



The Rollback Rate: Legislative Intent & Inflation

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Key Points

- In 1979, state lawmakers created a rollback tax rate to help moderate tax levy growth. The rate was set at 5 percent.
- In 1981, state lawmakers raised the rollback rate from 5 percent to 8 percent on the grounds that inflation was high. It was high, but it also soon fell.
- Over the last 25 years, inflation has never risen above 4 percent. Over the last 12 months, inflation increased less than 2 percent. Yet the rollback rate remains at 8 percent.

Rollback Rate

The maximum rate at which local taxing jurisdictions may raise your taxes from one year to the next without triggering a petition process for taxpayers to call a tax rate ratification election. With the exception of school districts, the rollback rate is currently set at 8 percent.

Identical bills have been filed in the Texas House and Senate that seek to achieve meaningful property tax reform. A major component of both introduced bills—[Senate Bill 2](#) (Bettencourt et. al) and [House Bill 2](#) (Burrows)—is a lowering of the rollback tax rate from 8 percent to 2.5 percent. This downward adjustment is highly significant as the rollback rate was established in 1979 at 5 percent, increased in 1981 to 8 percent, and has not been modified since that time.

By allowing the rollback rate to remain at an elevated level for a prolonged period in a relatively low inflationary environment, the Legislature has enabled excessive taxation. That is contrary to the mechanism's original intent.

Updating the rollback rate to better reflect today's economy and expectations is a critical element of any agreed-upon legislation.

The Establishment of the Rollback Tax Rate

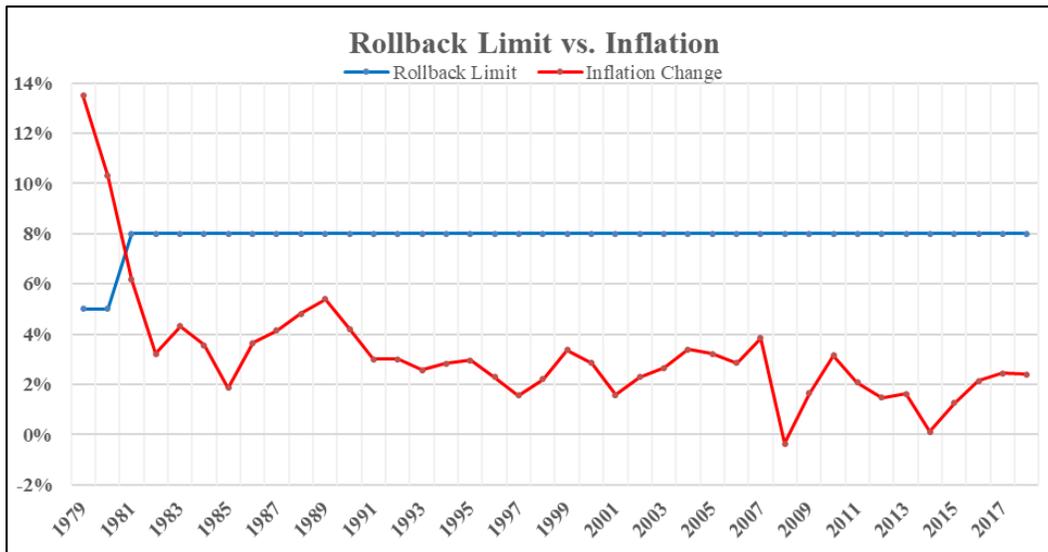
The rollback rate, or the “voter-approved tax rate,” as the amended committee substitute to SB 2 now calls it, was first introduced in the 66th session's [Senate Committee on Finance](#) in 1979 by then-Sen. Grant Jones (Chair). It was proposed as a committee amendment to [Senate Bill 621](#), the bill that gave Texas its modern-day property tax system ([SB 621 Committee Amendment 2](#)).

In committee, then-Chairman Jones explained that the proposed amendment would help “limit the amount of growth [of a taxing entity] before a referendum could occur” ([Texas State Library and Archives Commission 2019a, 22:05](#)). The bill's fiscal note expanded further still, stating: “It is anticipated that [the rollback rate] would be a moderating influence on the rise in property tax rates in some taxing units” ([SB 621 Fiscal Note](#)). Despite the author's intent and the Legislative Budget Board's short descriptor, the rollback rate did not prove to have a serious dampening effect on tax levy growth, in part because legislators increased the threshold almost immediately after.

The Link Between Raising the Rollback and High Inflation

In 1981, then-Sen. Ray Farabee increased the rollback rate from 5 percent to 8 percent by offering a floor amendment to [House Bill 30](#), a clean-up bill to the previous session's property tax omnibus ([HB 30 Amendment 13](#)). A tense debate ensued on the floor, and several senators expressed concern that hiking the rate up to 8 percent would only set a precedent for runaway tax levy growth in the future—concerns that proved accurate. But Sen. Farabee responded to the criticism by insisting that the rate must be raised because local governments were unable to keep up with soaring costs driven by high inflation.

In urging his colleagues to adopt the amendment, Sen. Farabee explained:



Source: Bureau of Labor Statistics, Texas State Library and Archives Commission

[T]wo years ago a five percent inflation rate did seem like something we could live with. Today after looking at the last two years, eight percent is not that unreasonable and all I ask you to do is move the five percent to eight percent, which is consistent with what's happening in inflation today. ... (Texas State Library and Archives Commission 2019b, 27:03)

Perhaps as a hedge, Sen. Farabee did however suggest that changing circumstances could prompt a need to revisit the matter at some later date.

If inflation in fact cuts back, then perhaps we will want to move this back. ... (Texas State Library and Archives Commission 2019b, 19:36).

At the time, Sen. Farabee's request to increase the rollback rate was within the realm of reason. After all, the rate of

inflation increase in 1980 was 13.5 percent ([U.S. Inflation Calculator](#)). Soon after the Legislature increased the rollback; however, the high inflationary periods of the late 1970s and early 80s quickly subsided. Yet, the elevated rollback rate was never revisited.

Today, inflation remains low. Over the last 12 months, the Consumer Price Index for All Urban Consumers (CPI-U) recorded only a small uptick in inflation of 1.6 percent ([Bureau of Labor Statistics](#)). Moreover, infla-

tion has not increased above 4 percent over the last 25 years. Thus, local taxing entities have benefited all this time from being able to set tax rates *below* the rollback rate but *above* where they realistically ought to have been.

Conclusion

Four decades ago, the Texas Legislature raised the rollback rate to 8 percent because of a high inflationary period in U.S. history. However, as inflation fell over the years and remains near historic lows today, the rate has remained at an elevated level. This has allowed local taxing jurisdictions to persistently raise taxes on homeowners and businesses without fear of referendum. Hence, it's time to lower the rollback tax rate to 2.5 percent or less, which will better reflect the low inflationary environment that Texas taxpayers find themselves in today. ★

References

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