



Testimony

Invited Testimony Before the Texas Senate Committee on Local Government Senate Bill 2

by James Quintero, Policy Director, Government for the People

Mr. Chairman and Members of the Committee:

My name is James Quintero, and I am a policy director at the Texas Public Policy Foundation, a nonprofit free-market research institute headquartered in Austin, Texas. Thank you for the opportunity to address the committee today.

As you know, the [interim charge](#) being discussed this morning seeks to review:

Property Tax Reform: Review the effect of Senate Bill 2 (86th Legislature), the Texas Property Tax Reform and Transparency Act of 2019, and related legislation passed by the 87th Legislature. Make recommendations for further property tax reform and relief.

Pursuant to the charge above, I would like to propose several reforms for the committee's consideration. However, let me first say this: In 2019, my colleagues and I applauded the Legislature's efforts to pass SB 2, calling it a "[historic proposal](#)" at that time. Today, with the advantage of hindsight, I would like to reiterate that message and, again, commend the Legislature for passing the most meaningful property tax reform legislation in a generation. It has greatly improved the property tax system by empowering voters in numerous ways.

That said, I believe there are ways to further strengthen SB 2 to better the position of voters and local officials alike. Hence, the reforms below are offered in the spirit of bringing greater government transparency, accountability, and uniformity to the law.

TRANSPARENCY

- **Simplify the Jargon.** One of the many ways that SB 2 sought to improve the prior system was by replacing confusing tax jargon with easier to understand terms. For instance, the final bill "[rename\[d\] the rollback tax rate the voter-approval tax rate and rename\[d\] the effective tax rate as the no-new-revenue tax rate.](#)" Policymakers should continue down this path next session, helping people to have a better sense of the various aspects of the system that they are likely to encounter. One idea along these lines is to rename the Voter-Approval Tax Rate (VATR) election to Tax Increase Election (TIE). The change in terminology will help voters better comprehend the impact of the proposition that they are being asked to decide upon and lead to more informed decision making come election time.
- **Greater Government Disclosure.** In 2019, the Legislature passed [House Bill 3](#) which, among other things, required school districts to include the following statement on every bond proposition: "THIS IS A PROPERTY TAX INCREASE." Policymakers should borrow this concept and apply it to the [sample and official ballots](#) used in VATR elections. This is a simple way to make sure that voters understand the nature and consequence of the propositions that they are being asked to decide upon.

- Show the Impact.** In 2015, then-city councilmember Ellen Troxclair championed a resolution “[directing the \[Austin\] City Manager to create and publish a Taxpayer Impact Statement.](#)” As a result, the city now includes a taxpayer impact statement near the front cover of every proposed and adopted budget. As seen below, the statement provides a simple illustration of the average annual property tax bill paid by a typical homeowner under the current tax rate and the proposed tax rate as well as major fee changes. To Austin’s credit, this is the type of information that taxpayers need to cut through the fog of tax rates, valuations, and political rhetoric to reasonably assess the yearly cost of local government. It would be worthwhile to consider expanding this initiative such that other political subdivisions adopt a similar model, thereby empowering residents to more knowledgeably evaluate local fiscal matters as well as provide them with the information needed to engage their local elected officials.

City of Austin
Taxpayer Impact Statement

City of Austin
2022-23
BUDGET

Estimated Annual Impact of Approved Rate and Fee Changes on a “Typical” Residential Ratepayer

Service or Fee	Fiscal Year 2021-22 Yearly Rate	Fiscal Year 2022-23 Proposed Rate	Annual Dollar Change	Typical Ratepayer Defined as:
Austin Energy	\$1,014.72	\$1,201.56	\$186.84	Residential customer usage of 860 Kwh.
Austin Water	\$969.48	\$969.48	\$0.00	Residential customer usage of 5,800 gallons of water and 4,000 gallons of wastewater
Austin Resource Recovery	\$348.60	\$356.40	\$7.80	Residential customer using a 64-gallon cart
Clean Community Fee	\$111.60	\$115.20	\$3.60	Per single-family home
Transportation User Fee	\$179.52	\$212.64	\$33.12	Per single-family home
Drainage Utility Fee	\$141.60	\$141.60	\$0.00	Residential customer with 3,100 sq. ft./37% of impervious cover
Property Tax Bill	\$1,730.16	\$1619.61	(\$110.55)	FY23 median non-senior homestead assessed value of \$448,000, net of 20% general homestead exemption
TOTAL YEARLY IMPACT	\$4,495.68	\$4,616.49	\$120.81	Combined projected increase of 2.7%

Source: [City of Austin’s Proposed 2022-23 Budget](#) (p. 14)

ACCOUNTABILITY

- Expect Efficiency.** Another valuable element in [HB 3](#) (2019) is a requirement that school districts conduct an efficiency audit prior to holding a tax ratification election seeking to allow the district to exceed the 2.5% limit on property tax collections. According to the Texas Education Agency, this type of good government audit “[must be completed and posted on the district’s website at least 30 days before the election.](#)” The benefit of this type of reform is two-fold. First, it provides voters with a greater level of confidence in the stewardship of their tax dollars. Second, it identifies opportunities for local officials to improve their operations. A similar requirement could be extended to other local governmental entities seeking large tax increases. More specifically, those entities currently governed by SB 2 should be required to conduct a third-party efficiency audit prior to holding an election to approve a tax rate exceeding the 3.5% threshold.¹ As with school districts, such a study should be made available for public consumption before any election and the cost of conducting it borne by the entity itself. Adding this requirement to VATR elections promises to promote voter confidence and ensure a more efficient operation.
- Strengthen HB 1869.** In 2021, the Legislature passed [House Bill 1869](#), which was intended to “[specify the types of debt included in the calculation of a local taxing unit’s voter-approval tax rate, ensuring that taxing units did not increase debt to circumvent tax limitations.](#)” While the bill’s passage was a step in the right direction, further changes

¹ In 2021, the Texas Legislature considered a proposal ([SB 1437](#)) that would have required “certain municipalities and counties conduct an efficiency audit before holding an election to approve the adoption of certain ad valorem tax rates.” The proposal failed to become law.

are needed to ensure that debts paid by property taxes are included in the voter-approval tax rate calculations. One way to achieve this is to eliminate the “designated infrastructure” classification² established by HB 1869, which allows for debt of a certain variety to be excluded from the 3.5% limit.

- **True-Up the Threshold.** Under current law, the voter-approval tax rate calculation excludes the value of new construction. The omission of this element creates an environment in which cities, counties, and certain special districts may collect more than the 3.5% limit would otherwise allow. The exact amount varies. The VATR calculation should be updated to include new property value in its tally, thereby observing SB’s intent in greater fashion.

UNIFORMITY

- **Lower the Limit.** In 2019, the Legislature established two different standards governing property tax revenue growth—a 2.5% threshold for school districts and a 3.5% mark for cities, counties, and certain special districts. The differing standards add unnecessary confusion to an already complex system. The Legislature should consider lowering the 3.5% revenue limit for cities, counties, and special districts to 2.5% so that all political subdivision types are governed by the same, simple measure. Establishing one standard for all governmental entities will make the system easier to understand and engage with.
- **Equal Application.** Presently, the property tax revenue limitation is not applied to all government types equally. Certain special districts, that is, community college districts and hospital districts, and small taxing units—those entities other than a school district that levy a maintenance and operations tax rate of 2.5 cents or less per \$100 of taxable value—are allowed to calculate the VATR using the previous 8% threshold. This promotes inequality between taxing units based on type and allows for large tax increases to be imposed without voter approval. The Legislature should apply the same standard to all governmental entity types.

In tandem, these reforms have the potential to greatly improve the property tax system by promoting transparency, accountability, and uniformity. I hope the committee will take these recommendations into consideration as the legislative process proceeds further.

Thank you for your time and I look forward to answering any questions that you may have.

² According to the House Research Organization’s [bill analysis](#), the term designated infrastructure includes: “a facility or equipment for streets, roads, or highways; telecommunications; cyber security; or as part of a utility system, water or wastewater projects, a wharf or dock, or flood control or drainage project.”



James Quintero is the policy director for the Texas Public Policy Foundation's Government for the People initiative. Having joined the Foundation in 2008, Quintero's research covers a wide range of issues, mostly related to local government matters, including: taxes, spending, debt, transparency, annexation, and pension reform. His work has been featured in the *New York Times*, *Forbes*, *Fox News*, *Breitbart*, and more.

Quintero received an M.P.A. from Texas State University and a B.A. from the University of Texas at Austin. He is currently seeking a Ph.D. in public policy from Liberty University.

Quintero and his wife, Tricia, are blessed with five beautiful children, a Great Dane, a Boston Terrier, and an exceptionally large grocery bill.

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