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Property Tax Relief: Which Way Forward?

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Key Points

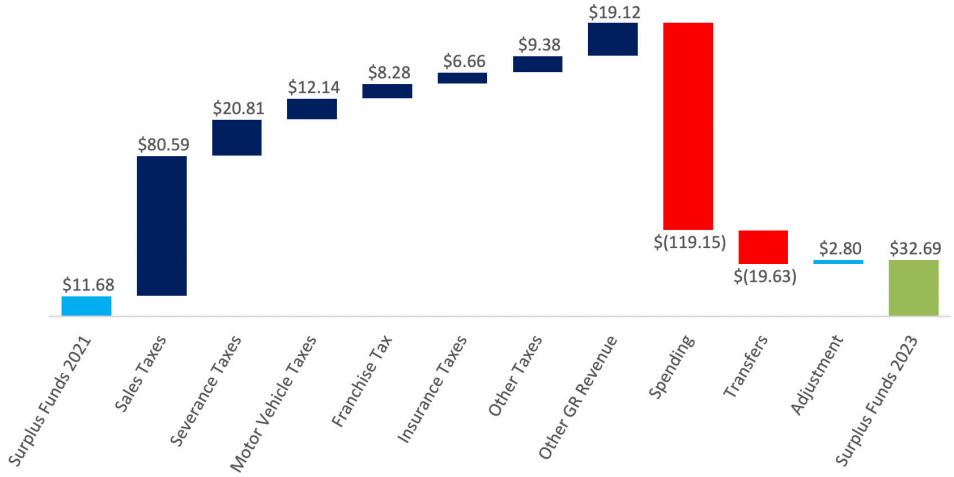
- Most of the surplus comes from tax collections, so these funds should be returned to the taxpayers via property tax relief.
- Given that the Economic Stabilization Fund can face any potential revenue downfall, the Legislature should aim to allocate most of the surplus funds for property tax relief.
- According to our projections, raising the homestead exemption would be ineffective in at least 35 counties.
- Spending caps are instrumental in generating future surplus funds.

Introduction

Before the start of the 88th Legislature, the Texas Comptroller of Public Accounts (2023a, p. 1) released the *Biennial Revenue Estimate* and announced a record surplus of $32.7 billion available for the 2024–25 biennium. Some days later, both chambers introduced their two-year budget proposals, recommending a property tax relief package of approximately $15 billion in the House (HB 1, 2023, p. III-31) and an identical amount in the Senate (SB 1, 2023, p. III-31). With the legislative session underway, knowing whether the $15 billion is enough or if there is still room for more relief is essential. Based on its analysis, the Foundation recommends the following:

1. **Return most of the surplus to taxpayers:** The record surplus is mainly explained by the increase in sales tax collections, as **Figure 1** shows. Record high inflation and a more extensive tax base fueled consumer spending, thereby boosting sales tax proceeds to the state. Since the surplus came from taxpayers, it would be prudent to return the bulk of these monies back to them in the form of reduced property taxes.

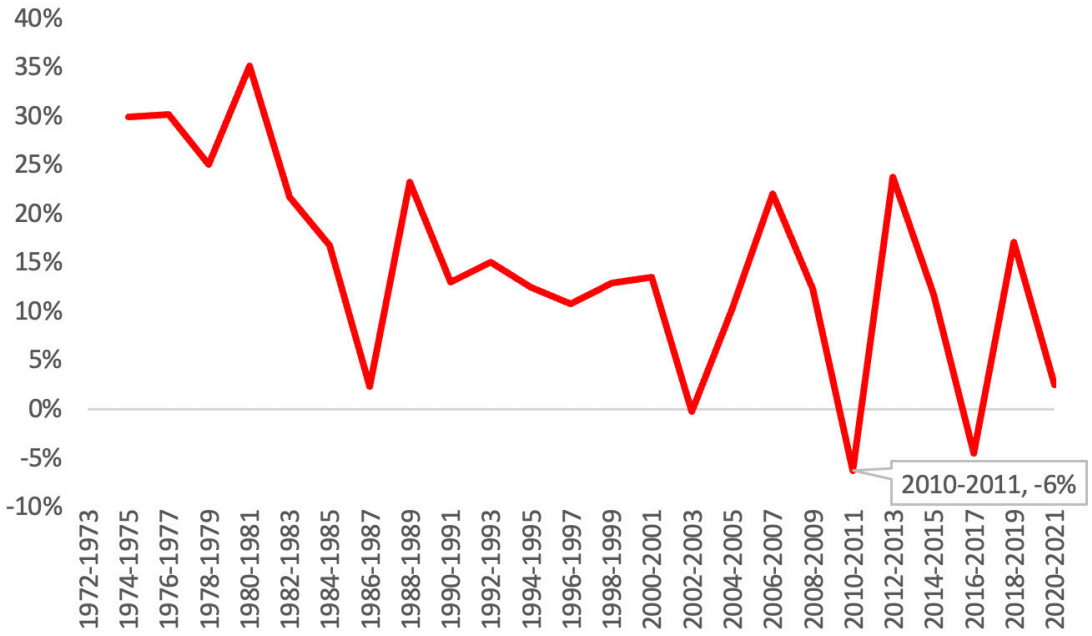
Figure 1
Surplus Funds Evolution (Billions)



Note. Data from *Biennial Revenue Estimate*, Texas Comptroller of Public Accounts, 2023 (https://comptroller.texas.gov/transparency/reports/biennial-revenue-estimate/2024-25/) and *Fiscal Size-Up*, Legislative Budget Board, n.d. (https://www.lbb.state.tx.us/FSU.aspx).

continued

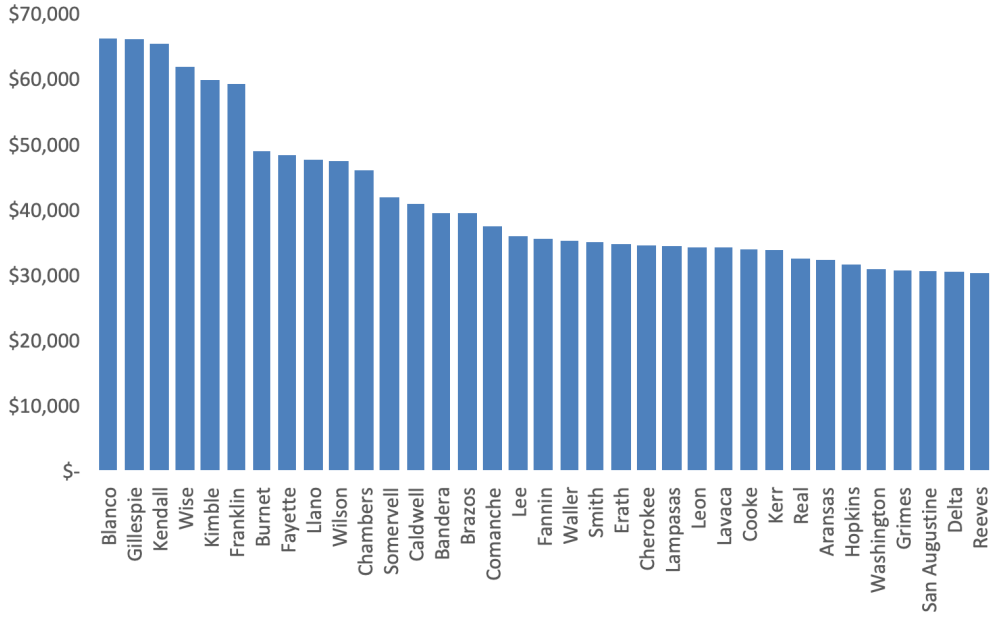
Figure 2
Texas' Tax Collections Biennial Percentage Change



Note. Data from *Sources of Revenue: A History of State Taxes and Fees in Texas: 1972 to 2022*, Texas Comptroller of Public Accounts, 2023b (https://comptroller.texas.gov/transparency/revenue/sources.php).

2. **State finances are robust enough to allocate more resources for property tax relief:** The Texas Constitution caps the Economic Stabilization Fund (ESF) balance "at an amount not to exceed 10 percent of certain [General Revenue] deposited during the previous biennium. *Certain* GR is defined as the total amount deposited in the General Revenue Fund during the previous biennium *excluding* these revenue sources: Investment income; Interest income; [and] Amounts borrowed from special funds" (Texas Comptroller of Public Accounts, 2022a, p. 2). Based on historical data, the ESF cap should be enough to face any future revenue downfall, as **Figure 2** demonstrates. The biggest drop in revenue (6%) was registered in the 2010–11 biennium. This would represent a $4.6 billion fall on tax collections that can be assumed by the $13.7 billion of the ESF. With the ESF acting as a cushion, the totality of surplus funds should be made available for property tax relief. As previously noted, "the State's finances are robust enough to face a recession" (Ginn & Sánchez-Piñol, 2023, para. 7).

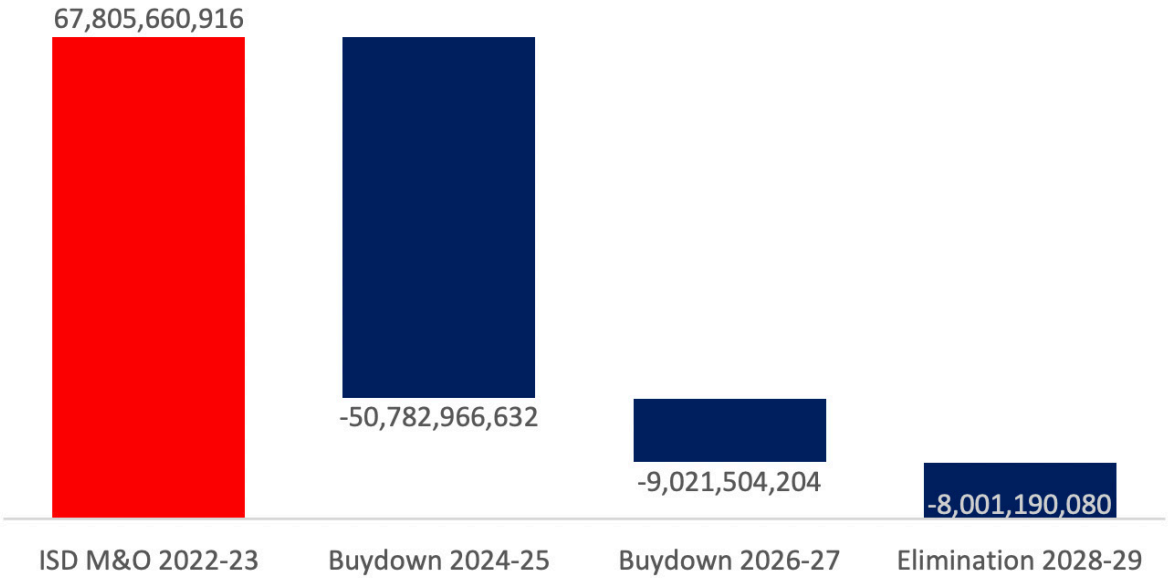
Figure 3
Counties With a Projected Average Home Appreciation Above $30K for 2024



Note. Data from *Housing Data*, Zillow, n.d. (https://www.zillow.com/research/data/). Estimations made by the author based on the average of the last 6 months of home price appreciation for each county to capture the rising interest rate environment.

3. **Not all property tax relief is created equal:** Tax compression (reduction) is superior to the homestead exemption. From the $15 billion proposed by both chambers for property tax relief, $3 billion would be allocated to raise the homestead exemption from $40,000 to $70,000 (Johnson, 2023, para. 5). However, at least 35 counties would still pay higher taxes, given that the projected appreciation for the average home for next year surpasses the homestead exemption increase, as **Figure 3** indicates. Considering the fiscal biennium, the number of counties that would not benefit from the homestead exemption rises to 111.

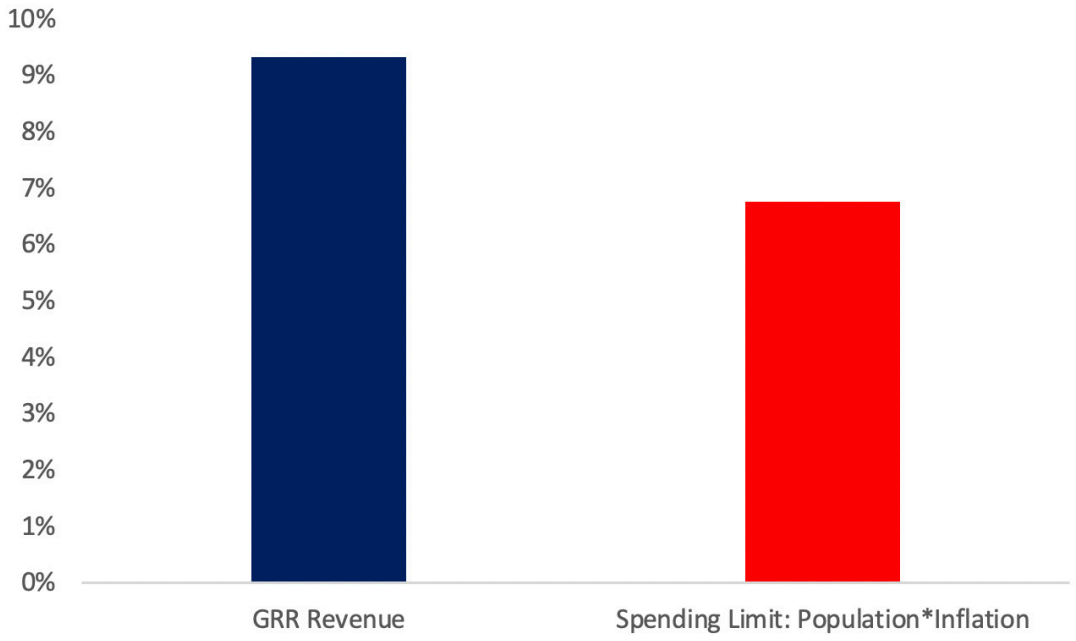
Figure 4
School Districts M&O Property Taxes Buydown



Note. Data from *Tax Rates and Levies,* Texas Comptroller of Public Accounts, n.d. (https://comptroller.texas.gov/taxes/property-tax/rates/) and contributions provided by Vance Ginn, Ph.D.

4. **Surplus funds should be used for tax compression:** Texas should create a path toward the complete elimination of school district property taxes. These local jurisdictions collect more than half of the total property tax levy. Using 90% of current and future surplus funds to buy down the $67 billion collected from the school district M&O property taxes would allow for the elimination of school district property taxes by the 2028–29 biennium. **Figure 4** shows the buydown approach using 90% out of the share of the General Revenue funds above 104%.

Figure 5
Historical Average Growth From 2012 to 2021



Note. Data from *Fiscal Size-Up*, Legislative Budget Board, n.d. (https://www.lbb.state.tx.us/FSU.aspx); *The 2022-23 Certification Revenue Estimate Update – Transmittal Letter*, Texas Comptroller of Public Accounts, 2022b (https://comptroller.texas.gov/transparency/reports/certification-revenue-estimate/2022-23-update/); and *Resident Population in* Texas, Federal Reserve Bank of St. Louis, n.d. (https://fred.stlouisfed.org/graph/?g=Uhhq).

5. **Spending caps are necessary for property tax relief:** The generation of future surplus funds depends on state revenue exceeding spending. One necessary condition for this ideal scenario is to follow fiscal rules like population times inflation put in place last session. This statutory limit adopted most of the rationale behind the Foundation's Conservative Texas Budget.

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