



## Texas Property Taxes

### Cities are not the problem and revenue caps are not the solution

Lt. Governor Dan Patrick recently announced his appointment of seven senators to serve on a new Select Committee on Property Tax Reform and Relief. Though the select committee was established to receive public feedback about how to best improve our property tax system, and to make recommendations accordingly, there is little doubt that revenue caps will be a focal point of the hearings and almost certainly will be recommended to the Senate Finance Committee.

The committee is seeking to reduce property tax burden on homeowners and businesses. However, imposing revenue caps would be a misguided effort to reach that goal. Currently, if a Texas city increases property tax collections by more than eight percent over the previous year, voters can petition for an election to rollback the increase. Bills were introduced in 2015 to replace that eight percent “rollback rate” with a hard cap of four percent and require mandatory elections on an increase over four percent – all with the false claim that this would provide property tax relief. Revenue caps are a terrible idea for the following reasons:

- **Unprecedented Population Growth.** Not only do the vast majority of Texans live in cities, but Texas cities are among the fastest growing in the entire country (many Texas cities have seen their populations grow by more than 10 percent since 2010, some experiencing upwards of 30 percent growth.) The state demographer recently estimated the state’s population will double by 2050. In other words, more than 25 million *more* people will be living in Texas in 35 years, and cities will experience the lion’s share of that population growth. Given this reality, now is the exact wrong time for the state to further limit cities’ financial flexibility when it comes to providing essential transportation infrastructure and public safety protections (among other things) to a rapidly growing population.
- **City Property Taxes Aren’t the Problem.** Cities collect just 16 percent of the property taxes levied in the state, according to the state comptroller. Most of the property taxes paid by Texans (55 percent) go to school districts. The latest property tax report by the comptroller shows the total amount of property taxes collected by cities rose by just 3.61 percent between 2012 and 2013, while school district tax collections rose by more than twice that rate or 7.72 percent. School property taxes have been rising because the legislature continues to reduce the state’s share of funding for schools which forces districts to get more revenue from property taxes.
- **Revenue Caps Provide Minimal Tax Relief, at best.** If a four percent cap on city property tax increases had been in effect in 2013, the owner of a homestead in the City of Dallas with an assessed value of \$250,000 would have seen a “cut” in city property taxes of \$33.10 annually or about \$2.75 per month. The tax savings would have been **even less** if the homeowner was disabled or elderly and qualified for additional exemptions.
- **More Commonly, Revenue Caps Provide No Tax Relief At All.** According to the state comptroller’s latest survey of property tax rates in 1,002 cities in Texas, 56 percent of cities either reduced their property taxes or raised their property taxes by less than four percent from 2013 to 2014 (29 percent of all cities actually reduced their property taxes). That means property owners in at least 564 Texas cities would have seen no reduction in their city property taxes if the four percent cap had been in effect.

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- **Revenue Caps Encourage Cities to Increase Taxes to Build Up Reserves.** If a hard four percent revenue cap were placed on Texas cities, it could encourage some cities to adopt the rollback rate every year. Most cities aren't adopting rates anywhere near the rollback rate under the current tax system. But tying the hands of our local officials may have the effect of pushing cities right up against a lowered rollback tax rate, just so the city can generate sufficient reserves in case of a major project or emergency situation. In other words, less financial flexibility for local governments could force cities into increasing tax rates since local control in future years would be limited.
- **Texas Cities Receive Minimal State Funding.** Unlike other states that have experimented with revenue caps, Texas state government provides almost no funding for the provision of city services. In fact, Texas ranks 47th out of the 50 states in the amount of general revenue it receives from state government. Caps might make more sense in a state where cities are also receiving appropriations of revenue from state government as a safety net. In Texas, city governments are tasked with generating and spending revenue, and welcome that responsibility.
- **Local Decisions Should Be Made By Local Officials.** State officials have no responsibility to provide local services or to meet unfunded state and federal mandates on cities. Elected city officials have constituents to represent. If an elected city councilmember acts contrary to the will of the citizens, that councilmember is not reelected. City officials interact with city residents everyday, spend hours reviewing city budgets, and are personally familiar with the priorities of their communities. In short, city officials are in a far superior position to determine the appropriate tax rate in their cities than are state officials in Austin.
- **Elections aren't cheap.** Nearly all revenue cap proposals include a mandatory rollback election if a city exceeds the lowered rollback rate, instead of the current system that allows voters to petition to hold an election. Requiring cities to hold rollback elections is yet another unfunded mandate from Austin. Based on costs reported to the Secretary of State in 2014 by a sampling of counties, municipalities, and special districts, the average cost incurred by a local governmental entity for an election held is \$1.70 per registered voter. This means that some Texas cities will be spending in excess of \$1 million on mandatory rollback elections.

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