projects paid for with nonvoter approved debt are included in the VATR calculation, i.e. parks, applications, hardware, software, etc.

ABOUT THE AUTHOR

James Quintero is the policy director for the Texas Public Policy Foundation's Taxpayer Protection Project. He joined the Foundation in 2008 and his work has generally focused on local government matters, especially where it involves taxes, spending, and debt. His work has been featured in the *New York Times, Forbes, Fox News, Breitbart,* and more.

Quintero received a B.A. from the University of Texas at Austin and an M.P.A. from Texas State University. He is currently seeking a Ph.D. in public policy from Liberty University. In 2022, he was appointed to serve a three-year term on the Commission for Lawyer Discipline.

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