

INVITED TESTIMONY TO THE SENATE COMMITTEE ON LOCAL GOVERNMENT: ADDITIONAL PROPERTY TAX RELIEF AND REFORM INTERIM CHARGE

BY **James Quintero**, Texas Public Policy Foundation
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Chairman Bettencourt 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 Texas' property tax.

- **Additional Property Tax Relief and Reform:** Report on the effects of prior property tax relief and reform, including the \$18 billion tax cut with the \$100,000 homestead exemption authorized by the 88th Legislature. Focus particularly on the interaction between Senate Bill 2, 88th Legislature, 2nd Called Session, and Senate Bill 2, 86th Legislature. Make recommendations for further property tax relief and reform, including methods to improve voter control over tax rate setting and debt authorization, and mechanisms to dissolve taxing entities such as municipal management districts (MMDs) and tax increment reinvestment zones (TIRZs) when they have outlived their purpose.

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 Year One (FY 2024). 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

continued

value. That represents a rate reduction of more than 22% 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.”](#) Those additional provisions will increase the savings to \$1,436.66 in the first year and \$1,482.67 in the second year.

Figure 1
Intended Tax Relief

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, seeking voter-approval tax rate elections (VATRES), and proposing large bond packages—knowing that any public criticism would be dulled by the fact that state lawmakers lowered everyone’s taxes. As a result of these aggressive tax consumption measures, there has been a noticeable level of erosion in the level of relief that was originally planned.

CURRENT ENVIRONMENT

Despite 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.

ELEVATED TAX RATE DECISIONS

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 that 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.

Figure 2*Estimated Tax Increase in San Antonio*

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.

Figure 3*Estimated Tax Increase in Austin*

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 may increase taxes on the average homestead by an additional \$412 annually.

Of course, the tax increases noted above may not fully represent the tax bill fluctuations that may ultimately result in 2025. That is because there are numerous VATREs that voters recently decided in the November election cycle.

VOTER-APPROVAL TAX RATE ELECTIONS

Many political subdivisions are seeking voter permission to exceed the voter-approval tax rate. If these measures are successful, then some voters may see a significant increase in their tax bill. One prominent example is Austin ISD which, if successful, will increase the average homeowner's tax bill by an additional \$412 annually. This VATRE is being considered despite a pronounced cost-of-living crisis and declining enrollment in the district.

Figure 4*Proposed Tax Rates With & Without VATRE*

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](#).

To date, the Foundation has tracked more than 40 separate VATREs proposed throughout the state. These measures have the potential to significantly erode the relief provided in 2023. Those entities proposing such tax increases included:

[Alief ISD](#) (efficiency audit [here](#));
[Alvarado ISD](#) (efficiency audit [here](#));
[Argyle ISD](#) (efficiency audit [here](#));
[Anthony ISD](#) (efficiency audit [here](#));
[Austin ISD](#) (efficiency audit [here](#));
[Beaumont ISD](#) (efficiency audit [here](#));
[Borger ISD](#) (unable to locate efficiency audit);
[Brownsboro ISD](#) (unable to locate efficiency audit);
[Bushland ISD](#) (unable to locate efficiency audit);
[Canyon ISD](#) (efficiency audit [here](#));
[Celina ISD](#) (efficiency audit [here](#));
[Coppell ISD](#) (efficiency audit [here](#));
[Darrouzett ISD](#) (unable to locate efficiency audit);
[East Central ISD](#) (efficiency audit [here](#));
[Fort Stockton ISD](#) (efficiency audit [here](#));
[Frenship ISD](#) (efficiency audit [here](#));
[Frisco ISD](#) (efficiency audit [here](#));
[Grapevine-Colleyville ISD](#) (efficiency audit [here](#));
[Hedley ISD](#) (unable to locate efficiency audit);
[Industrial ISD](#) (efficiency audit [here](#));
[Junction ISD](#) (unable to locate efficiency audit);
[Kirbyville CISD](#) (efficiency audit [here](#));
[Liberty Hill ISD](#) (efficiency audit [here](#));
[Magnolia ISD](#) (efficiency audit [here](#));

[Manor ISD](#) (efficiency audit [here](#));
[Marble Falls ISD](#) (efficiency audit [not completed](#));
[McLean ISD](#) (efficiency audit [here](#));
[Midlothian ISD](#) (efficiency audit [here](#));
[Montgomery ISD](#) (efficiency audit [here](#));
[Northwest ISD](#) (efficiency audit [here](#));
[Oakwood ISD](#) (unable to locate efficiency audit);
[Rochelle ISD](#) (efficiency audit [here](#));
[Rockwall ISD](#) (efficiency audit [here](#));
[Round Top-Carmine ISD](#) (unable to locate efficiency audit);
[San Angelo ISD](#) (efficiency audit [here](#));
[San Marcos CISD](#) (unable to locate efficiency audit);
[Seguin ISD](#) (efficiency audit [here](#));
[Spring ISD](#) (efficiency audit [here](#));
[Texas City ISD](#) (efficiency audit [here](#));
[Vega ISD](#) (efficiency audit [here](#));
[Victoria ISD](#) (efficiency audit [here](#));
[Yoakum ISD](#) (unable to locate efficiency audit); and
[City of Cibolo](#) (efficiency audit not required of municipalities).

While it is unclear the degree to which these measures passed or failed, it is certain that, where approved, these VATREs are likely to exacerbate existing affordability issues. Too, these measures are not alone in posing a threat to taxpayer wellness this election cycle. Texans must also contend with growing public debt as well.

GOVERNMENT DEBT

As it stands, data from the Bond Review Board (BRB) suggests that Texas' local debt soared to a total of \$461.3 billion in fiscal year (FY) 2023, up from [\\$417 billion in the prior year](#). That one-year jump represents a \$44 billion increase or roughly 11% growth.

The most deeply indebted governmental entities were public school districts. In FY 2023, ISD debt grew to a staggering \$185.5 billion, or more than 40% of everything borrowed. The vast majority of this debt is tax-supported, meaning it has property tax implications. The next biggest borrowers were cities (\$138.9 billion, or 30.1%) and water districts (\$64.7 billion, or 14%).

Figure 5

Local Government Debt in Texas

Texas Local Government Debt			
Estimated Debt Service as of 8/31/2023 (Preliminary subject to change)*			
	Principal	Interest**	Total Debt Service
Public School Districts	\$120,129,025,470	\$65,399,923,687	\$185,528,949,157
Cities, Towns, Villages	\$95,577,525,517	\$43,277,967,029	\$138,855,492,546
Water Districts and Authorities	\$45,421,149,751	\$19,233,978,991	\$64,655,128,742
Other Special Districts and Authorities	\$19,554,621,004	\$13,761,273,679	\$33,315,894,683
Counties	\$16,285,985,696	\$6,256,214,397	\$22,542,200,094
Community and Junior Colleges	\$6,592,935,560	\$2,650,126,356	\$9,243,061,916
Health / Hospital Districts	\$4,485,389,565	\$2,626,526,964	\$7,111,916,529
Total	\$308,046,632,565	\$153,206,011,103	\$461,252,643,667

*Excludes Commercial Paper and Conduit debt

**Excludes Build America Bond subsidy

The consumption of government debt continues to grow rapidly, too.

Consider that Texas voters considered almost 325 bond propositions on May 4th, 2024. Of those, approximately 260 measures were approved. The total repayment cost for every bond measure proposed was \$38.8 billion. The total repayment cost for every bond measure passed is \$33.3 billion. The passage rate for bond propositions during the May 2024 election cycle was 79.9%. Texas' heightened debt environment should prompt the Legislature to consider reforms to improve debt transparency and accountability.

One reason why the consumption of government debt may be accelerating, at least as it relates to school district debt, is that governmental entities are pushing maintenance and operations (M&O) related expenses to the interest and sinking (I&S) side of the property tax.

An example of this tendency was recently noted in [Community Impact](#), which reported:

Unlike past bond proposals, the district does not want to build new schools. Instead, the monies would be used to address the needs of all of the district's campuses, including the 28 of 55 schools approaching a "critical" need of repair.

"If we have a leaky roof at McNeil High School, or if we have a chiller at one of the campuses that breaks down and we have to replace it, we have to tap into our [maintenance and operations budget], which is very tight," RRISD Superintendent Hafedh Azaiez said.

For the record, Round Rock ISD proposed a \$998 million bond package this election cycle—the largest ever proposed in the district—and received approval for \$933 million.

RECOMMENDATIONS

The trends and data make clear that, despite the Legislature’s historic tax relief package, local governmental entities have reversed much of the gain and continue to exacerbate today’s cost-of-living crisis. As a result of these actions, homeowners, renters, and businesses are being denied the level of tax relief that state lawmakers intend.

Moving forward, it would be prudent for the Texas Legislature to consider policy changes on two fronts: tax relief and tax reform.

PROPERTY TAX RELIEF

On property tax relief, the next Legislature should continue eliminating ISD M&O property taxes. Current research suggests that this may be accomplished over an 8- to 10-year timeframe.

By continuing to buy down our school tax rates, policymakers can provide immediate tax relief, put the surplus to use in a responsible fashion, and continue down the path of eliminating Robin Hood.

PROPERTY TAX REFORM

In terms of tax reform, policymakers should consider improving the system in four key areas: transparency, accountability, sustainability, and uniformity. Such reforms might include:

GUARDING THE GAINS: MAINTENANCE & OPERATIONS (M&O) REFORMS				
	No.	Problem	Solution	Goal
COMMUNICATION	1	Property tax terminology is confusing.	Rename difficult-to-understand terms for improved public comprehension. Examples: 1) Change Voter-Approval Tax Rate Election (VATRE) --> Tax Increase Elections (TIEs) 2) Enrichment Tax Rate --> Excess Tax Rate 3) No-New-Revenue (NNR) Tax Rate --> Taxpayer Time-Out Tax Rate	Improved understanding.
	2	VATRE propositions are written in legalese.	Amend Section 26.07 of the Texas Tax Code to require that VATREs include 1–2 simple sentences above the ballot language that describes the measure’s general purpose and cost. The sentences should be written at an 8th grade reading level.	Better decision-making.
	3	VATRE propositions lack sufficient information to alert voters to the possibility of higher taxes.	Include the following statement on VATRE propositions: “THIS IS A PROPERTY TAX INCREASE.” Accentuate the disclosure statement so that it is obvious to all voters.	Better decision-making.
	4	VATRE propositions lack any detail regarding the anticipated tax impact on the average homeowner.	Instruct political subdivisions to include a tax impact estimate on VATRE proposition that discloses the average annual tax bill change that can be expected if the measure passes.	Informed consent.

CALCULATION/MECHANICS	5	The 3.5% VATR limit allows for additional revenue growth beyond what the restriction implies.	True-up the VATR threshold by including the value of new property growth and development in its calculation.	Truth-in-taxation.
	6	The 3.5% VATR limit excludes certain property tax-supported debt from its calculation, thereby creating an incentive to borrow.	Amend the statutory definition of 'debt' for the purposes of calculating the VATR to include a bond, warrant, or certificate of obligation. Eliminate the designated infrastructure exceptions created under Section 26.012 of the Texas Tax Code.	Truth-in-taxation.
	7	Texas' property tax revenue limit applies differently to cities, counties, and special districts v. school districts v. hospital districts and community colleges.	Apply one universal VATR limit to all political subdivisions, irrespective of category.	Standardize and simplify.
	8	Texas' property tax revenue limit exempts smaller taxing units, i.e., some communities under 30,000 population.	Apply one universal VATR limit to all political subdivisions, irrespective of population size.	Standardize and simplify.
	9	The 3.5% VATR limit may be discarded if the taxing unit is located in an area declared to be a disaster by the governor and an 8% revenue limit utilized instead. This type of exception invites abuse.	Prohibit taxing units from using the emergency revenue rate and set the VATR amount at a constant threshold, irrespective of circumstance.	Prevent abuse.

RATE REFORM & ADJUSTMENTS

10	The unused increment rate enables taxing units, other than special taxing units, to levy higher taxes than otherwise would be allowed under the VATR.	Eliminate the unused increment rate concept as defined in Section 26.013 of the Texas Tax Code.	Eliminate unfriendly exceptions.
11	Taxing units are shifting M&O-related expenses to the I&S side of the ledger. I.e. instead of using M&O revenues to pay for a building's maintenance needs, like roof repair or HVAC, governmental entities are instead financing these projects through the I&S.	Amend the statutory definition of "debt" in Section 26.012 of the Texas Tax Code to exclude maintenance-related projects and expenses.	Truth-in-taxation.
12	If voters reject a VATRE, a taxing unit may still adopt a tax rate up to the VATR to produce a substantial revenue increase.	Require a taxing unit to adopt the no-new-revenue tax rate in the event that a VATRE is rejected by a majority of voters.	Ensure that local governmental officials have skin in the game.
13	If voters reject a VATRE, a taxing unit may soon thereafter propose another VATRE to be considered in the following year.	Increase the threshold to approve a VATRE or TRE from a simple majority vote to 60% or higher.	Respect the will of voters.
14	A taxing unit may seek a VATRE or TRE in the following year immediately after a failed election.	Amend Section 26.07 of the Texas Tax Code to institute a "cooling-off" period after a failed VATRE.	Respect the will of voters.
15	A taxing unit, other than a school district, may propose a VATRE or TRE without first submitting to a third-party efficiency audit and disclosing its findings to the public.	Require cities and counties seeking to hold a VATRE or TRE to undergo a third-party efficiency audit of their budget and operations and disclose the findings at a public meeting prior to the election.	Ensure prudence.

GUARDING THE GAINS: INTEREST & SINKING (I&S) REFORMS

	No.	Problem	Solution	Goal
COMMUNICATION	1	Bond propositions are written in legalese.	Require bond propositions to include 1-2 simple sentences above the ballot language that describes the measure's general cost and purpose. The sentences should be written at an 8th grade reading level.	Improved understanding.
	2	Bond propositions lack sufficient information to alert voters to the possibility of higher taxes, with the exception of ISD bond propositions.	Taxing units, other than school districts, should be required to include the following statement on bond propositions: "THIS IS A PROPERTY TAX INCREASE." Accentuate the language so that it is obvious to all voters.	Better decision-making.
	3	Bond propositions lack any detail regarding the anticipated tax impact on the average homeowner.	Instruct political subdivisions to include a tax impact estimate on VATRE proposition that discloses the average annual tax bill change that can be expected if the measure passes.	Informed consent.
	4	The Voter Information Document (VID) is not always located in a conspicuous location.	Direct political subdivisions to prominently display a hyperlink to the VID on the homepage of its primary bond website.	Improved understanding.
	5	Voters lack the proper context when deciding on a school district bond proposition.	Require school districts seeking approval for a bond issuance to physically mail every resident a postcard with pertinent information, like its FIRST rating, its existing tax burden on the average area household, and its A-F accountability score.	Improved understanding.
BOND ELECTIONS	6	A slim number of voters can authorize a massive bond proposition.	Establish a minimum voter turnout requirement as a prerequisite for bond approval.	Prevent abuse.
	7	A small minority of the population can exercise undue influence on a bond election held during an off-peak period.	Require bond elections to be held on the uniform election date in November.	Prevent abuse.
	8	The public lacks timely and reliable data on Texas local bond elections.	Require all taxing entities to notify the BRB of a pending bond election; task the agency with maintaining an up-to-date website for every election cycle.	Better decision-making.
	9	Despite 2019's SB 30, school districts continue to propose massive single-item bond propositions that do not give voters adequate choice and discretion.	Amend Section 45.003 of the Education Code to add a requirement that any single capital improvement project above a certain cost threshold (i.e., \$50 million) must be decided independently.	Informed consent.
	10	The I&S tax rate limit for school districts (i.e., \$0.50 per \$100 of value) enables excessive debt and exuberance.	Reduce the I&S tax rate from its current threshold (i.e., \$0.50 per \$100 of value) to a lower mark, such as \$0.40 per \$100 of value or less.	Better fiscal management.

BEFORE & AFTER

11	<p>ISDs are employing a debt defeasance approach to retire debt earlier than required by a bond's covenant/schedule and to create future bond capacity. There is no requirement that the I&S tax rate decline as debt is paid off and property values rise.</p>	<p>Require ISDs to disclose the minimum I&S tax rate necessary to properly service its debt for the current fiscal year and the actual I&S tax rate it has imposed. Further, require governing bodies to seek voter permission to adopt an I&S tax rate that exceeds a reasonable amount.</p>	<p>Better fiscal management.</p>
12	<p>Taxing units are gaming the VID methodology and estimations, thereby depriving voters of necessary information.</p>	<p>Strengthen the VID by requiring taxing units to utilize reasonable assumptions in their estimations and to disclose their calculations.</p>	<p>Improved understanding.</p>
13	<p>School districts may allocate unused bond proceeds for new purposes so long as certain conditions are met, such as an affirmative vote of the governing body. A new election is not required.</p>	<p>Prohibit ISDs from spending unspent bond proceeds on projects not approved by voters.</p>	<p>Better fiscal management.</p>
14	<p>Special interests poised to benefit from bonded indebtedness, such as architects, engineers, and construction firms, offer taxing units special services to promote the formation and passage of bond propositions.</p>	<p>Prohibit a person who makes a contribution to a political action committee that supports the issuance of a bond from being able to contract for goods or service related to the bond's passage.</p>	<p>Taxpayer protection.</p>
15	<p>No law prevents a taxing unit from pestering voters to approve a similar or the same bond proposition after a failed election.</p>	<p>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.</p>	<p>Taxpayer protection.</p>

GUARDING THE GAINS: OTHER REFORMS

	No.	Problem	Solution	Goal
CONSERVATIVE FISCAL REFORMS	1	Unlike state government, local governmental entities are generally not subject to any meaningful expenditure limits. State government is subject to 5 separate constitutional and statutory limits.	Limit local government spending growth to population and inflation and require a two-thirds supermajority to exceed the threshold.	Taxpayer protection.
	2	School districts have accumulated substantial unused fund balances that have come to serve as slush funds and enable spendthriftiness.	Require taxing entities to return excess fund balance proceeds beyond a certain amount (i.e., 90 days of operating expense).	Taxpayer protection.
	3	Taxing units are abusing nonvoter-approved debt instruments to finance unnecessary public projects and to circumvent the will of voters.	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.	Taxpayer protection.
	4	Taxing units are permitted to appoint members to an appraisal district's board of directors. Appraisal districts are responsible for appraising property for tax purposes.	Create separation between an appraisal district's board members and the taxing units that they serve. Prohibit board members from having any meaningful connection to the taxing units that impose property taxes on property within the appraisal district.	Taxpayer protection.
	5	Taxing units spend public money to lobby the Legislature against commonsense conservative proposals, like property tax reform, tax and expenditure limits, and increased transparency.	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. Prevent the use of state funds to pay for advocacy.	Taxpayer protection.

