



Why Texas Can't—or Won't—Stop the Rapid Growth of Property Taxes

Second in the Three-Part Series: A Road Map to Abolishing School Property Taxes



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This paper is the second in a three-part series, *A Road Map to Abolishing School Property Taxes*, examining how to eliminate the massive property tax burden facing Texans. The path to restoring our economic liberty and unleashing prosperity begins by holding state politicians in Austin accountable.

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About the Huffines Liberty Foundation

The mission of the Huffines Liberty Foundation is to advance the cause of liberty in the State of Texas and educate citizens to hold their elected officials accountable.

We will develop an agenda based upon common sense and the liberty principles of individual rights, fiscal restraint, personal responsibility, limited government, and social conservatism.

The foundation will encourage and educate citizens, so they are better informed to tackle the toughest challenges.



Why Texas Can't—or Won't—Stop the Rapid Growth of Property Taxes

Executive Summary

Texans have a long history of expressing their concern over high property tax burdens. Texas politicians also have a long history of being unable (or unwilling) to stop the growth of the property tax. Since 1997 politicians have attempted five times to provide tax relief and failed each time. Instead, they have increased spending at both the state and local level, placing ever higher tax burdens on Texans.

Over the last 20 years, annual spending on government schools in Texas has increased from \$30,054,426,935 (2002-03) to \$72,620,846,524 (2021-22). That encompasses almost \$1 trillion of cumulative spending during that period, increasing at 4.79% per year. On a per student basis ([TEA](#)), the funding increased 89%. The numbers are similar for combined state and local spending in Texas. From 2004 to 2019, total revenue for local government and the state of Texas have increased at an annual rate of 5.53%. At the state only level, Texas will likely spend about \$283 billion during the current 2022-23 two-year (biennial) budget period, up from \$168 billion in the 2012-13 biennium. That's an average biennial increase of 10.6%.

The failures of Texas politicians provide some lessons for how to get meaningful property relief in the upcoming legislative session. To remedy this, the Texas Legislature should:

- Limit state spending growth to no more than 4% per biennium (~2% annually)
- Reduce the revenue trigger that requires voter approval of a tax increase from the current 3.5% (for cities and counties) and 2.5% (for school districts) to the “no-new-revenue” tax rate
- Prioritize the liberty of local taxpayers over the control of local politicians over taxes and spending, and
- Incorporate these changes into the Texas Constitution.

Introduction

In our previous paper, the extent of the property tax burden on Texans was examined. Texas homeowners face the 6th highest property tax burden in the United States. Texas businesses pay even higher taxes, on average about 2.50% of the property's value, which gives them the 9th highest business property tax burden in the country. Texas property tax rates are higher than Florida's, perhaps Texas' main economic competitor that, like Texas, does not have a personal income tax. Texas' [average sales tax rate](#) of 8.20% is also higher than Florida's 7.01% rate.

Figure 1: Texas Property Tax Burden

	Homeowners	Commercial
State Rank	6	9
Rate	2.49%	2.50%

Sources: Ryan Company; Home Tax Shield

Examining the effects these high rates have on Texans, we can examine their effect on homeownership. The amount a potential homeowner will have to spend on property taxes reduces the amount the borrower can pay on the mortgage. Eliminating school property taxes will cut the tax burden in half. The mortgage payment for a Texas homeowner who in 2021 bought a median priced house, \$350,000, is about \$1,200 a month. Their monthly property tax bill is about \$583—almost half of their mortgage payment. If Texas eliminates school district property taxes—about half the total, that homeowner would save about \$3,500 per year. The homeowner could either pocket the savings or use them to be able to afford a more expensive home valued at \$420,000. Others could purchase their first home for which they would not have previously qualified.

Texas’ excessive property tax burden not only decreases the size and value of the home Texans can afford, it increases prices they pay for products and services they purchase from Texas businesses—which pay about 50% of all property taxes. The old adage is true; businesses don’t pay taxes, people do. Property taxes imposed on Texas business result in some combination of lower profits for owners, lower wages for employees, and higher costs for consumers. They also take money out of the productive economy where jobs are created.

Despite the heavy cost to Texas taxpayers and consumers, Texas policymakers have for decades failed to meaningfully address Texas’ growing property tax burden.

A Brief History of Education Property Taxes

Over the years, Texans have not embraced property taxes to pay for government schools. There has been opposition from the start:

The first legislation that allowed for the use of local property taxes to fund education came about in 1846 and was limited to two cities. The cities of Corpus Christi and Galveston held elections

to impose local property taxes to fund schools. In Corpus Christi, the vote failed. In Galveston, they abandoned the tax after two years due to hostility from disgruntled taxpayers. According to Eby, some Texans did not oppose the concept of using of state tax dollars to fund education, but they “bitterly opposed” the use of dollars collected through a new local property tax for that purpose ([Griesinger, et. al.](#)).

The next major attempt to push property taxes for funding public education came after the Civil War, and related to an effort to promote centralized education:

In 1869, during Reconstruction, Texas was required to adopt a new constitution under the Congressional Reconstruction Acts of 1867. The new constitution created a highly centralized education system that was widely objected to by the citizenry of the state. A new Available School Fund was created to fund state administration (Thomas and Walker, 229). The new fund was supplemented with revenue from, among other things, a local property tax. Imposed by the School Law of 1871, this tax was initially set at a rate of \$1.00 for every \$100 of property value. Many Texans refused to pay the tax, calling it “robbery and confiscation.” Texans objected so heavily to the tax, that only 26% of the total levy was ever collected. The state only levied the tax for two years ([Griesinger, et. al.](#)).

The Texas Constitution was amended in 1883 to “give rural school districts the ability to levy a maintenance and operations tax of up to 20 cents per \$100 of property value” ([Griesinger, et. al.](#)). At this point the property tax had come to stay. Still, it was a local tax subject only to local decisions makers.

While the state began providing more state funds for public education over the next century, it was not until the 1980s and 1990s that the state began to centralize control of education and property taxes. In 1983, a select committee headed by Ross Perot was appointed by Texas Gov. Mark White to study public education. The result was House Bill 72, passed by the Texas Legislature in 1984, that made sweeping changes to the school finance system and centralized control of education in Austin. After the Texas Supreme Court declared the school finance system unconstitutional in 1989 because of unequal funding through property taxes across districts, the Legislature in

1993 created the infamous “Robin Hood” system of recapturing local property taxes from property wealthy districts and sending them to property poor districts. These have resulted in Texas now having a state system of education funded by a *de facto* statewide property tax. Even though the Texas Supreme Court has chosen to ignore this fact since 2006, there is very little left when it comes to the state’s public schools that is not under the control of the Texas Legislature.

Previous Attempts to Provide Property Tax Relief

Not only have Texans objected to the concept of property taxes, but also to the rapid growth of the property tax burden over the last 30 years or so. During that time there have been numerous attempts by the Texas Legislature to provide property tax relief in response to political pressure from Texans. None of them, however, have been successful.

1997—Raising the Homestead Exemption

It was after the implementation of the Robin Hood system of recapture that property taxes became a political issue in the 1990s. The Texas Legislature responded by increasing the homestead exemption by \$10,000. This may have provided temporary relief to homeowners, but it did nothing to stop the increasing property tax burden. The levy for property taxes due January 1, 1998, after the increase in the homestead exemption, rose by \$812 million, up 4.8%, from the prior year.

2006—The Property Tax-Franchise Tax Swap

In 2005, the Texas Supreme Court found that Texas’ school finance system was unconstitutional because it violated the constitutional ban on a statewide property tax. After a year of political negotiations, Governor Rick Perry called the Texas Legislature into a special session in 2006 to address the court’s ruling. The result of the special session was a tax swap: the Legislature substantially increased the state’s franchise tax on businesses and used some of the revenue to reduce property taxes. However, despite using \$14 billion from the new franchise tax to increase state spending on public education, the total property tax levy only decreased by a little more than \$400 million in the first year of the plan (2007) and then skyrocketed by almost \$5 billion over the next two years. This has resulted in a higher tax burden on all Texans, particularly businesses, that this year will pay about \$7.6 billion in franchise taxes in addition to more than \$38 billion in property taxes.

2015—Raising the Homestead Exemption

In 2015, Texas leaders went back to raising the homestead exemption in an effort to reduce the property tax burden. This was done through a joint resolution adopted by the Texas Legislature and passed by Texas voters which increased the homestead exemption from school district taxes by \$10,000, to \$25,000 ([Ballotpedia](#)). As with the 1997 effort, this effected only property owners with a homestead exemption—which accounts for about [47% of taxable property](#), and even for the homeowners the relief was limited and short-lived. Overall, property taxes increased \$1.1 billion the first year and \$3.8 billion the next after the exemption was increased. Meanwhile, education spending continued to climb, by \$2.7 billion the next school year.

2019—Limiting Growth of Property Taxes

In 2019, Texas Legislature undertook a second comprehensive effort to reduce and reform property taxes. There were two primary components: 1) as with the 2006 effect, boosting state education spending to “buy down” local school property taxes, and 2) imposing limits on the growth of property tax revenue without voter approval: 3.5% on certain cities, counties, and special purpose districts and 2.5% for school districts. Local governments and school districts that exceed the voter-approval tax rate must call an election in which a majority of voters approve the higher rate.

The property tax buydown got off to a shaky start. For most of the session, the bulk of new state expenditures was dedicated to increasing education spending, including increasing teacher salaries, rather than buying down property taxes. However, a revolt of sorts among grassroots Republicans toward the end of session led to more money being dedicated to property tax relief. In the end, the [LBB reported](#) that HB 3 provided “\$6.5 billion for increased school funding” (including salary increases to teachers) and “\$5.0 billion for property tax relief through the compression of school district tax rates.” A [press release](#) from Sen. Paul Bettencourt said that “taxpayers should expect a 7+ penny reduction on their school property tax rate in 2019. On a median valued home in Texas (\$187,392) this could mean a savings of over \$1,000 by 2024.”

The limits on increases in property tax revenue were passed in SB 2. The “rollback rate,” i.e., the limit on growth without voter approval, was lowered from 8% to 3.5% for cities and counties with a population over 30,000, beginning in 2020. Additionally, citizens no longer had to petition to roll back the rate; instead, cities and counties had to seek

Figure 2: Texas Property Tax Revenue 2018-20

Year	Special Districts	Counties	Cities	School Districts	Total Revenue
2018	\$8,469,317,000	\$10,036,617,000	\$10,387,752,000	\$34,876,943,000	\$63,770,629,000
2019	\$8,887,185,000	\$11,000,571,000	\$11,152,238,000	\$36,178,717,000	\$67,218,711,000
2020	\$9,485,844,000	\$11,093,235,000	\$11,866,241,000	\$37,906,918,000	\$70,352,240,000
2021	\$10,400,964,000	\$11,699,037,000	\$12,495,941,000	\$38,956,443,000	\$73,552,385,000

Source: [Texas Comptroller](#)

approval of the public in an automatic November election if a proposed tax rate would yield more revenue than the new limit allowed.

Despite the comprehensive nature of the reforms, HB 3 and SB 2 provided little property tax relief. The Texas Comptroller’s office reports that the total property tax levy from all local taxing entities increased from \$63,770,629 in 2018 (prior to the reforms) to \$67,218,711 in 2019 (after the reforms). **Figure 2** shows that property tax revenue increase across the board for all taxing entities in 2019. And again in 2020 and 2021.

Two reasons stand out for the failure of the 86th Texas Legislature’s effort to provide property tax relief. First of all, it dedicated more money to new education spending than property tax relief, apparently in an effort to placate teachers’ unions and suburban voters leading up to the November 2020 elections. Second, it delayed the effective date of the new rollback rates (for cities and counties) and tax levy caps (for school districts) until 2020. So even with the compression of school district taxes implemented in 2019, many school districts and local governments took advantage of the delay to significantly increase tax revenue in the last year.

As Texas Scorecard [reported](#):

The average Dallas ISD homeowner paid a school property tax bill of \$2,873 in 2018. In 2019, after HB 3’s “relief,” that number grew 2.5% to \$2,949. [Dallas homeowners](#), on average, saw an increase from Abbott’s plan, not “relief.” But it gets worse. ...

Consider Tarrant County, where [all but two of 20 school districts](#) saw the average homeowner pay a bigger school tax bill in 2019 after HB 3. It was

merely a reduction in an increase, but it was still an increase. ...

Fort Worth ISD’s average tax bill rose 5% after HB 3 to \$2,038. The average Arlington ISD homeowner paid a 6% increase, to \$2,042.

The problem continued into 2020. Many local governments [took advantage of another “loophole”](#) in the property tax relief package that allowed cities and counties to ignore the new rollback rate in the case of an emergency declaration by the governor. Though such declarations have been anticipated to be related to emergencies with physical damage such as hurricanes, tornadoes, and flooding, local governments claimed that Governor Abbott’s declaration related to COVID-19 also triggered this exemption. As a result, property taxes jumped 4.5% in both 2020 and 2021. As with other property tax relief efforts over the last 30 years, the 2019 effort completely failed.

2021—Raising the Homestead Exemption, Again

In 2021, the Texas Legislature found itself flush with cash, sitting on a surplus of \$8 billion. Part of the surplus came from the rebound of the Texas economy as the government’s COVID shutdown came to an end. Then there was the \$16 billion in “stimulus” funds Texas received from the federal government for public education. But little of the money found its way back to Texas taxpayers. While the Texas Senate passed legislation that would have used \$2 billion of the surplus to buy down property tax rates, the House balked at the proposal and instead adopted a plan to send \$525 checks to homeowners, using a portion the state’s \$3 billion from the federal American Rescue Plan Act. As a compromise, the Legislature passed a constitutional amendment that would increase the Texas homestead exemption from \$25,000 to \$40,000. Voters approved the amendment on May 7 and the increase will apply to homeowner’s 2022 tax bill. The owner of

Figure 3: Texas Property Tax Revenue 2006-09

Year	Special Districts	Counties	Cities	School Districts	Total
2006	\$3,972,186,000	\$5,339,614,000	\$5,322,986,000	\$20,918,122,000	\$35,552,907,000
2007	\$4,513,060,000	\$5,836,990,000	\$5,890,307,000	\$18,874,240,000	\$35,114,597,000
2008	\$4,952,735,000	\$6,342,705,000	\$6,451,012,000	\$21,233,517,000	\$38,979,970,000
2009	\$5,133,821,000	\$6,526,724,000	\$6,593,755,000	\$21,780,056,000	\$40,034,356,000

Source: [Texas Comptroller](#)

an average Texas home, valued at about \$300,000, will see a reduction of \$175 if property tax levies remain the same. Of course, they won't. And apartment dwellers, along with owners of apartments and other commercial properties, will get no relief at all. The results of this latest effort to provide property tax relief will be available about January 1, 2023 when the 2022 tax levies are calculated by the Texas Comptroller's office.

Why All Efforts to Reduce Property Taxes Failed

These previous efforts to provide property tax relief have failed for four primary reasons. First, because they have been small compared to the size of the property tax levy. The heavy property tax burden in Texas makes homeownership less affordable, reduces investment by businesses, and decreases economic growth. Minor changes make little difference to home and business owners or the state's economy. One example of this is the 2021 increase in the homestead exemption. The value of the increase of the exemption to homeowners overall is about \$600 million, 0.71% of the estimated property tax levy of \$84 billion in 2022.

A second reason for the failure of previous efforts is that often the Legislature has provided property tax relief only to homeowners. Yet business owners, their employees, and their customers are significantly affected by Texas property tax burden. High property taxes reduce investment, negatively affect business decisions, depress worker pay, and increase consumer prices. Yet, more often than not, the Legislature has sought to reduce the property tax burden only by increasing the homestead exemption. Even though properties with homestead exemptions make up only 47% of taxable value in the state. In fact, Texas is well on its way to creating a bifurcated property tax system, where businesses face a significantly higher property tax burden than homeowners. This includes apartment buildings in which the renters are forced to pay higher rent to cover rising property taxes.

A third reason for its failure is that while the Legislature used homestead exemptions and buydowns of the rates to reduce school property taxes, it did little to limit other local taxing entities from raising rates to take advantage of the reduction of school taxes. In the 2006 property tax swap, the Texas Legislature passed a massive \$14 billion increase in spending on public education. Yet as shown in **Figure 3**, school property taxes decreased by only \$2 billion. And because cities, counties, and special purpose districts increased their levies, property taxes overall decreased by only \$438 million, out of a total levy of \$35.1 billion. Over the next two years, rate hikes by schools and local governments increased property taxes by \$4.9 billion.

The ability of these taxing entities to boost their revenues point to the primary reason why previous efforts at property tax relief have failed: the state of Texas has historically refused to reign in spending growth, either at the state level or the local level for schools, cities, counties, and special purpose districts.

Public school spending is one example of this problem. Over the last 20 years, total spending on public schools in Texas has increased from \$30,054,426,935 (2002-03) to \$72,620,846,524 (2021-22). That encompasses almost \$1 trillion of cumulative spending during that period increasing at 4.79% per year. The numbers are similar for combined state and local spending in Texas. Over 15 years, from 2004 to 2019 (the most recent year that numbers are available, revenue for local government and the state of Texas have increased from \$153.6 billion to \$289.9 billion, an annual increase of 5.53%. At the state only level, Texas will likely spend about \$283 billion during the current two-year (biennial) budget period, up from \$168 billion in the 2012-13 biennium. That's an average biennial increase of 10.6%.

Principles for Reducing or Eliminating Texas Property Taxes

There is much that Texans and Texas politicians can learn from the state's past failures to provide meaningful property tax relief. Here are several principles to guide future efforts.

Limit Spending Growth

Taxes pay for spending. If spending increases, taxes will increase as well. Any effort to reduce the property tax burden on Texans will fail if spending by schools and local governments continues to grow at the current rates. Even if the Legislature somehow actually decreased property taxes, as long as spending continues to increase the result would be a tax swap—property taxes would decline while some other tax increased. The only way to provide real tax relief for Texans is to stop the growth of government spending. The Texas Legislature should limit state spending growth to no more than 4% per biennium (~2% annually). Better yet, the Legislature should place a moratorium on spending growth until the school maintenance and operations portion of the property tax is eliminated.

Limit Property Tax Revenue Growth

As noted above, the Texas Legislature in 2019 attempted to meaningfully restrain local government property tax revenue growth for the first time in history. Yet the legislation adopted by the Legislature contained a loophole, the “no-new-revenue” tax rate that exempts new development from the revenue limits. Today, if new development is conducted on a property, or there is redevelopment of an existing development, the additional revenue generated from these does not count against the limits. That, along with some districts that do receive voter approval, is why property tax revenue is still growing at more than 4% per year.

If Texas is going to meaningfully control local government spending, the Texas Legislature must greatly reduce the ability of local governments and schools to increase property tax revenue without voter approval. The simplest way to accomplish this would be to require voter approval for any increase in revenue over the no-new-revenue standard.

Harris County provides a good example of the effect this would have on local governments. The county recently set its tax rate for FY 2023 at the no-new-revenue rate. This happened because two commissioners boycotted court meetings to avoid imposing a \$257 million tax increase on residents favored by the county judge and two

other commissioners. By law, without a quorum to adopt a tax rate, the no-new-revenue tax rate automatically took effect. Because of the exemption from the calculations for new development, the no-new-revenue rate will produce about \$66 billion in new revenue for Harris County next year. That equals 3.3% in additional revenue over 2022.

Counties experiencing less economic activity might see less revenue growth than Harris County. Of course, less economic activity means less demand for increased services. Though if county commissioners or school district trustees believe more revenue is needed, all they have to do is ask voters to approve higher taxes.

Permanently Reduce School Property Taxes

Unlike funding for local governments, school district revenue is already highly centralized, with all funds flowing through the state's school finance funding formulas. This provides an opportunity to permanently reduce, or eliminate, the maintenance and operations portion of school property taxes. This could be accomplished by capping property tax revenue for each district at current levels, then reduce it in steps over the time. Each year the Legislature could further decrease school property taxes by replacing the local revenue with state revenue. The difference from past legislative failures would be that school districts would no longer have the ability to increase their levies. The details of our proposal for eliminating the maintenance and operations portion of the property tax will be in the next paper in this series.

Eliminate the Always Renter Provision for Property Taxes

While very few people like paying taxes, most acknowledge that the government has legitimate authority to levy taxes of one kind or another. The problem of excess taxes is dealt with above. Here, we address the fact that property owners are subject to having local governments foreclose their real property, most often their homes, if they do not pay their property taxes. This is because of a provision in the property tax code that allows local governments to foreclose and sell real property on which property taxes go unpaid. The best way to change this is to simply eliminate this provision and make property tax debt like other tax debt. In such a case, it might be possible for a property owner to lose his property, but that would be a last resort—not an automatic process as is currently in place. If Texans decide only to lower the property tax burden rather than eliminate it completely, enacting this provision means that we would likely see fewer losses of homes in the future because of property taxes.

Incorporate Strong Property Tax Limitations into the Texas Constitution

If anything can be learned from the Legislature's failures to reduce property taxes, it is that politicians have a hard time keeping their hands off taxpayer money. In 2006, for example, the Texas Legislature raised taxes to support an increase of \$14 billion in education spending based on the promise of reduced property taxes. However, property taxes decreased by only \$438 million, and that reduction only lasted a year. If Texans can persuade their elected officials to make real reforms to the property tax system that provide significant tax relief, the changes should be incorporated into the Texas Constitution to ensure that any future changes must be approved by Texas voters.

Prioritize Liberty Over Local Control

Some might criticize the partial or complete elimination of property taxes because they believe that centralizing local government finances takes away local control. But it does not do that. For instance, local control over school finance was essentially taken away by the Texas Legislature and state courts over a 20-year period starting in the mid-1980s. Despite a constitutional ban on a statewide property tax, Texas courts have allowed the state of Texas to control property tax revenue through recapture. And current school finance formulas leave little local discretion over how much revenue districts can receive.

While local governments do have more control over their revenue than school districts, reductions in local property taxes are also still possible. And doing so would eliminate the flawed concept of local control by local governments by empowering local taxpayers to exercise local liberty exercised. The current level of local control is not con-

ducive to taxpayer liberty. Schools and local governments often schedule votes on bonds, tax rates, and council elections on low turnout election days, rather than the general election days in November. The result is that often a small minority, sometimes with a financial interest in the adoption of higher spending and more debt, determines the outcomes of these elections. Under a serious plan to reduce or eliminate property taxes, however, the liberty of individual Texans will be better protected by allowing Texans to keep more of their own money through limiting the growth of government spending and reducing the overall tax burden on Texans.

Conclusion

Texas politicians have failed to provide real and lasting property tax relief to Texans for one simple reason: they have not been serious about permanently reducing government spending in their previous attempts. Instead, they are more focused on meeting the needs of other constituents like local government officials that want only one thing—more government spending. The tax swaps and increases in the homestead exemption they have implemented are bad tax policy and political gimmicks that not only have failed but have placed higher tax burdens on businesses that in turn reduce employment and economic growth. If Texas politicians are willing to put taxpayer interests ahead of special interests by following the recommendations of this paper during the Texas Legislature's 2023 regular session, they will finally bring Texans the property tax relief have been seeking for decades.



Liberty Statement

Our personal and economic liberty is the foundation of our Texas and American constitutions. Actually owning one's property and not renting it by force from the government is paramount to strengthening and stabilizing this foundation. Property rights start with the actual freedom to at least own your own property.



Liberty, Prosperity, and Virtue.

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