



TEXAS PUBLIC POLICY FOUNDATION

LOWER TAXES, BETTER TEXAS: PROPERTY TAX RELIEF & REFORM

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Texans are struggling with high inflation, stagnating real wages, and a housing affordability crisis. Moreover, Texas ranks 6th in the nation on the highest property tax paid. Yet, thanks to a record general revenue-related surplus of \$32.7 billion, the 88th Legislature has a historic opportunity to provide all Texans with real and lasting relief. To achieve this goal, the Foundation proposes the following roadmap to help alleviate the tax burden and set Texas up for success into the future. This framework is based on 3 essentials—restraining the burden of government, returning a maximum amount of surplus revenue back to taxpayers, and recognizing the need for permanent change.

THE FRAMEWORK FOR A BETTER TEXAS

- **Less Government:** Last session, the Legislature adopted most of the Foundation's Conservative Texas Budget (CTB) framework by requiring that state spending from all sources cannot exceed the fiscal rule of population times inflation (SB 1336). The rationale behind the CTB is that any increase in spending should be only justified if there are more people to be served with public services (measured by population growth) and the cost of such services has increased (measured by inflation). For the 2024–25 biennium, the CTB establishes a ceiling of a 16% growth rate (\$284.5 billion). However, given the current inflationary environment, the CTB included an additional "matching" option: a 12% growth rate (\$274 billion) aiming to eliminate past budget excess since the CTB was initially proposed in the 2004–05 biennium. The matching option resonates with the constitutional limit of 12.33% for state funds announced by the Legislative Budget Board. By exercising fiscal discipline, policymakers will position themselves to deliver maximum tax relief.

Recommendation: Limit state spending growth for the 2024–25 biennium to 12% or less.

- **Lower Taxes:** Policymakers have presently available \$32.7 billion in general revenue-related surplus and expect the Economic Stabilization Fund (ESF) balance to grow to \$26.4 billion by the end of fiscal year 2025. Based on this revenue detail, the Legislature is currently considering a property tax relief package totaling \$15 billion. Of this amount, \$5.3 billion would be appropriated for tax compression purposes for the 2022–23 biennium and \$9.7 billion may be set aside for a combination of tax rate compression and increasing the homestead exemption. While policymakers are off to a good start, the Foundation proposes using as much as 90% of the surplus to buydown the school district maintenance and operations (M&O) property tax until it can be eliminated, which may be as early as the 2028–29 biennium. Doing so would eliminate approximately 40% of the average Texas homeowner's property tax bill and provide substantial relief to everyone else, including renters, commercial businesses, and industrial property owners.

Recommendation: Use 90% of the state's general revenue-related surplus to permanently compress school M&O taxes.



- **Limit Spending:** The Texas Constitution imposes 4 different types of spending limits on state government, and the state is statutorily restricted from spending consolidated general revenue beyond a certain measure. Yet, while the state's finances are restrained in these ways, local governments are not. As a result, local government spending tends to be well in excess of what it should, that is, population and inflation, which puts upward pressure on the property tax. To ensure that the relief provided by the Legislature lasts well into the future, policymakers should require all political subdivisions to adhere to a strict fiscal rule governing the rate of expenditure growth. The ideal would be to limit local spending increases to population and inflation. Pairing this type of reform with property tax relief will make Texas more competitive economically and more affordable well into the future.

Recommendation: Restrain local spending growth to population and inflation.

Using this framework, the Legislature can put Texas on a path to eliminate school district M&O property taxes in the near future and all M&O property taxes over the long term. Over time, the gradual elimination of these taxes will mean abolishing about 80% of the total property tax burden. Texas governments ought to provide this kind of fiscal framework to ensure all Texans can flourish and have the real peace of mind of owning their home.

