Testimony before the House Committee on Ways and Means

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Texas is Awash in Money

Revenues	
Beginning Balance (Surplus)	$32.7 billion
2024-25 Revenues	$155.6 billion
Total Revenue Available	**$188.2 billion**
Spending	
GR Spending in HB 1	($130.1 billion)
HB 1 Transfer for Property Tax	($9.7 billion)
2022-23 Supplemental Bill	($6.0 billion)*
Total Spending	**($145.8 billion)**
Unobligated Excess Revenue	**$42.4 billion**
Plus: Stabilization Fund Balance	**$27.1 billion**

*Actual amount may be less to stay within the 2022-23 spending limit.
Numbers may not add due to rounding.

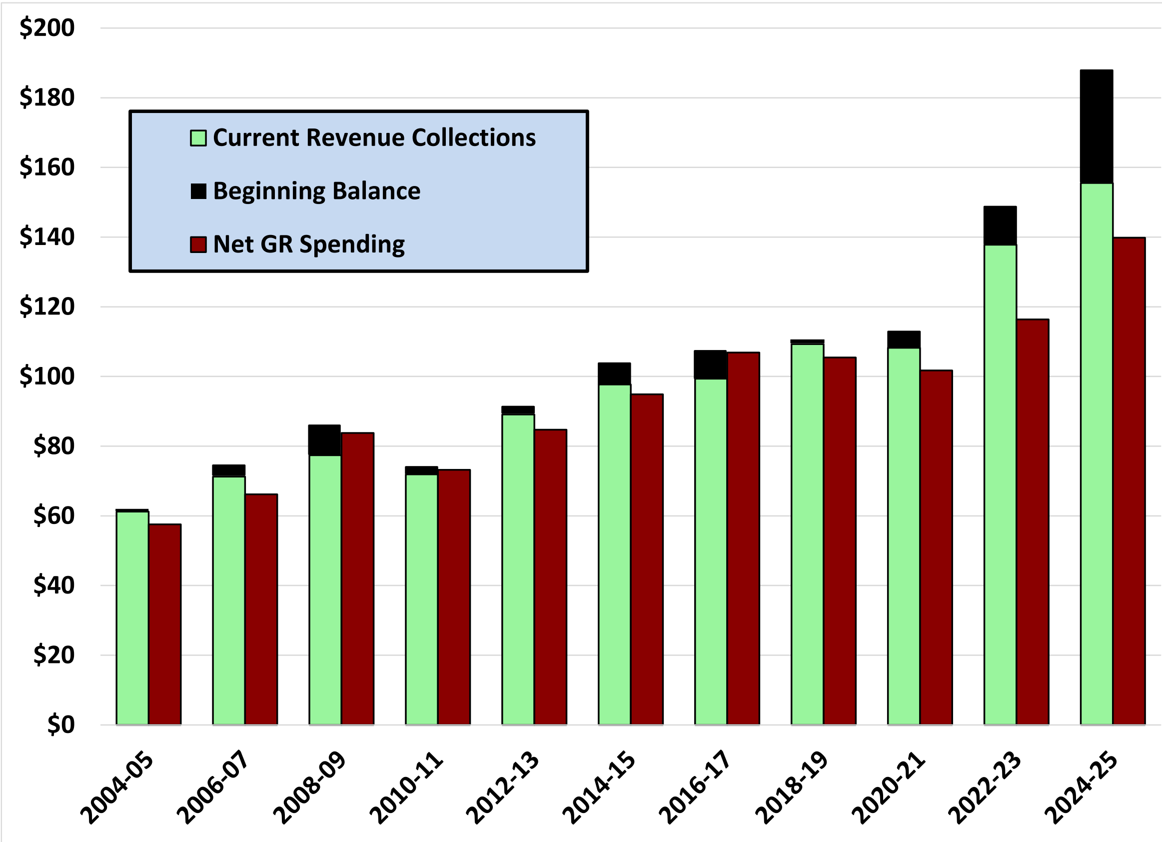
Lawmakers still have over $40 billion of general revenue available to obligate for the 2024-25 biennium – an historic high.

Comptroller Hegar's Biennial Revenue Estimate for 2024-25 projects total general revenue available of $188.2 billion. This is the sum of the 2023 estimated "surplus" of $32.7 billion, plus anticipated 2024-25 revenue collections of $155.6 billion.

HB 1, the General Appropriations Act for 2024-25, directly appropriates $130.1 billion of general revenue. The bill also transfers $9.7 billion of general revenue to the property tax relief fund. The Legislative Budget Board has also identified $6 billion of supplemental funding required to close out the 2023 state budget, for total general revenue spending of $145.8 billion.

In addition to the general revenue amounts mentioned above, the Comptroller estimates the Economic Stabilization Fund will have a balance of $27.1 billion at the end of 2025.

Historical State General Revenues, Balances, and Expenditures



Texas' $32.7 billion estimated 2023 surplus would be an all-time record – roughly three times the 2021 record of $11 billion.

Texas has a structural surplus of roughly $20 billion. Since the 2018-19 budget, Texas spending has been well below the amount of state revenues, allowing the state to accumulate record surpluses in the past two biennia.

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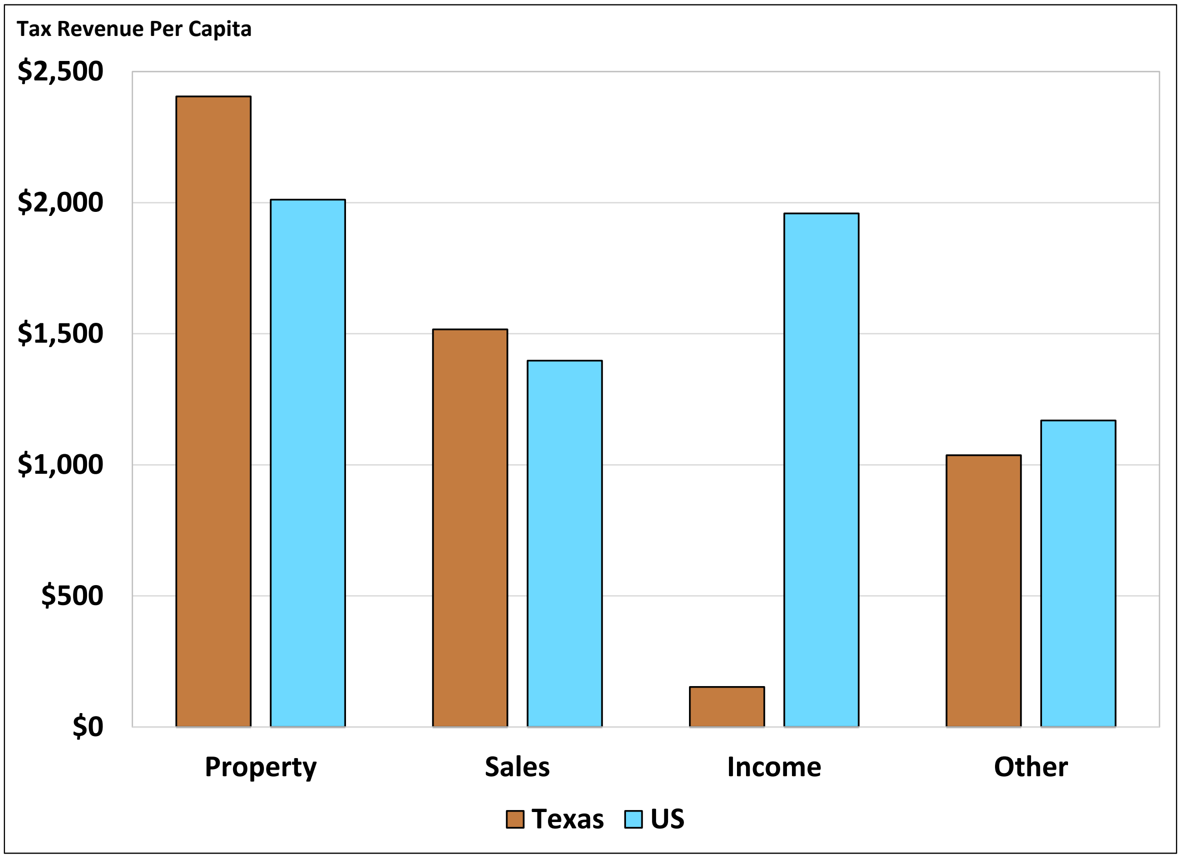
Texas State and Local Taxes Compared to 50-State Averages



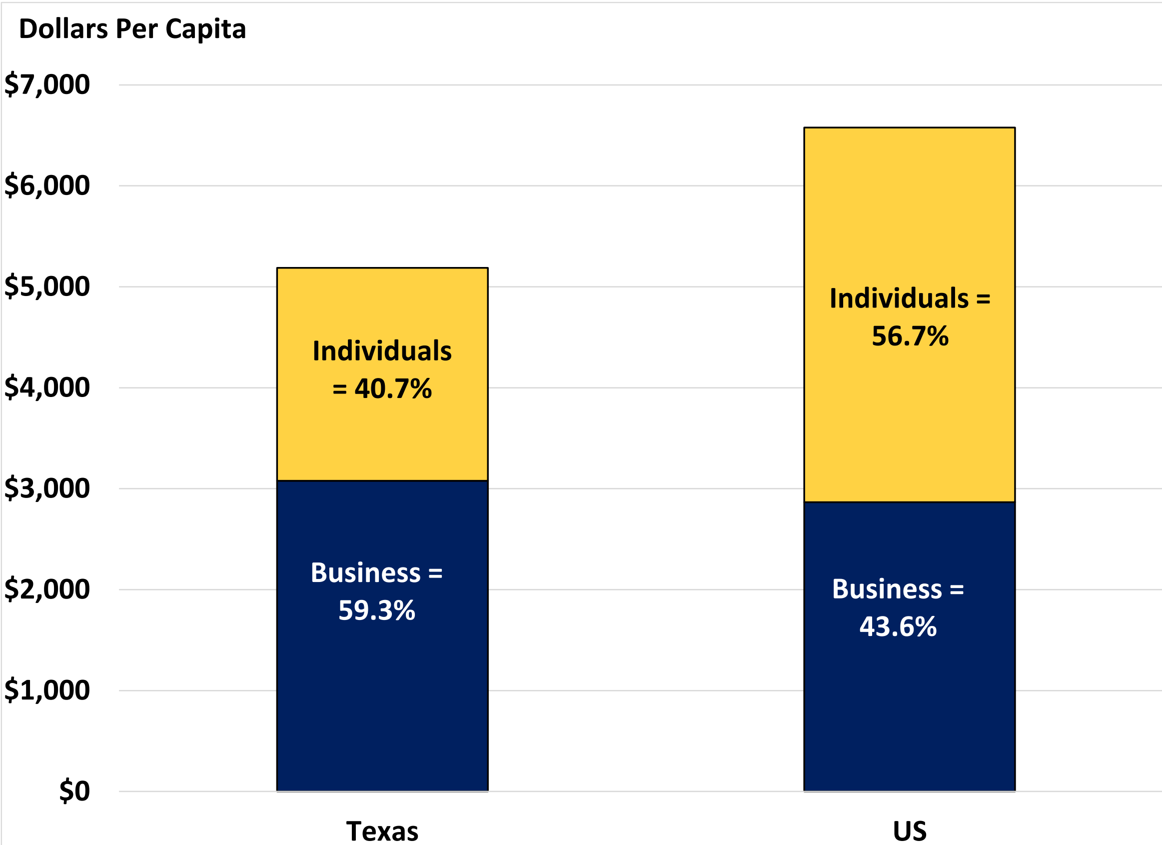
Source: Council on State Taxation, *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021*.

State and local tax systems are often described as a "three-legged stool," reflecting roughly equal legs of 1) income (both business and personal), 2) sales, and 3) property taxes (although other taxes—such as severance and excise taxes can be substantial).

By comparison, given our lack of a state personal income tax—saving the average Texas family of three over $4,000 per year—Texas's system could be more appropriately described as a "two-legged" stool.

BUT, there is a trade-off for not having a personal income tax: Texas has much higher than average sales and property taxes—taxes that fall heavily on business.

Who Pays State and Local Taxes?



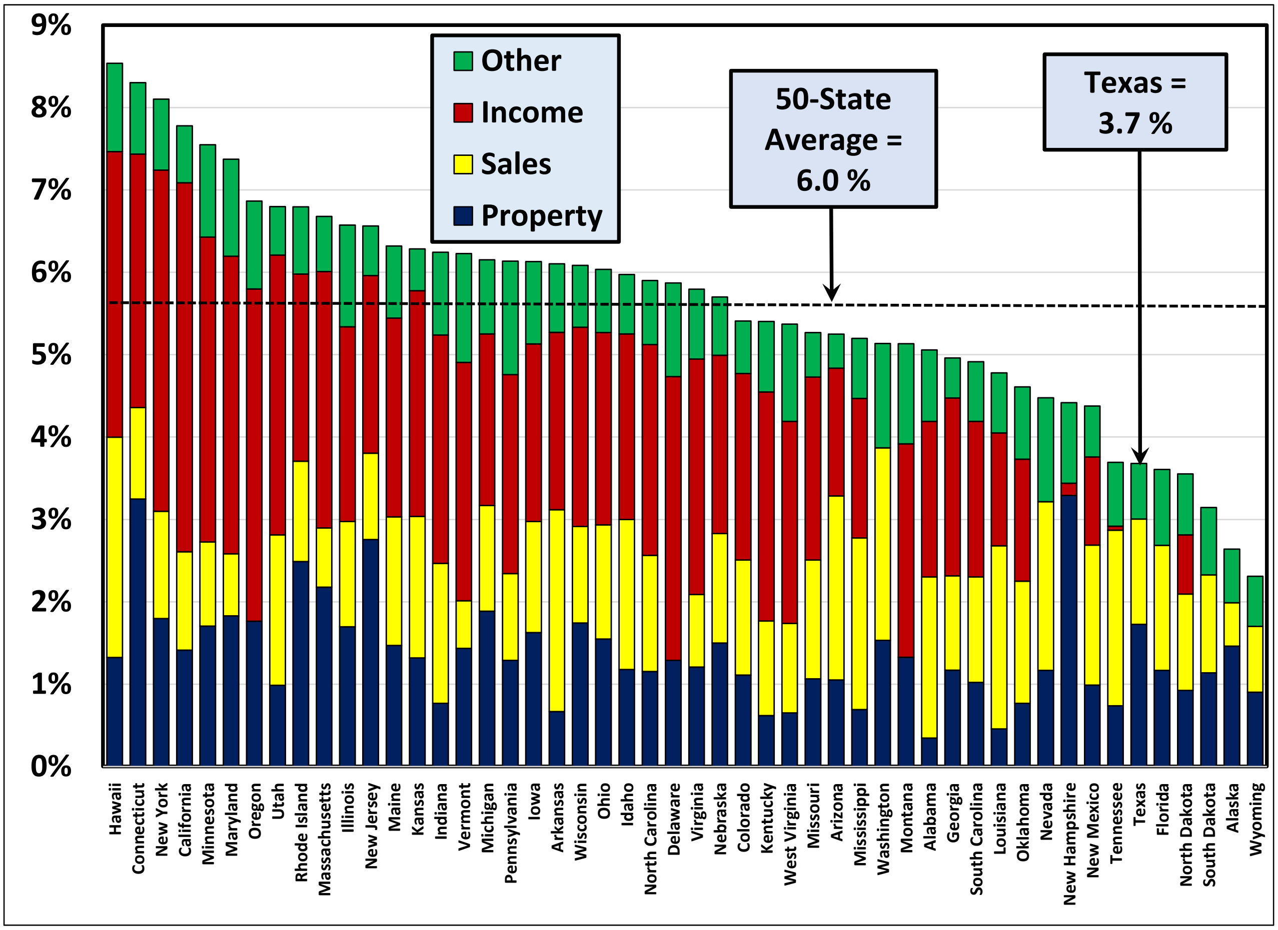
Source: Council on State Taxation, *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021*.

By many measures, Texas' state and local tax burden is well below the national average. Texas state and local taxes totaled $5,188 per capita in 2021, or 21 percent below the national average of $6,577.

However, it is important to note there are two types of taxpayers: individuals and businesses.

Lacking a personal income tax, Texas relies on business to pay 59.3% of our tax load—far above the 50-state average of 43.6%. Though Texas state and local taxes on individuals are low, taxes on business are actually quite high.

Individual Tax Burden Relative to Personal Income, 2021



Source: Council on State Taxation, *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021*.

While Texas has relatively high property and sales taxes the absence of a personal income tax makes Texas a very low tax state for individuals.

Texas ranks 6th lowest (or 45th highest) among the states in terms of state and local taxes levied on individuals relative to personal income. Texas state and local taxes equates to 3.7 percent of total personal income—well below the 50-state average of 6.0%. Our state and local tax burden on individuals is 38% below the national average.

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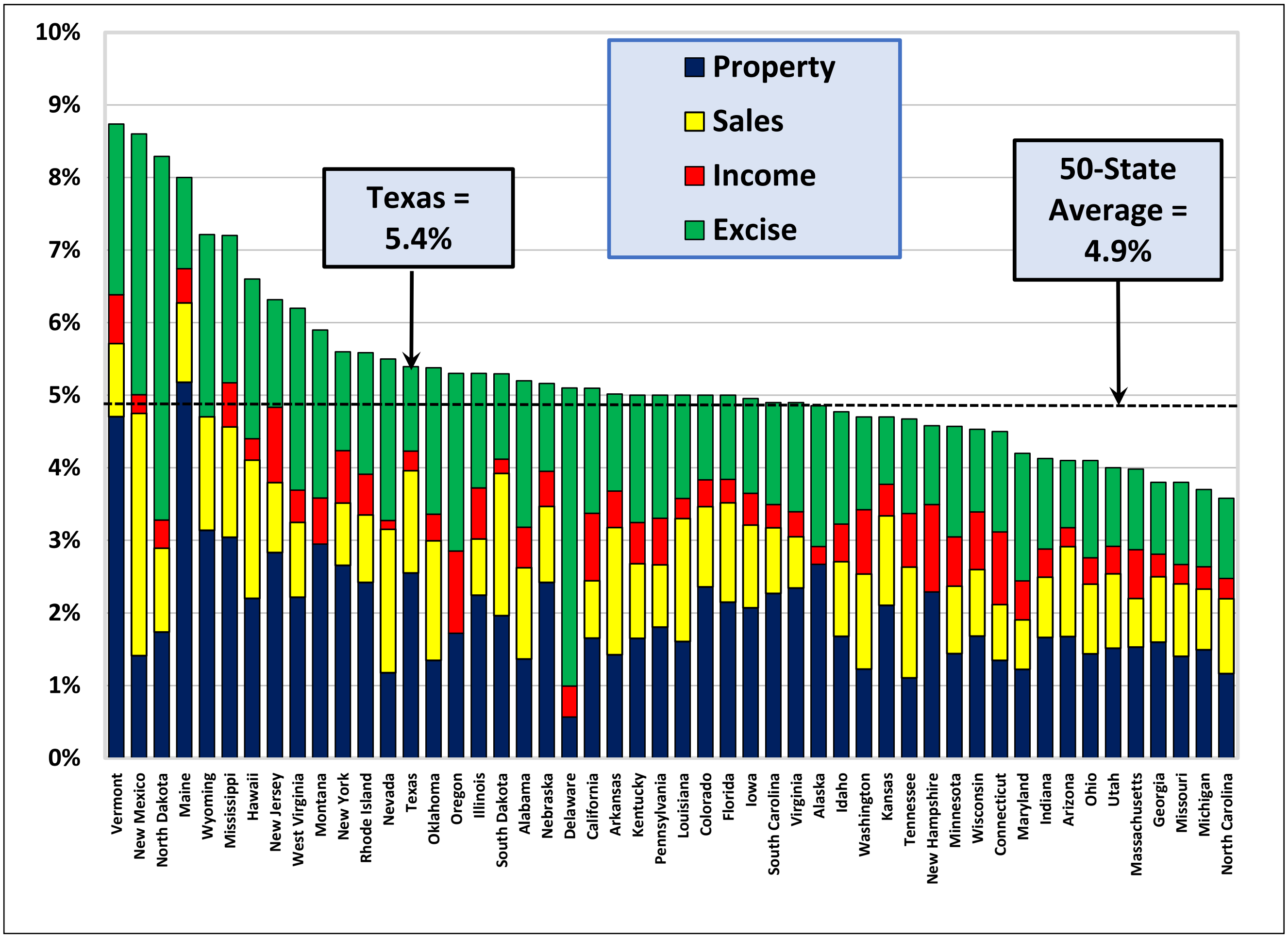
The Taxes Business Pays in Texas, 2021



Source: Council on State Taxation, *Total State and Local Business Taxes: State-by-State Estimates for Fiscal Year 2021*.

Texas state and local taxes on business are equivalent to 5.4% of gross state product ranking 10% above the average state. That makes Texas a relatively high tax state for business—14th highest among the 50 states.

While the ranking is not extraordinarily high, by no means is Texas a low tax state for business.

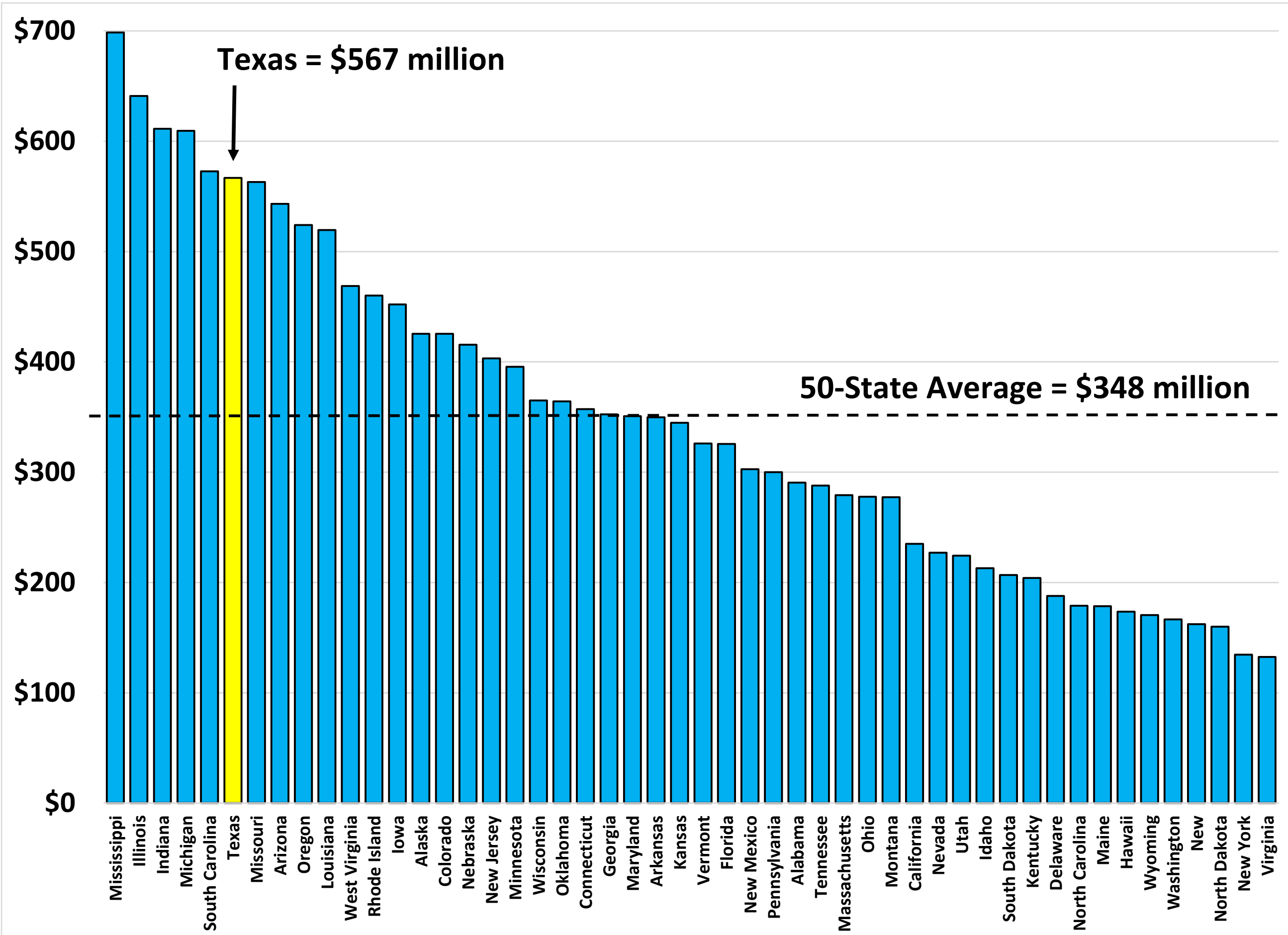
Texas' heavy reliance on property and sales taxes particularly impact both capital intensive and goods producing industries. In particular, for capital-intensive industries Texas is a very high tax state because of our high rates and broad-base property taxes.

Texas' Key Taxes Compared to Other States

Tax	Current Rate and Base	Comparison
Sales Tax Rate[1]	State Tax Rate: 6.25% Local Taxes: Generally capped at 2.0 %; average is 1.95% Average Combined Rate: 8.2%	State Rate: 13th highest Combined Rate: 14th highest
Sales Tax Base	Generally applies to all sales of tangible personal property excluding food, medicine and residential or industrial utilities; and a number of services	Texas' base is generally broader than that of other states because we tend to include more services in our tax base. TTARA estimates Texas' sales tax is 15th broadest
Property Tax Rates[2]	Residential property: average effective tax rate in 2021 was 1.69% of market value on a median-valued home (1.60% with $40,000 homestead exemption); average tax bill is $3,539 Commercial property: average effective tax rate in 2021 was 2.20 percent on a $1 million-valued property Industrial property: average effective tax rate in 2021 was 2.27% of market value for a $25 million facility	Residential property: Texas' effective tax rates rank us 10th highest nationally, 27% above the national average (12th with $40,000 homestead exemption); with lower home prices than other states, Texas tax bills rank 18th highest, or 23rd with $40,000 homestead exemption Commercial property: 16th highest nationally, 18% above the national average (this does not include business personal property or inventories) Industrial property: Texas' effective tax rates rank us 6th highest nationally, or 65% above the national average
Property Tax Base[3]	Texas taxes all real estate plus any tangible personal property used for business purposes (equipment and inventory); goods in interstate commerce are exempted at local option (i.e., Freeport property)	Texas' base is generally broader than that of other states: 11 states exempt all business tangible personal property; inventories are generally exempt in all but 10 states (4 states partially tax inventories)
Business Franchise Tax[4]	Texas' franchise tax is unlike the net business income tax levied by most other states; Texas' effective tax rate relative to economic output was 0.27% in 2021	Relative to economic output, Texas' franchise tax ranks 42nd highest among the states, about 42 percent *below* the national average; however, Texas' franchise tax is far more complex than business taxes in other states, resulting in a much higher compliance cost

[1] Rate comparisons are from the Tax Foundation, *State and Local Sales Tax Rates 2023*.
[2] Rate comparisons are drawn from Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence, *50-State Property Tax Comparison Study, for taxes paid in 2021*.
[3] From the Tax Foundation, *States Moving Away from Taxes on Tangible Personal Property* and *Does Your State Tax Business Inventory?*
[4] From the Council on State Taxation, *FY21 State and Local Business Tax Burden Study*.

Property Taxes on a $1 Billion Industrial Investment Project (25 Year Life)

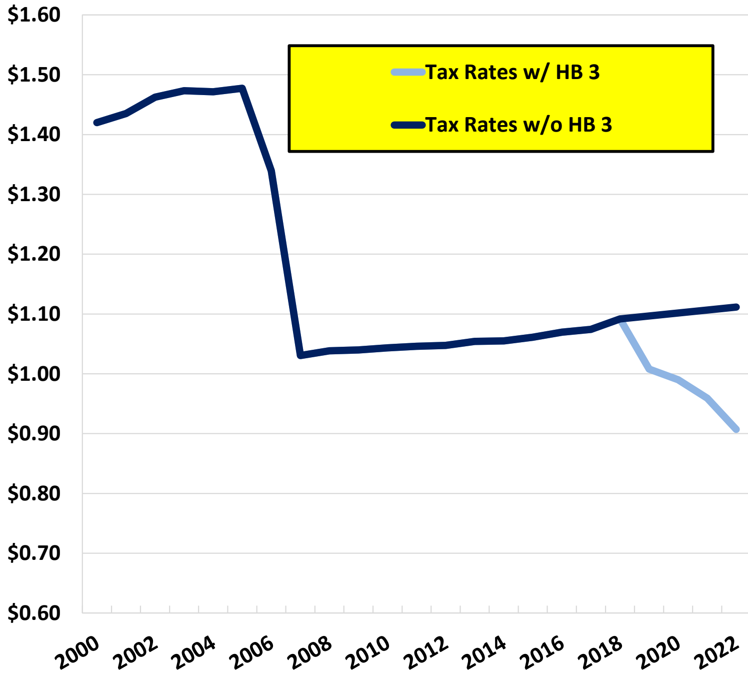


Based on *50 State Property Tax Comparison Study, For Taxes Paid in 2021* by the Minnesota Center for Fiscal Excellence and the Lincoln Institute of Land Policy.

The above chart illustrates the total property taxes on an industrial facility valued at $1 billion over its 25-year lifespan across the various states.

The 50-state average property tax paid over the life of the facility is $348 million. In Texas, the facility, if it received no city/county property tax abatements, would pay $567 million in property taxes—63 percent higher than the national average.

Tax Savings Under HB 3 (2019)



Tax Savings Under HB 3

	Rate Reduction	Dollar Savings
2018	$0.00	$0.0 bl
2019	$0.09	$2.5 bl
2020	$0.11	$3.3 bl
2021	$0.15	$4.6 bl
2022	$0.20	$7.6 bl

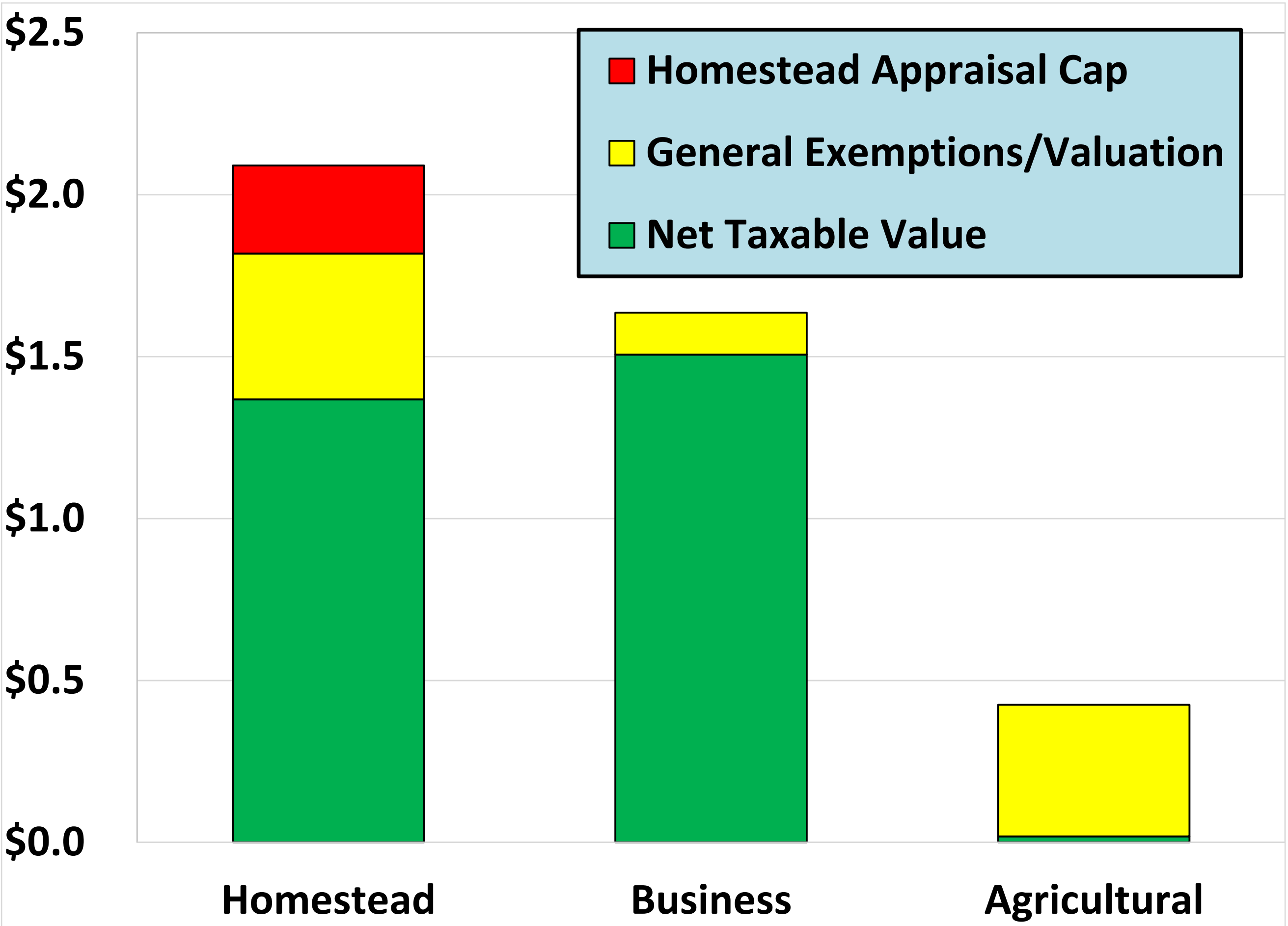
Under Texas school finance law, school districts are guaranteed a certain dollar amount of funding per student – funded partly by local property taxes and partly by state aid. School districts are expected to levy a certain property tax rate, and if that doesn't raise the per student amount guaranteed by the state, the difference is made up through state aid. This ensures an equitable amount of funding regardless of local property tax wealth.

Prior to 2019, as local property values grew, state formulas saw the district as becoming "wealthier," and it qualified for less state aid. As a result, school districts had to keep their tax rates high, to offset the loss of state aid.

In 2019, the legislature passed landmark legislation with HB 3 by Huberty/Taylor. This bill essentially requires any growth in a school district's values in excess of 2.5% to be used to reduce their property tax rates levied for maintenance and operations, with no corresponding loss of state aid. As a result, school district tax rates have begun a steady decline.

Because of HB 3, school tax rates in 2022 were $0.20 per $100 of value less than they would have been had HB 3 not passed. These lower tax rates saved property taxpayers $7.6 billion in total property tax payments.

Property Taxable Value and Exemptions 2022

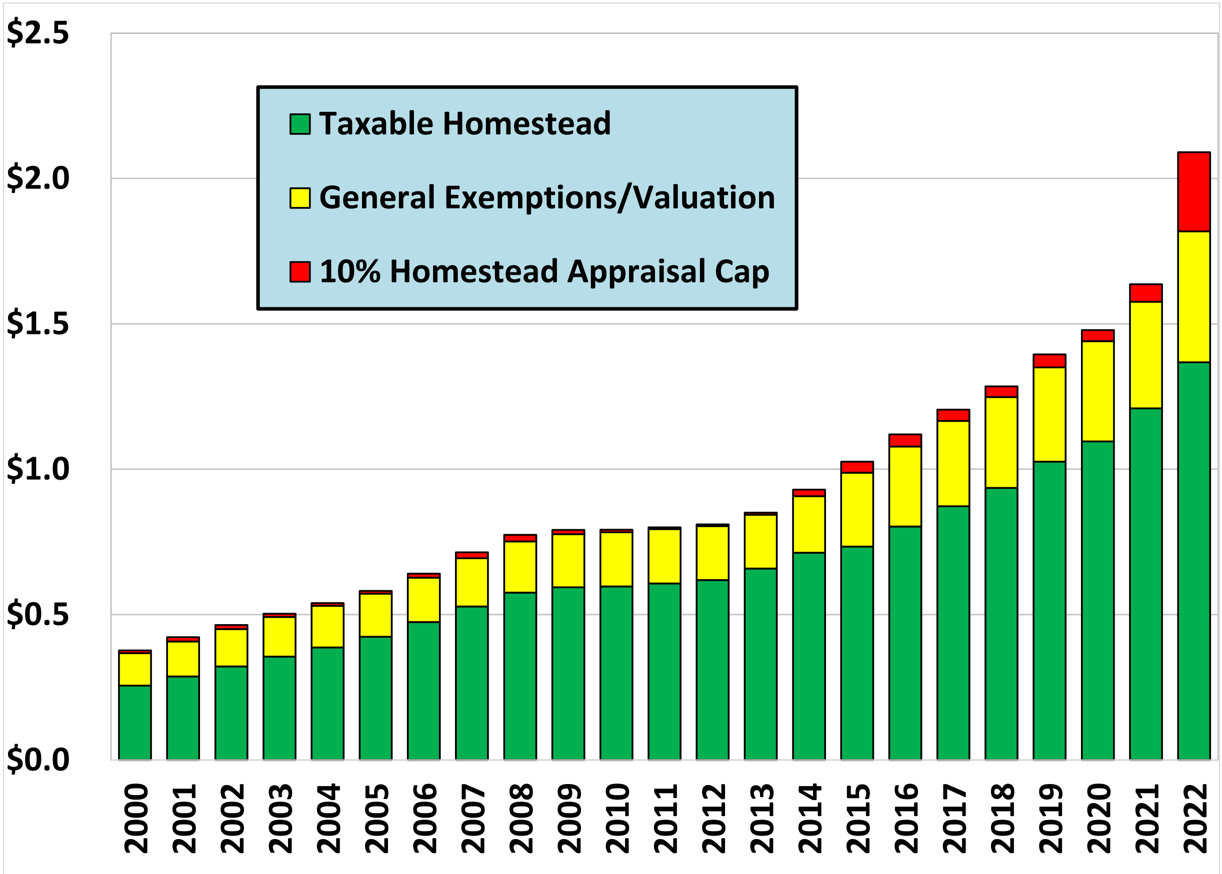


In 2022, Texas homesteads (i.e., "owner occupied homes") were valued at $2.1 trillion. Roughly 1/3 of that market value was exempted from school taxes. Of the exemptions, $450 billion was exempted through normal homestead exemptions, such as the $40,000 standard homestead exemption and additional exemptions for elderly and persons with disabilities. An additional $271 billion was exempt under the state's 10% appraisal cap. Though many homes in Texas saw dramatic appraisal growth in 2022, existing homeowners could only be taxed on 10% of the increase.

Business property (including residential rental property) was valued at a market value just over $1.6 trillion. Of that, 8% was exempt from taxation as a result of exemptions under 1) the now-expired Chapter 313 of the Tax Code allowing schools to offer temporary limitations on the taxable value of certain new investment projects, 2) "freeport" exemptions for property to be shipped out of state, and 3) pollution control equipment mandated by specific state or federal regulation.

The market value of property used in agriculture was $425 billion; however, the property is taxed based on its productive value, or $20 billion.

Homestead Taxable Value and Exemptions 2020 - 2022



Note: Homestead property is estimated at 80% of the value of all single-family residences, including townhomes and condominiums.

The market value of homestead property in Texas has risen steadily over the years, from roughly $450 billion in 2000 to over $2.4 trillion in 2022; however, homestead property is taxed at its market value less exemptions, which have grown correspondingly over that time. The most common homestead exemptions include the now $40,000 standard school homestead exemption, a freeze on school taxes for homeowners over the age of 65, local option exemptions, and additional exemptions for elderly homeowners and their surviving spouses.

In 1997, a constitutional amendment was passed limiting the taxable value of a homestead to no more than 10% over the prior year's value. Intended to provide temporary relief to homeowners in neighborhoods with rapidly escalating values, the amount of property exempted under the appraisal cap exploded in the hot 2022 real estate market, removing $271 billion of value from tax rolls. Adjusting for this loss of value, jurisdictions adopted higher tax rates, shifting $4 billion of taxes from homeowners onto non-capped property – new home purchases, rental property, and business property.