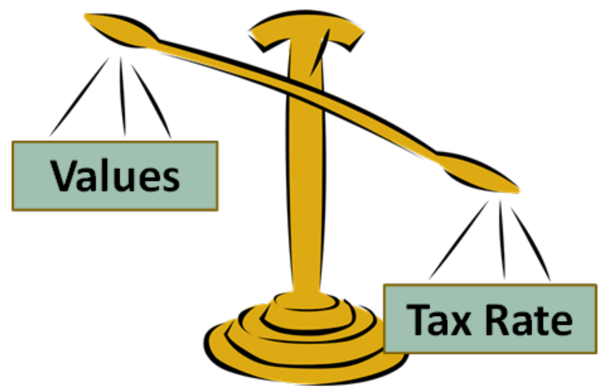
Rising Appraisals = Falling Tax Rates

Under reforms enacted in 2019, rising property values force down tax rates, helping to keep a lid on tax bills.

Things to Know

- Texas law requires local jurisdictions to cut their tax rates as property values rise. Your growing appraisal doesn't guarantee your tax bill is going up. It likely means your school district, city, county and other districts will have to cut their tax rates.
- Appraisals don't drive up your tax bill. Tax bills rise because local jurisdictions want to raise more money.
- State law limits how much local jurisdictions can raise in property taxes over the previous year without voter approval.
- Properties are appraised each year, just as property tax rates must be adopted each year. Regardless of one's appraisal, until those tax rates are adopted, your tax bill is zero.
- With property taxes limited, jurisdictions are required to cut their tax rates as values rise, helping to keep tax bills under control.



Property Appraisals Go Up, Tax Rates Go Down

Springtime in Texas brings a welcome break in the weather and unwelcome appraisal notices to mailboxes across the state. Though most may take solace that their most valuable asset, their home, is appreciating, they worry about what it means for their October tax bill. In fact, Texans should no longer fear their appraisals. Rising property values don't guarantee a higher tax bill, but above a certain level they do guarantee lower tax rates.

The property tax reforms of 2019 completely changed Texas' local property tax system. HB 3 essentially limited school property tax revenue growth to 2.5%. If local values increase more than that, school districts must cut their tax rates to stay within the revenue limit. SB 2 did much the same for cities, counties, and special districts. Absent voter approval, large jurisdictions are generally limited to raising no

Rising Appraisals: What's that Mean for Tax Bills?

more than 3.5% more property tax revenue than they did the year before. If the sum of all their appraisals increase by more than that, the jurisdiction must cut its tax rate.

For example, last year School District A raised $5 million in property tax revenue on a tax base of $500 million. To raise that revenue, it levied a tax rate of $1.00 (in Texas, the tax rate is expressed as the amount of tax on each $100 of value —a $1.00 tax rate is equal to a tax rate of 1%).

This year, the school district begins to work on its budget. It can only raise 2.5% more in property tax than last year, or $5.125 million. But the real estate market is hot, and the chief appraiser notifies the district that values are up 12% to $560 million. The district calculates the tax rate it must levy to raise the revenue it wants for its budget:

$5.125 million / $560 million / $100 = $0.915

Essentially, value growth (12%) exceeded the revenue limit (2.5%) by 9.5%. The school district has to cut its tax rate proportionately.

The process is similar for cities, counties and other jurisdictions, but the allowable increase (3.5%, or in some cases, 8%) is higher.

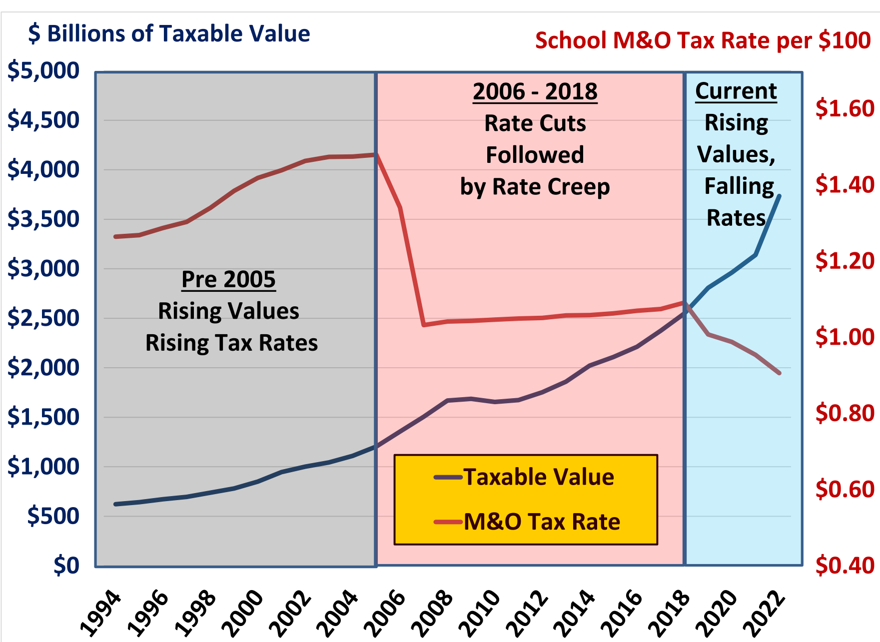
Appraisals and Tax Bills: Breaking the Link

Texas' traditionally robust economy generally drives steady growth in appraisals. For many years, Texans could be certain that those appraisals would trigger higher tax bills. Many local governments rode the wave of rising appraisals to collect more tax revenue. The state shared in the blame based on how schools were funded (see Figure 1 and the explainer below). But with 2019's property tax reforms (see below), rising appraisalsare driving down tax rates like never before, and will continue to do so for years to come.

Tax year 2022 saw incredible growth in appraisals — particularly those of homeowners, often more than 30%. However, the higher appraisals did not translate into higher tax bills. In Bexar County, the average homeowner saw a $70 drop in their property tax bill; in Harris County, bills dropped by an average of $50. Even in areas in which tax bills increased, those increases were generally well below the rate of inflation.

With the one-to-one link between appraisals and tax bills broken, property owners should no longer fear the appraisal notice in the mailbox.

Figure 1
Taxable Values and School Tax Rates, 1994—Present



School Finance for the Better

Prior to 2019, as a school district's appraisals grew, state aid formulas saw the district as "wealthier'" and reduced aid to the district. That forced districts to keep tax rates high. Outside of 2006 reforms that dropped school M&O tax rates by a third, rates continued their climb. In 2019, school property tax growth was essentially limited to 2.5%, forcing districts to cut their tax rates to stay within the revenue limits. In the few years since, school M&O tax rates have dropped by near 20% and will continue to fall automatically in future years as values rise.

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