

Lower Taxes, Better Texas

Historic Property Tax Relief Opportunity

July 2022

Texans face an affordability crisis with inflated bills, diminishing savings, and a looming U.S. recession. While this is mostly the result of Washington's irresponsible policies, Texas governments can help by using massive surpluses to dramatically reduce the [sixth most burdensome](#) property tax system in the nation without harming the delivery of core services. The Foundation's [Lower Taxes, Better Texas](#) plan accomplishes this by lowering maintenance and operations (M&O) property tax bills while adequately funding core services.

We take a three-pronged approach

- **Limit spending growth:** Texas passed a [strong law](#) that requires the state to limit spending growth more effectively. This standard should apply to [all local governments](#).
- **Limit taxing growth:** Texas has been slowing the growth of property tax bills with new laws that [address](#) skyrocketing school district M&O property taxes and [limit](#) property tax revenue growth of most local governments. Future reforms should build upon this established framework to lower tax bills and incorporate greater taxpayer protections.
- **Lower tax bills:** [Our plan](#) has the state eliminate school district M&O property taxes over time by using state surpluses to compress tax rates until they are equal to zero. Local governments should use their own funding sources to do the same for their M&O property taxes.

Deeper dive into this approach

- **Limit spending growth:** The Legislature enacted a [new state spending limit](#) based on population growth and inflation that will help permanently lower spending growth. This will support faster economic growth resulting in more surpluses as tax revenues exceed spending. A similar spending limit should apply to all local governments in order to establish parity and prudence.
- **Limit taxing growth:** Texas started reducing school district M&O property taxes in 2019 following the passage of [HB 3](#), which allocated \$5 billion to compress those tax rates and limited the maximum growth of those taxes to 2.5%. Texas then allocated \$6 billion in 2021 to maintain that compression. Texas also passed [SB 2](#) in 2019, which limited the maximum tax revenue growth from existing property for most other local governments to 3.5%. However, the full effects of the latter bill have been limited because of “disaster loopholes,” whereby [many local governments](#) used it to raise property tax revenue above the 3.5% rate without an automatic election. But in 2021, Texas [defined a disaster](#) as one with property damage. These key reforms and inflated property appraisals statewide may result in state tax revenue compressing school district M&O property taxes, but that relief may be limited because of local government tax hikes.
- **Lower tax bills:** Our plan builds on those key reforms by using state tax revenue surpluses to further compress school district M&O property taxes each biennium until they are eliminated. Identical bills in 2021—[HB 210](#) in the second special session, which had 75 coauthors, and [HB 90](#) in the third special session—used 90% of the

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general revenue surplus to compress [school district M&O taxes](#) until they are equal to zero. Similarly, [SB 1](#) in the third special session used 50% of that surplus to do the same. While these bills did not pass, there is growing momentum, especially now. Local governments should use general revenue surpluses to reduce their M&O property taxes until they are eliminated.

Historic tax relief opportunity

By effectively limiting spending at all levels of government while adequately funding core services but so that there will likely be record surpluses, the Foundation's *Lower Taxes, Better Texas* plan provides the Lone Star State with a historic opportunity to substantially reduce M&O property taxes. The Texas comptroller recently noted that the state could have [\\$30 billion in unspent taxpayer money](#) collected, with \$16 billion in general revenue surplus and \$14 billion in the rainy day fund. The Legislature also set aside \$3 billion in federal funds for property tax relief last session. Many cities, counties, and special purpose districts could have large surpluses. And school districts state-wide likely have several billion dollars in unrestricted fund balances.

A substantial portion of these surpluses should be used to dramatically lower property tax bills, maintain those lower bills, and provide further relief over time until M&O property taxes are eliminated in a timely manner. ★



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