# PROPERTY TAXES UP 12% IN 2022 DESPITE LEGISLATURE'S PROMISE OF TAX RELIEF

HUFFINES LIBERTY FOUNDATION

## Executive Summary

The office of Texas Comptroller Glenn Hegar reports that school property taxes in 2022 increased 13.7% over the previous year. City taxes were also up 9.1%, county taxes 12.7%, and special district taxes 9.4%. This adds up to a $8.9 billion property tax increase in the same year that the Texas Legislature's 2021 property tax "relief" effort took effect.

The 12.17% property tax increase is hard to understand given the limits the Texas Legislature put on property tax revenue growth in 2019. For instance, county and city property tax revenue growth is limited to only 3.5% above the "no-new-revenue" rate without voter approval. It turns out, however, that the Legislature's limits on property tax growth leak like a sieve and allow property taxes to grow much faster than anticipated.

| Figure 1: Texas Property Tax Revenue 2021 - 2022 | | | | | |
|---|---|---|---|---|---|
| Tax Year | Special Districts | Counties | Cities | School Districts | Total Revenue |
| 2021 | $10,400,964,541 | $11,244,745,912 | $12,492,364,456 | $38,946,142,782 | $73,084,217,691 |
| 2022 | $11,381,507,038 | $12,668,561,428 | $13,634,751,910 | $44,296,728,440 | $81,981,548,816 |
| Increase | $980,542,497 | $1,423,815,516 | $1,142,387,454 | $5,350,585,658 | $8,897,331,125 |
| % | 9.43% | 12.66% | 9.14% | 13.74% | 12.17% |

With the Texas Legislature sitting on an unprecedented $64 billion in new revenue, it is possible to provide real and lasting property tax relief for Texans by eliminating the school maintenance and operations (M&O) property tax in as few as 4 years. But in order to do this, the Legislature must use all of the current $32 billion surplus to provide property tax relief and change the current dysfunctional property tax system by taking these steps: 1) limit state spending growth to no more than 5% per biennium; 2) freeze school M&O property taxes; 3) use 90% of future Texas budget surpluses to buydown M&O property taxes; and 4) require voter approval for local governments and special districts to exceed the no-new-revenue tax rate.

## Introduction

One of the problems with unlimited government is how its complexity masks the truth from voters and taxpayers.

One example of this is Texas property taxes. Texas politicians for years have been bragging about what a great job they have done providing property tax relief for Texans.

However, these claims have been called into question by data recently released by the office of Texas Comptroller Glenn Hegar. According to the Comptroller's office, since the Texas Legislature's Super Bowl session of 2019, the Texas property tax levy from schools, counties, cities, and special districts has increased by $15.4 billion, an average annual increase of 6.3%. More than half of that increase came in the last year, despite the Texas Legislature's additional property tax relief efforts in 2021.

In fact, the $8.9 billion, 12.2% increase of all property taxes from 2021-22 is difficult to explain even for analysts and agency employees who have been working on these issues for years. As is the $5.3 billion, 13.7% increase in school property taxes. The problem stems from attempting to explain how recent attempts by the Legislature to slow the growth of property taxes failed so spectacularly. If the Comptroller's data is accurate, however, an explanation is needed, particularly since Texas politicians are trying to determine how much of the $64 billion of new revenue the Texas Legislature has on hand will be used for their third attempt at property tax relief in the last five years.

## The Texas Comptroller's Data

Figure 2 shows the growth in Texas local government property tax revenue since 2018. The data comes from the Texas Comptroller, though the special district and county figures for 2022 have been adjusted to account for some missing data. The Comptroller shows a rapid growth of property tax revenue since 2018. The 6.77% average growth in revenue during that period is higher than the average 6.1% growth rate since 1996, despite the Legislature's attempts in 2019 and 2021 to provide relief.

Figure 2: Texas Property Tax Revenue 2018 - 2022

| Tax Year | Special Districts | Counties | Cities | School Districts | Total Revenue |
|---|---|---|---|---|---|
| 2018 | $8,485,263,910 | $9,602,798,872 | $10,387,752,412 | $34,723,549,607 | $63,199,364,801 |
| 2019 | $8,909,719,354 | $10,423,290,377 | $11,146,148,401 | $36,065,930,857 | $66,545,088,989 |
| 2020 | $9,486,152,671 | $10,839,800,642 | $11,963,476,245 | $37,552,976,906 | $69,842,406,464 |
| 2021 | $10,400,964,541 | $11,244,745,912 | $12,492,364,456 | $38,946,142,782 | $73,084,217,691 |
| 2022 | $11,381,507,038 | $12,668,561,428 | $13,634,751,910 | $44,296,728,440 | $81,981,548,816 |
| 2018-22 | 7.64% | 7.23% | 7.05% | 6.36% | 6.77% |

There were two approaches to relief during this period. First, in 2019 and 2021, the Texas Legislature spent an extra $3.1 billion annually to "buy down" or compress rates for the school district M&O property tax. Second, the Texas Legislature put limits on the revenue growth from all districts that could only be exceeded through voter approval. These "voter approval" growth limits were 3.5% for counties and cities, 8% for special purpose districts, and approximately 5% for school districts. These limits raise the question that is being asked in light of the Comptroller's numbers for 2022 revenue growth; how can the property tax levy increase at a rate so much higher than the limits set in state law? The answer, it seems, is that the limits on revenue growth are largely smoke and mirrors designed to make Texas voters believe that Texas politicians are doing something to control runaway property taxes when they are not.

## The Leaky, Loophole Ridden Limits on Property Tax Revenue Growth

The current general restriction on the growth of property tax revenue is known as the "voter-approval tax rate." As the title indicates, a tax entity cannot set a property tax rate higher than the voter-approval tax rate without approval of a majority of voters in an election.

For counties and cities, the maintenance and operations voter approval tax rate is the no-new-revenue maintenance and operations rate x 1.035. For special districts, it is the no-new-revenue maintenance and operations rate x 1.08. And for school districts it is the "rate per $100 of taxable value that is equal to the district's maximum compressed rate times $1.00 plus the greater of: the previous year's enrichment rate or $0.05 per $100 of taxable value" (Texas Comptroller).

Though the language is confusing, the average voter might believe that the limits on the growth of property taxes, without voter approval, range between 3.5% (counties and cities) and 8% (special districts). But that would be incorrect. There are so many exceptions and loopholes to the growth limits above that it is virtually impossible to calculate what the limits actually are. Apparently, though, based on the Comptroller's numbers, the limits can be stretched to allow school taxes to increase by at least 13% annually and all property taxes by at least 12%.

The following are some examples of the loopholes to the limits on property tax growth. They are not exhaustive, but they do offer some insight into the fact that the Texas Legislature has made property tax limits so complex and confusing that most Texans cannot understand them:

- *No-New-Revenue Tax Rate:* This rate does not actually result in no new revenue for a district. Instead, it provides for no new revenue from properties that are in the same condition in the new year as they were in the previous year. But taxing entities can still increase property tax revenue from "new development." For instance, Harris County adopted a no-new-revenue tax rate this year. Yet the rate provided Harris County with $66 million in new revenue this year, an increase of 3.3% (8, Huffines Liberty Foundation).
- *Unused Increment Rate:* This rate allows districts to "bank" unused increases from the previous two years. As an example, since Harris County used none of its voter approval 3.5% increase for 2022, the county could raise it taxes by 7% over the now-new-revenue rate in 2023 without voter approval. If the county experiences growth this year similar to last year, property taxes in Harris County could jump by more than 10% in 2023 without the voters having any input.
- *Debt Rate:* The 3.5% limit in voter-approval tax

rate does not include growth in property taxes used to pay debt. For the most part, debt must be approved by voters in a bond election. But often deception is involved in these elections as well. Last year, Ft. Bend I.S.D. asked voters to approve a property tax increase of 7.5% above the no new revenue rate. In trying to gain approval for the increase, the district told voters that the new tax rate would be the same as the previous year's without mentioning that the district's revenue will increase by $47.66 million and homeowner's tax bills will increase 7% (4, Huffines B) because of growth in property values.

- *Tax Rate Compression:* In 2019, the Texas Legislature passed HB 3, which, among other things, forced districts to compress their M&O tax rates by an amount depending on the district's property value growth above 2.5%. However, the complexities of the compression requirements, differing tax rates, and widely ranging growth in property tax values across districts have allowed districts to increase revenue far above the 2.5% generally portrayed as the limit.

## Conclusion

The Texas Legislature currently has the largest budget surplus in state history at about $32 billion. Add to that projected revenue for the next two years, Texas politicians are sitting on about $64 billion of new revenue. Yet they have said they would use only about $10 billion for property tax relief this session. Unless the Legislature at least triples the amount of property tax relief and makes significant changes to put school M&O on the path to elimination, the results this year will mirror what we have seen before; more spending on education with only minor and temporary property tax relief.

It is possible, though to bring permanent property tax relief for Texans by eliminating the school M&O property tax. Here is how:

### *Limit State Spending Growth*

Limiting state spending growth to no more than 5% per biennium (~2.47% annually) will provide adequate state revenue to eliminate the M&O portion of school property taxes within 10 years.

### *Freeze School M&O Property Taxes*

Eliminating the ability of school districts to increase M&O property taxes by freezing school property taxes at the current level stops school districts from interfering with a buydown.

### *Use 90% of Current and Future Texas' Budget Surpluses for the Property Tax Buydown*

Fiscal discipline at the state level will provide enough funds to eliminate the M&O property tax in 10 years (or less) only if 90% of the surpluses generated are used for the buydown.

### *Require Voter Approval for Local Governments to Exceed the No-New-Revenue Tax Rate*

Cities and counties constantly undermine property tax relief by rapidly filling in the gap created by reduction in school property taxes. They should be required to ask voters for permission if they want to keep doing so.

# HUFFINES LIBERTY*FOUNDATION*

## About the Founder

### *Don Huffines*

Former Texas State Senator Donald B. Huffines is a strong Christian, proud fifth-generation Texan, husband, father, grandfather, and self-made businessman.

Don Huffines fought fearlessly for fiscal restraint and government accountability in the Texas State Senate while representing Dallas County.

During his time in the Senate from 2015 to 2019, Senator Huffines served as the Vice-Chair of the Texas Senate Border Security, Veteran Affairs, and Transportation committees. Huffines also earned a reputation as one of Texas's most conservative lawmakers.

Don Huffines founded the Huffines Liberty Foundation to promote the values we all cherish that make Texas great.

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**Our mission is to advance the cause of liberty, prosperity, and virtue in the State of Texas by educating citizens so they may hold their elected officials accountable.**

**We look beyond the obvious and develop researched solutions based upon the common sense liberty principles of individual rights, fiscal restraint, personal responsibility, limited government, and social conservatism.**

**The Huffines Liberty Foundation encourages and educates citizens so they are better informed to tackle the toughest challenges.**