

STOP THE STEAL:

How to Prevent Local Governments from Eroding State-Directed Tax Relief

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KEY POINTS

- The Texas Legislature frequently attempts to lower property taxes, but the burden does not seem to get lighter.
- Texans are denied relief by opportunistic local governments who seize upon the tax cuts to tax-and-spend more.
- New and higher taxes usually take the form of aggressive rate hikes, frequent voter-approval tax rate elections, large and costly bond propositions, and an over-use of certificates of obligation.
- Abusive local practices must be slowed or stopped for Texas taxpayers to truly know relief.

INTRODUCTION

Tax cut erosion is a major concern around the state.

Since 2019, the Texas Legislature has committed substantial resources toward reducing property tax bills through twin strategies: compressing school district maintenance and operations (M&O) tax rates¹ and increasing the residence homestead exemption.² However, the Legislature's tax relief efforts have largely been frustrated by the excesses of local government, which commonly take the form of aggressive rate hikes, frequent voter-approval tax rate elections (VATREs)³, large and costly bond propositions, and the abuse of certificates of obligation (COs).⁴

- ¹ In 2019, the 86th Texas Legislature passed HB 3 (2019) which, in part, compressed every school district's Tier One tax rate from \$1.00 per \$100 of value to \$0.93 per \$100 of value for the 2019-20 school year and created formulas to calculate additional rate reductions in future years, as determined by property value growth. The formulas established a maximum compressed rate (MCR) for each school district to act as a Tier One tax rate ceiling that, alongside other legislation, has prompted substantially lower rates. The maximum Tier One rate permitted for any school district during the 2025-26 school year is \$0.6322 per \$100 of value (Texas Education Agency, 2025).
- ² In 2021, the 87th Texas Legislature passed SB 1 (2021) and SJR 2 (2021), which voters later ratified, to increase the residence homestead exemption for school tax purposes from \$25,000 to \$40,000. In 2023, the 88th Legislature adopted SB 2 (2023) and HJR 2 (2023), which voters also later ratified, to further raise the residence homestead exemption from \$40,000 to \$100,000. In 2025, the 89th Legislature enacted SB 4 (2025) and SJR 2 (2025) to, again, raise the homestead exemption from \$100,000 to \$140,000, as well as SB 23 (2025) and SJR 85 (2025) to increase the additional exemption provided to elderly and disabled homeowners from \$10,000 to \$60,000. In November 2025, Texas voters will decide whether or not to ratify these measures.
- ³ A VATRE is a special election held on the uniform date in November by a taxing unit seeking to adopt "a tax rate that exceeds the voter-approval tax rate" (Kanusky, 2024, p. 44). This type of election enables the electorate to "vot[e] for or against the tax-rate proposition" (Texas Comptroller of Public Accounts, n.d.).
- ⁴ A CO is an instrument that "allows some governmental entities—like cities, counties, and certain special districts—to issue debt without voter approval to fund [virtually] any public project" (Quintero & Christiansen, 2019, para. 1).

continued

As a consequence of the loose local environment, the average Texan has not experienced state-directed tax relief in full.⁵ Instead, only some portion of the intended relief seems to have reached its target, i.e. the taxpayer, while the monies intercepted by local governments have been used to grow government and maintain expenditure levels beyond what they might otherwise be. In a sense, state-directed tax relief has become an indirect subsidy for cities, counties, and school districts.

In light of these developments, it is incumbent that the Legislature consider critical conservative-minded reforms to contain the cost of local government and extend the duration of any state-directed tax relief. If well-developed and faithfully implemented, such reforms have the potential to greatly improve the public finance landscape and ensure that Texas government continues to be affordable for Texas taxpayers for years to come.

To that end, several possible reforms have been outlined below, accompanied by previously filed legislation⁶ that would advance each one either in full or in part. Using this list, state-level policymakers and reformers have a starting point for any future deliberations as well as some statutory direction to achieve meaningful progress.

CRITICAL CONSERVATIVE REFORMS

If Texas is to remain the freest, most prosperous state in the nation, then local government action must be reasonably restrained so that our liberties—and our tax cuts—are not gradually eroded away by progressive activism and imprudent policies.

1. Ban Taxpayer-Funded Lobbying. Cities, counties, school districts, and special districts spent as much as \$98.6 million in 2023 to lobby the 88th Texas Legislature for more spending, higher taxes, and greater regulatory authority ([Quintero & Bonura, 2025](#)). The practical effect of this deeply unpopular practice⁷ is that Texas' nearly 5,000 local governments lobbied state government for more government.

To end the practice of taxpayer-funded lobbying, the Legislature should prohibit political subdivisions from hiring Chapter 305 registered lobbyists or paying nonprofits that hire or contract with Chapter 305 registered lobbyists for the purpose of legislative advocacy. This prohibition will not prevent local government officials and staff from advocating at the Texas Capitol, but it will stem the flow of tax dollars going to professional influence peddlers.

- *Ex.:* [SB 19/HB 3257/HB 4860](#) (89R): These identical bills proposed to prohibit political subdivisions from using public funds for lobbying activities, with specific exceptions, and provides remedies for taxpayers to enforce these restrictions.
- *Ex.:* [SB 239/HB 309/HB 571/HB 671/HB 1189/HB 1294](#) (89R): These identical and similar bills generally sought to restrict political subdivisions from using public funds for lobbying activities by prohibiting the hiring of lobbyists and the payment of organizations that engage in such activities. The

5 According to Senator Paul Bettencourt (2025), chairman of the Senate Committee on Local Government, "In 2023, the Texas [Legislature] delivered a tax cut of \$1,266.30 for the average homeowner. When tax cuts from 2023 and 2025 are combined, homeowners will be reviewing a total tax cut of \$1,762.87." Despite the Legislature's intentions to reduce the financial burden on most homeowners by nearly \$1,800 annually, mounting evidence suggests that this level of tax relief has not materialized as expected.

6 Example legislation mainly consists of bills filed during the 88th and 89th Regular Sessions, with a few exceptions.

7 According to a survey conducted by WPA Intelligence, from February 1 – 4, 2025, "More than 4 out of 5 registered voters oppose it with just 7% saying they approve" ([Phillips, 2025, para. 1](#)).

measures also strove to provide taxpayers or residents with the right to seek injunctive relief and recover legal fees if a political subdivision violates these prohibitions, with specific amendments to the Local Government Code to enforce these restrictions.

- *Ex.*: [HB 1313](#) (89R): The bill proposed to prohibit school districts and their employees from using public funds for hiring lobbyists or engaging in direct communications with legislative members to influence legislation. It also sought to grant taxpayers or residents the right to seek legal remedies and recover attorney's fees if these prohibitions are breached.

2. Strengthen the Property Tax Revenue Limitation. In 2019, the 86th Texas Legislature modernized its state-imposed property tax revenue limitation (PTRL) so as to reduce the rollback rate, now known as the voter-approval tax rate (VATR), from 8% to 3.5%⁸ and create an automatic voter-approval requirement that permits voters to approve or reject any increase above the threshold. As a result of these changes, the state's property tax levy growth has slowed noticeably since the PTRL's implementation.⁹

To further strengthen the PTRL's effect, the Legislature should consider further reducing the VATR to 2.5% or lower, closing loopholes, striving for uniformity and simplicity, and abolishing outdated concepts, like the unused increment tax rate.

- *Ex.*: [SB 9](#) (89(1)): The committee substitute amends the Tax Code to redefine how the voter-approval tax rate is calculated for various types of taxing units, specifically adjusting the formulas for municipalities or counties with populations under 75,000. It modifies the multipliers used in the voter-approval tax rate calculation, with the changes to take effect from January 1, 2026.
- *Ex.*: [HB 5502/SB 3026](#) (89R): These identical bills aimed to modify the way ad valorem tax rates are calculated for taxing units, including changes to how proposed tax rates exceeding voter-approval limits are approved. It sought to simplify the calculation formulas by removing certain adjustments, such as those related to new property values and various specific rate increment methods. Additionally, it would have adjusted certain exemptions and notice requirements for different types of districts and repeals several existing sections of the Tax and Water Codes to streamline the process.
- *Ex.*: [SB 2541](#) (89R): The bill sought to simplify ad valorem tax rate calculations by removing the unused increment rate from relevant formulas and statutes.
- *Ex.*: [SB 2775](#) (89R): This bill proposed to change how property tax rates are calculated and approved when they exceed the voter-approval threshold, aligning them with actual funding needs to prevent excess revenue. It would have required school districts to lower their property tax rates if state funding increases, avoiding additional, unnecessary revenue. The bill simplified tax calculations by removing complex formulas and exceptions for special and water districts, making it easier for these districts to understand and apply tax rules. It also standardized tax rules for municipalities with populations of 30,000 or more, eliminating distinctions for smaller ones. Addition-

8 This lowered limit does not apply to special taxing units, small municipalities, and ISDs.

9 Prior to the modernization of the state's PTRL, the average property tax levy growth rate for all property taxing units was 14.74% between 2005 and 2019. After the PTRL was reformed, the average property tax levy growth rate slowed to 5.03% from 2019 to 2024 ([Senate Committee on Local Government, 2025, 4:30](#)).

ally, it included provisions defining how unused tax increments from previous years can be utilized in the current year, providing flexibility in tax rate setting.

- 3. Institute a Local Spending Limit.** City and county governments routinely outspend the growth of population and inflation (P&I). In fact, from 2019 to 2023, many large city and county budgets outstripped P&I increases by a significant margin, signaling that local governments are spending more than the ideal (Quintero, 2024). One consequence of this heightened spending environment is the need for new and higher property taxes.

To rein in local government largesse, the Legislature should require city and county governments to limit future spending increases to P&I—in much the same way that the State’s finances are already governed.¹⁰

- *Ex.: HB 325 (89R):* The bill proposed to limit annual expenditures for cities and counties, allowing increases only in line with P&I, unless voter-approved or in disaster declarations, with certain revenues excluded.
- *Ex.: HB 5267 (89R):* This bill proposed to limit how much municipalities and counties can spend each year, based on either their previous year’s spending or a calculated rate that includes inflation and population growth. It also would have required these local governments to publish summaries of both their adopted and proposed budgets on their websites to increase transparency before and after budget hearings.

- 4. Enact a Balanced Budget Requirement.** Recently, a trend has been observed in which independent school districts (ISDs) have either adopted or appear poised to adopt deficit budgets, wherein expenditures outpace revenues (Quintero, 2025). This recent phenomenon is a reminder that local governments do not currently observe any constitutional or statutory requirements to adopt balanced budgets, which invites a host of fiscal harms, including overspending, higher taxes, depleted reserves, and unsustainable budgeting practices.

To ensure future fiscal responsibility, the Legislature should require a political subdivision to adopt a budget where its operating expenditures are equal to or less than its anticipated revenues. This type of reform is already in effect in other states, like North Carolina.

- *Ex.: North Carolina’s Local Government Budget and Fiscal Control Act (n.d.)* requires, in part, that: “(a) Each local government and public authority shall operate under an annual balanced budget ordinance adopted and administered in accordance with this Article. A budget ordinance is balanced when the sum of estimated net revenues and appropriated fund balances is equal to appropriations.” This existing law could serve as a model for similar legislation in Texas.

- 5. Establish a Local Debt Limit.** In FY 2024, local debt service outstanding rose to nearly \$500 billion, with ISD and municipal borrowing constituting the bulk. To illustrate the significance of Texas’ local debt, consider that if it were equally distributed among every man, woman, and child in the state, then each person would right now owe \$15,970 for their share of government indebtedness (Quintero & Andrews, 2025). This elevated amount holds obvious consequences for property taxes and the size of government.

To prevent excessive debt accumulation, the Legislature should prohibit a political subdivision from au-

¹⁰ Prior research identifies the 5 separate constitutional and statutory spending limitations observed by Texas state government, which include: “a debt limit, a welfare spending limit, a pay-as-you-go limit, and a limitation on the growth of certain appropriations” as well as a limit on the biennial growth rate of consolidated general revenue pegged to P&I (Quintero, 2024).

thorizing any further debt if the resulting annual debt service on debt payable from property taxes exceeds 10% of the amount equal to the average of the amount of property tax collections for the three preceding fiscal years.

- *Ex.: [HB 19](#) (89R):* This bill proposed to regulate how local governments in Texas can issue debt and use property tax revenue to repay it. It would have required voter approval for bond issues and tax increases during November elections, standardizing the election timeline. It sought to limit the annual debt payments to a portion of recent average property tax collections and ensures transparency and public involvement in financial decisions. It also specified the conditions for using COs to fund urgent public projects or address emergencies.

6. Require Supermajority Consent for Bonds and VATREs. Many Texans today are in the throes of a government-induced affordability crisis. The situation is especially difficult for the elderly, the disabled, and those on living on a fixed-income.

To ease the burden of government on everyone but particularly for the most vulnerable, the Legislature should require *any* property tax increase to be approved by two-thirds of voters who participate in an election.

- *Ex.: [HB 2736](#) (89R):* This bill proposed that any election in a political subdivision aimed at authorizing new bonds or increasing taxes will now require a two-thirds supermajority vote to pass, rather than a simple majority. Additionally, such elections must be held on the November uniform election date, ensuring they occur during a more standardized voting timeframe.

7. Establish Minimum Voter Turnout Requirements. Bond elections are regularly met with low voter turnout, wherein only a relatively small percentage of eligible voters can successfully burden an entire community with millions of dollars in additional taxpayer-supported bond debt and a higher tax rate. This raises legitimate concerns about the growth of government debt and the will of the community being properly reflected.

To ensure robust voter participation, the Legislature should establish a minimum voter turnout threshold for a bond election successfully pass.

- *Ex.: [SB 2091](#) (85R):* This bill would have, among other things, required at least 25% of the registered voters of a political subdivision to vote in the election in which the bond proposition is on the ballot in order to authorize the issuance of a bond or tax proposition.

8. Consolidate Fiscal Matters in November. Bond elections are permitted to be held on the uniform election date in May or November. The elections held in May often have extremely low turnout compared to November. This causes concern that a small number of voters will determine whether a county implements a tax increase or bond.

To maximize public participation in tax and bond elections, the Legislature should require political subdivisions to hold bond elections on the uniform election date in November.

- *Ex.: [SB 533](#)/[HB 1519](#):* These identical bills would have mandated that elections for the authorization of bond issuances or tax increases must be held on the November uniform election date and cannot be conducted as emergency elections on other dates.
- *Ex.: [SB 1209](#) (89R):* This bill focused on establishing a single uniform election date in Texas, designating the first Tuesday after the first Monday in November as the primary date for general and special elections. It would have removed previously allowed election dates, such as certain Saturdays, and mandates that elections should generally be held on Tuesdays.

9. Reform the Use of CO Debt. CO debt has spiked considerably in recent years. New data shows that CO debt outstanding increased by 65.% (\$9 billion) from \$13.67 billion outstanding in FY 2014 to \$22.67 billion outstanding in FY 2023 ([Quintero, 2024](#)). Curiously, this added debt came at a time when local governmental entities were flush with cash, thanks to federal pandemic aid and soaring tax revenues.

To prevent the abuse of nonvoter-approved debt instruments, the Legislature should restrict CO use to only select circumstances, such as to comply with a state or federal law, to contend with a public health emergency or natural disaster, or to comport with a court ruling. In addition, the petition threshold to challenge a CO issuance should be lowered from 5% to 2% of the issuer's qualified voters.

- *Ex.: [HB 1453](#) (89R):* This bill sought to amend existing laws regarding the issuance of anticipation notes and certificates of obligation. It restricted these financial tools when a bond proposition for the same purpose was rejected by voters, while allowing exceptions for specific emergencies or legal compliance needs. The bill also clarified terms, reduced the maturity period of certificates, changed voter petition requirements, and removed certain public works from eligible projects.
- *Ex.: [SB 1024](#) (89R):* The bill would have prohibited the issuance of anticipation notes and certificates of obligation for certain contractual obligations if a related bond proposition failed in the past five years, with exceptions for specific cases such as natural disasters and legal compliance.

10. Discourage Hoarding. Texas ISDs are sitting upon billions and billions of unused tax money, even while they clamor for more federal funds, more state aid, and higher local property taxes. By accumulating excess unused fund balances of a large nature, ISDs have effectively built slush funds to use for discretionary purposes and continue to over-tax Texans.

To discourage the hoarding of tax dollars, the Legislature should prohibit taxing units from accumulating excess fund balance proceeds by limiting carry-over balances to no more than 90 days of operating expenses. In addition, policymakers should require that any surplus funds be returned to property taxpayers either through rate compression, the homestead exemption, or in some other manner.

- *Ex.: [HB 3445](#) (87R):* This bill would have required excess funds above 110 days of operating expenses to be spent on buying down local debt obligations, lowering the district's maintenance and operations tax rate, supplementing employee compensation, or paying the cost of deferred maintenance.

CONCLUSION

These concepts and model legislation offer a starting point for the Legislature to enact substantive tax reform. There are, of course, many other ways¹¹ to improve the local public finance landscape, but these items are among the highest impact.

If the Legislature is willing, it has a monumental opportunity this special session to pass massive tax relief complemented by robust tax reforms. This could well set the stage for a long period of economic growth and dominance unlike any other.

¹¹ For more reform concepts, see: [15 Ways to Improve the M&O Property Tax](#); [15 Ways to Fortify the I&S Property Tax](#); and [5 Ways to Revamp the Property Tax System](#).

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