



**Senate Committee on Local Government  
November 7, 2024**

**Testimony of  
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## EXECUTIVE SUMMARY

### Cutting School Property Taxes

1. To make Texans better off in the long run (by increasing tax base and jobs), property tax reduction should focus on reducing taxes on the invested capital Texas seeks to attract.
2. The 2023 property tax relief shifted the tax burden in Texas from homes to businesses.
  - Who received the relief: Single-family homes received 84% of the 2023 property tax relief. All other property (mostly business property) received 16% of the tax relief.
  - Who paid for the relief: Property tax relief is funded by state revenue from taxes paid primarily (57.8%) by businesses.
3. The shift of the tax burden to business is now structural.
  - In 2023, 43% of homestead property value and 93% of business property value was on the school property tax roll. This difference is now baked into the Texas Constitution.
  - The only source of revenue to fund current and future property tax relief is General Revenue, which is paid primarily by business.
4. **Future property tax reduction should offset the structural shift of the tax burden to businesses that occurred in 2023:**
  - **Additional compression would benefit all property owners in proportion to taxable value and would not exacerbate the shift of the tax burden.** For additional compression to reach all school districts, the legislature will have to buy down the "equity band."
  - **Exemption of business personal property would partially reverse the shift of the tax burden.** In 2023 dollars, the cost of exempting business personal property from school district property tax, and making up the difference with additional state funding to school districts, would be \$3.4 billion per year.
  - **BUT increasing the homestead exemption would exacerbate the shift of the tax burden.** With the \$100,000 homestead exemption, the proper relationship between personal income and property tax levies has already been achieved.
5. To ensure property tax reduction financed by the state materializes, reforms are needed to prevent taxing units from increasing tax rates as the state pays for school M&O tax reduction. The state funded \$5.2 billion of school M&O tax reduction in 2023, but total property tax levies statewide were reduced by only \$414 million. State-funded reduction of school M&O taxes was offset by \$4.7 billion in tax increases by school districts, cities, counties and special districts, of which \$3.2 billion is attributable to inflation and population growth. That means \$1.5 billion of property tax relief funded by the state in 2023 was "grabbed" by taxing units in the form of property tax increases.

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## I. HEARING AGENDA ITEMS

**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.

## II. CUTTING SCHOOL PROPERTY TAX

- A. TTARA commends the 88th Legislature for appropriating approximately \$18 billion to reduce school district maintenance and operations taxes in tax years 2023 and 2024.
1. Under the 2023 legislation, the following property tax reduction measures were made by state law. The resulting property tax revenue loss to school districts was replaced with state revenue paid to school districts via the public school finance system.
    - a. School M&O rates were compressed by approximately \$0.20.
    - b. School district homestead exemption was increased by 150% from \$40,000 to \$100,000.
    - c. 65 and over/disabled “tax freeze” was adjusted to reflect additional compression and homestead exemption.
  2. The legislation reduced total school property tax levies by \$4.4 billion, from \$43.9 billion in 2022 to \$39.5 billion in 2023. (See **Figure 1** on page 8.) The reduction is perhaps more striking when adjusted for population and inflation, erasing 8 years of growth in school district property tax levies. (See **Figure 2** on page 8.)
- B. However, the 2023 property tax reduction shifted some of the total state and local tax burden in Texas from individuals to businesses.
1. Most of the 2023 property tax relief (compared to 2022) was realized by homeowners. (See **Figure 3** on page 9.)
    - a. \$3.67 billion (84.26%) of the tax relief was realized by owners of single-family homes.
    - b. \$685 million (15.74%) was realized by all other categories of property, the majority of which was business property.

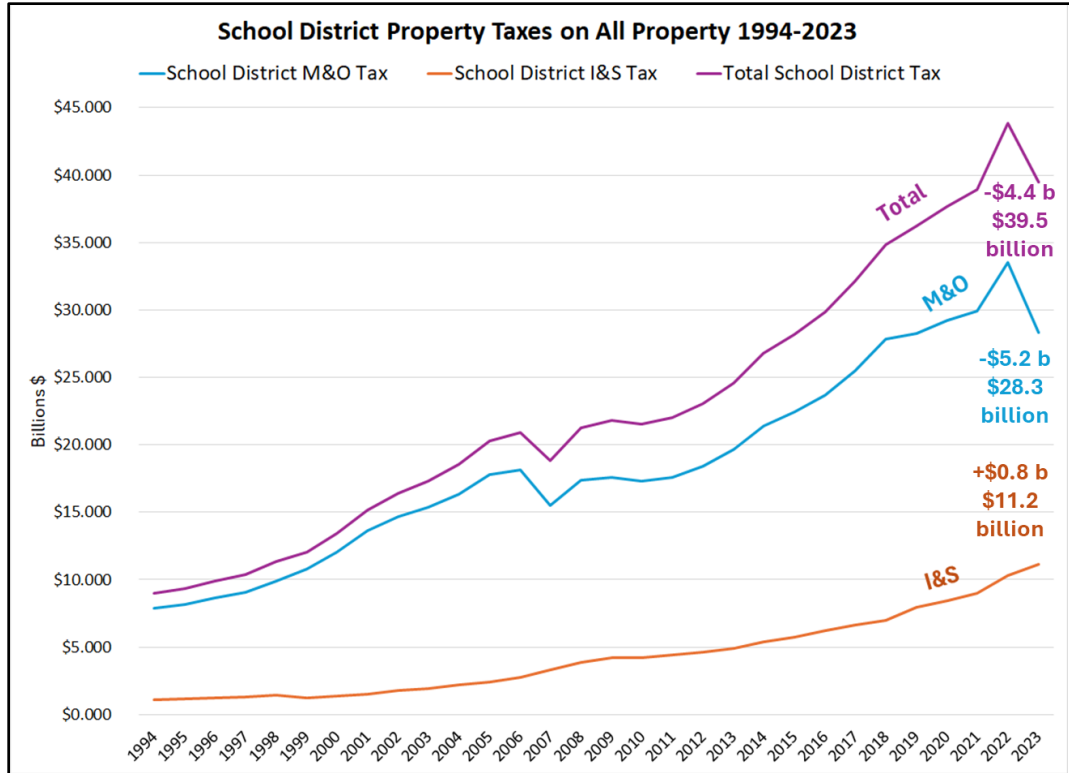
- c. Compared to 2022, a few categories of property realized tax increases in 2023 instead of tax reduction.
        - i. Industrial personal property (+ \$0.049 billion)
        - iii. Oil, gas & minerals (+ \$0.069 billion)
        - iv. Real estate inventory (+ \$0.022 billion)
  - 2. The 2023 property tax relief was funded by state taxes paid primarily by businesses. (See **Figure 4** on page 10.)
    - a. Property tax relief was funded from the state General Revenue Fund (GRF), both directly and via a transfer from the GRF to the Property Tax Relief Fund. (See Legislative Budget Board, Fiscal Size-up 2024-25 Biennium, July 2024, page 47.)
    - b. In FY 2025, 89% of the deposits to the GRF will be state tax and fee collections.
    - c. In FY2025, approximately 57.8% of the taxes to be deposited to the GRF will be paid by businesses and 42.2% will be paid by consumers. (Tax incidence is not available for \$5.8 billion of taxes and fees deposited to the GRF.)
- C. To make Texans better off in the long run, tax reduction efforts should focus on property tax and other taxes on invested capital. Taxes on invested capital work counter to the business investment Texas seeks to attract and the economic growth Texas seeks to achieve.
- D. With the substantial increase in the homestead exemption in 2023, and without a similar increase in exemptions for other property, the Texas Constitution now enshrines a larger structural difference for school district taxes than existed previously (See **Figure 5** on page 11). In 2023, for school district taxes:
- 1. \$1.1 trillion (57%) of homestead value, \$154.1 billion (7%) of business property value, and \$493 billion (96%) of agricultural property value was exempt.
  - 2. Thus, 43% of homestead property value, 93% of business property value, and 4% of agricultural property was taxed.
- E. To address the imbalance:
- 1. Forego further increases in the homestead exemption. If the objective is to ensure that property taxes do not grow faster than personal income, that objective has been achieved for now. (See **Figure 6** on page 12.)

- a. In 2020, property tax levies had increased by 68% and personal income had increased by 55% compared to 1994 (adjusted for population and inflation).
    - b. The 2023 school property tax relief inverted that relationship. In 2023, property tax levies had increased by 48% while personal income had increased by 57% compared to 1994 (adjusted for population and inflation).
  - 2. Exempt business personal property.
    - a. In 2023, school district property tax levies on business personal property totaled \$3.408 billion.
    - b. If business personal property had been exempt in 2023, the structural imbalance of property on the tax roll noted in D.1., above, would have been reduced significantly: 43% of homestead property value, 66% of business property value, and 4% of agricultural property would have been taxed.
  - 3. To provide additional rate compression in all school districts, the legislature will have to address the “equity floor.”
    - a. 58% of school districts are at the “equity floor” MCR tax rate, leaving unrealized M&O tax rate compression on the table. (See **Figure 7** on page 13.)
    - b. School districts at the “equity floor” will see minimal future rate compression through the mechanism in current law.
    - c. Two options to provide additional rate compression to these districts:
      - 1. Appropriate funds to reduce the “ceiling” and “floor” rates
      - 2. Expand the “equity band” to 15% or 20% (from 10%), providing a more significant allowable differential between the highest and lowest tax rates. Consideration will need to be given as to whether this creates a “tax equity” problem.
- F. Restrict the ability of school districts, cities, counties and special districts to increase M&O and I&S taxes as the state compresses school district M&O taxes.
  - 1. A substantial part of the property tax reduction from state-funded reduction of school district M&O taxes was offset by higher school district I&S taxes and tax increases in counties, cities, and special districts in 2023. (See **Figure 8** on page 13.)

- a. School district M&O taxes were reduced by \$5.2 billion and replaced with state revenue.
  - b. School districts (I&S only), counties, cities, and special districts increased M&O and I&S taxes by \$4.7 billion.
    - i. \$3.2 billion of the increase is attributable to inflation and population growth.
    - ii. \$1.5 billion represents tax increases *in excess* of inflation and population growth.
  - c. Net total property tax decrease: \$414 million.
2. To address rising school district I&S levies, require voter approval of any I&S tax rate that would be used to prepay debt of a school district, meaning any debt payment in excess of the minimum debt service.
  3. To address the rising tax levies in cities, counties and special districts, amend the Tax Code to require strict adherence to truth-in-taxation statutes, specifically the real-time tax notice website.
    - a. Compliance with statutory truth-in-taxation requirements is currently inconsistent. See **Figure 9** on page 13 for a current example of noncompliance on the real-time tax notice website.
      - i. **Figure 9** shows that tax rate and levy information for the City of Cedar Park is “not available” for 2023 or 2024.
      - ii. Consequently, property owners in Cedar Park cannot obtain an accurate comparison of proposed 2024 property tax rates and levies to 2023 rates and levies, or any other information about the property tax decisions of the City of Cedar Park, from the website.
    - b. Possible solutions:
      - i. Prohibit a taxing unit from adopting a tax rate that exceeds the no-new-revenue tax rate if the taxing unit fails to publish the truth-in-taxation information required by Tax Code §§ 26.16, 26.17 and 26.18.
      - ii. Amend Tax Code § 26.17 to clarify that the chief executive of a taxing unit (i.e., mayor, county judge, superintendent, etc.) has a duty to ensure that tax rate and levy information for the taxing unit is provided to the chief appraiser within a certain time period.



**Figure 1:**



**Figure 2:**

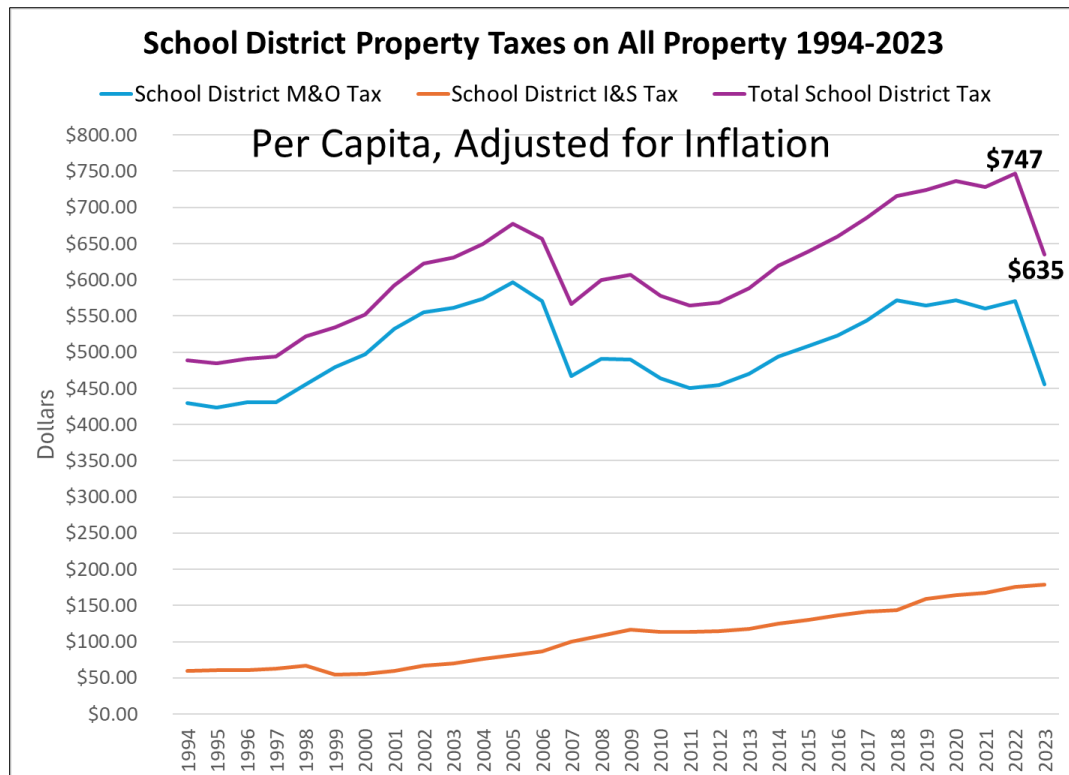


Figure 3:

Tax Year 2023 - Tax Year 2022 School District Property Tax Levies by Category (billions)					
	TY 2023	TY 2022	\$ Difference	% Difference	% of Tax Relief
<b>Single Family Residences</b>	<b>\$17.313</b>	<b>\$20.983</b>	<b>(\$3.671)</b>	<b>-17.49%</b>	<b>84.26%</b>
Multi-Family Housing	\$3.717	\$3.734	(\$0.017)	-0.45%	0.39%
Mobile Homes/Other Personal	\$0.084	\$0.099	(\$0.015)	-15.09%	0.34%
Vacant Lots	\$0.878	\$0.897	(\$0.019)	-2.07%	0.43%
Commercial Real	\$7.070	\$7.448	(\$0.378)	-5.08%	8.68%
Commercial Personal	\$2.001	\$2.050	(\$0.049)	-2.40%	1.13%
Industrial Real	\$1.879	\$1.946	(\$0.067)	-3.45%	1.54%
Industrial Personal	\$1.407	\$1.358	\$0.049	3.62%	-1.13%
Oil, Gas & Minerals	\$2.336	\$2.267	\$0.069	3.03%	-1.58%
Utilities	\$1.173	\$1.230	(\$0.057)	-4.64%	1.31%
Real Property Inventory	\$0.244	\$0.222	\$0.022	10.04%	-0.51%
Special Inventory	\$0.116	\$0.129	(\$0.012)	-9.70%	0.29%
Farm & Ranch Land	\$0.186	\$0.212	(\$0.026)	-12.07%	0.59%
Farm & Ranch Improvements	\$1.062	\$1.247	(\$0.185)	-14.85%	4.25%
Vehicles	\$0.001	\$0.001	(\$0.001)	-47.44%	0.01%
Intangible Personal	\$0.000	\$0.000	\$0.000	n/a	n/a
	<b>\$39.468</b>	<b>\$43.824</b>	<b>(\$4.356)</b>	<b>-9.94%</b>	<b>100.00%</b>

**Figure 4:**

**Estimated Initial Incidence of General Revenue Funds FY2025 (in billions)**

Source of General Revenue	Contribution to GR	Business		Consumer		Unkown		Other	
		Share	%	Share	%	Share	%		%
Limited Sales and Use Tax*	\$44.98	\$18.81	41.8%	\$26.17	58.2%	\$ -	-	\$ -	-
Oil Production Tax	\$7.12	\$7.12	100%	\$0.00	0%	\$ -	-	\$ -	-
Motor Vehicle Sales and Use Tax*	\$5.72	\$2.45	42.7%	\$3.28	57.3%	\$ -	-	\$ -	-
Franchise/Business Margins Tax	\$4.46	\$4.46	100%	\$0.00	0%	\$ -	-	\$ -	-
Natural Gas ProductionTax	\$4.13	\$4.13	100%	\$0.00	0%	\$ -	-	\$ -	-
Insurance Premium Taxes	\$3.36	\$3.36	100%	\$0.00	0%	\$ -	-	\$ -	-
Gasoline Tax*	\$0.01	\$0.00	22.6%	\$0.01	77.4%	\$ -	-	\$ -	-
<b>Total taxes for which incidence is available</b>	<b>\$69.79</b>	<b>\$40.33</b>	<b>57.8%</b>	<b>\$29.46</b>	<b>42.2%</b>	<b>\$0.00</b>		<b>\$ -</b>	
Other taxes and fees for which incidence is not available	\$5.80					\$5.80	100%		
Non-tax and non-fee sources of revenue	\$9.19							\$ 9.19	100%
<b>Total Est. Net General Revenue-Related Funds FY2025</b>	<b>\$84.78</b>	<b>\$40.33</b>	<b>47.6%</b>	<b>\$29.46</b>	<b>34.7%</b>	<b>\$5.80</b>	<b>6.8%</b>	<b>\$ 9.19</b>	<b>10.8%</b>

\* Amount excludes tax allocated to Texas Parks and Wildlife Department, Texas Historical Commission and State Highway Fund.

**Estimated Initial Incidence of Property Tax Relief Fund FY2025 (in billions)**

Source of General Revenue	Contribution to PTRF	Business		Consumer		Unkown		Other	
		Share	%	Share	%	Share	%		%
Motor Vehicle Sales and Use Tax*	\$0.037	\$0.016	42.7%	\$0.021	57.3%	\$ -	-	\$ -	-
Franchise/Business Margins Tax	\$1.913	\$1.913	100%	\$0.000	0%	\$ -	-	\$ -	-
<b>Total taxes for which incidence is available</b>	<b>\$1.950</b>	<b>\$1.93</b>	<b>98.9%</b>	<b>\$0.02</b>	<b>1.1%</b>	<b>\$0.00</b>		<b>\$ -</b>	
Other taxes and fees for which incidence is not available	\$0.709					\$0.709	100%		
Non-tax and non-fee sources of revenue	\$0.006							\$ 0.006	100%
<b>Total Est. Net General Revenue-Related Funds FY2025</b>	<b>\$2.66</b>	<b>\$1.93</b>	<b>72.4%</b>	<b>\$0.02</b>	<b>0.8%</b>	<b>\$0.709</b>	<b>26.6%</b>	<b>\$ 0.006</b>	<b>0.2%</b>

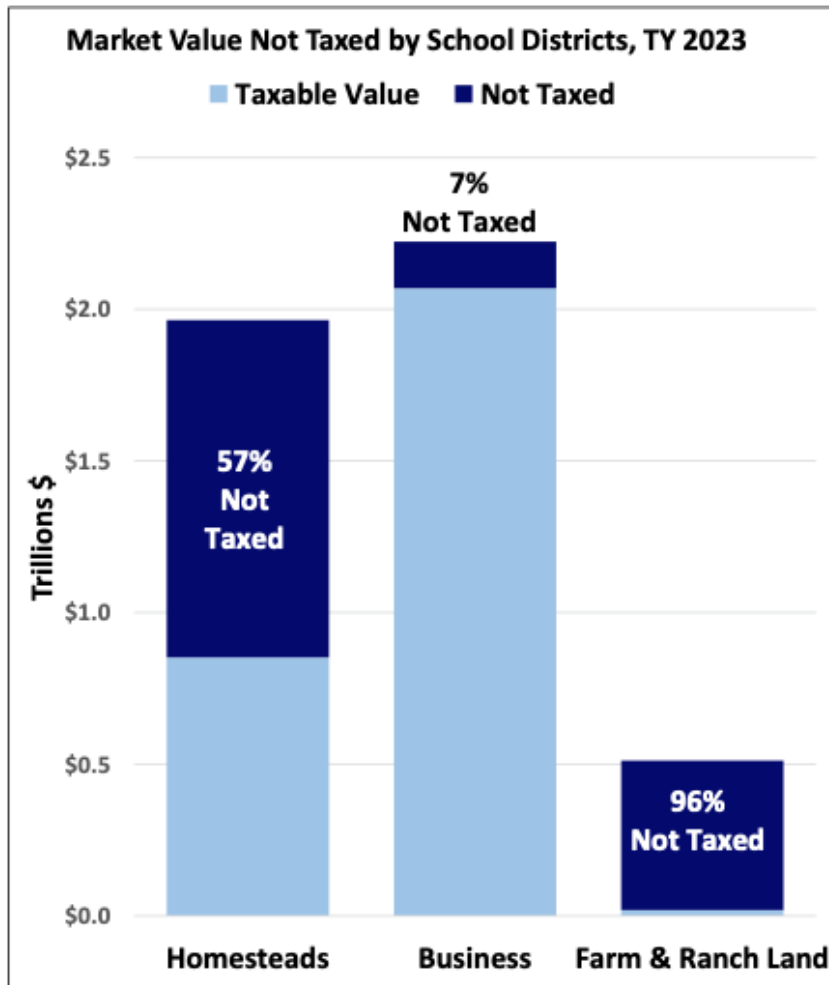
Sources:

Contribution to GR figures are from Biennial Revenue Estimate 2024-2025 Biennium, Table A-3.

Contribution to Property Tax Relief Fund figures are from Biennial Revenue Estimate 2024-2025 Biennium, Table A-10.

The business and consumer share percentages are from the Comptroller's Tax Exemptions & Tax Incidence Report - February 2023.

Figure 5:



Source: 2023 Preliminary ISD Self Report, Comptroller's Property Tax Assistance Division; TTARA calculations

Figure 6:

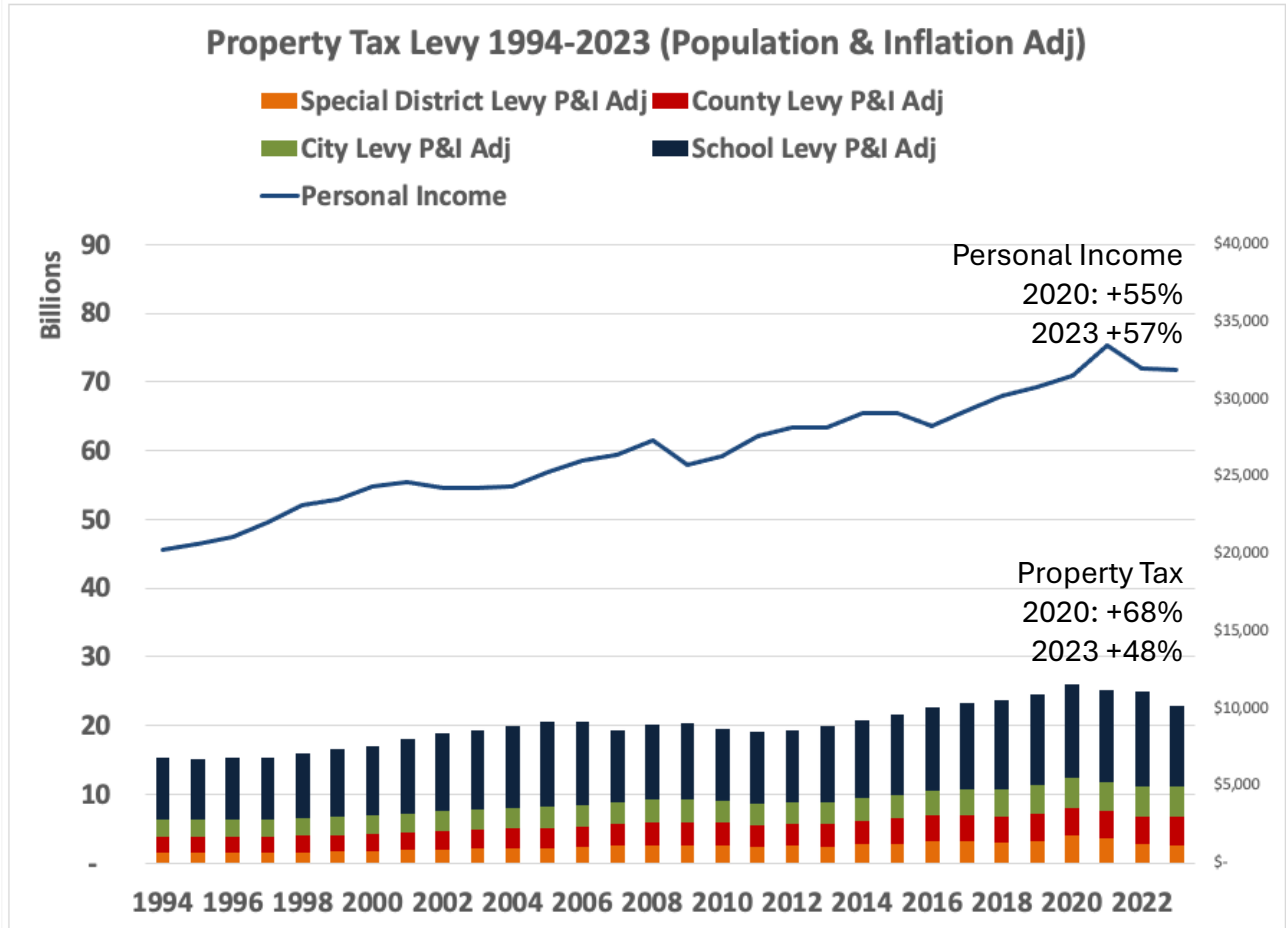


Figure 7:

### School District Tax Rate Compression Tax Year 2024

	Value Growth TY23 to TY24	Statewide "Ceiling"	"Equity Floor" (90% of Ceiling)	# Districts at "Ceiling"	# Districts at "Equity Floor"
<b>TY 2024 Maximum Compressed Rate (MCR)</b>	2.87%	<b>\$0.6855</b>	<b>\$0.6169</b>	72 (7%)	586 (58%)

Figure 8:

2023 Property Tax Relief (billions)	
School M&O	-\$5.2
School I&S	+\$0.8
<b>Net School Dist. Tax Reduction</b>	<b>-\$4.4</b>
Counties	+\$1.5
Cities	+\$1.4
Special Districts	+\$1.0
<b>Total Tax Increase</b>	<b>+\$3.9</b>
<b>Net Property Tax Decrease</b>	<b>-\$414 million</b>

Figure 9:

#### A SUMMARY OF YOUR PROPERTY

2024 PROPERTY TAXES

Taxing Entity	2023 Property Taxes	2024 No New Revenue Rate Taxes <sup>1</sup>	2024 Proposed Tax Rate Taxes <sup>1</sup>
TRAVIS COUNTY	\$1,813.40	\$1,979.92	\$2,255.27
TRAVIS COUNTY HEALTHCARE DISTR	\$599.35	\$654.11	\$706.93
CITY OF CEDAR PARK	\$Not Available	\$Not Available	\$Not Available
AUSTIN COMM COLL DIST	\$726.29	\$820.79	\$820.79
LEANDER ISD	\$7,140.46	\$7,613.43	\$7,808.76
<b>TOTAL TAX BILL</b>	<b>\$13,004.92</b>	<b>\$11,068.25</b>	<b>\$11,591.75</b>

Source: Travis County Truth in Taxation website, www.travistaxes.com. Screenshot created 11/06/2024 for a property located in the City of Cedar Park.