

Texas: Proposal to cap property tax increases proceeds out of the Senate



David M. Kall | Thursday, April 6, 2017

When Texas Gov. Greg Abbott gave his [state-of-the-state speech](#) earlier this year, he lamented the fact that “Texans are being crushed by property taxes,” and declared that they “should not stand for it.” Pointing out that “[p]roperty owners are not renting their land from the city,” he reasoned that the state needs “property tax reform that prevents cities from raising property taxes without voter approval. We need serious property tax reform with a real revenue cap.”

Efforts to this end have been in the works for quite some time, but now they may be coming to fruition. Starting in the Senate, the [Texas Property Tax Reform and Relief Act of 2017](#), SB 2, has now made its way out of that chamber by a vote of 18 to 12.

The crux of the legislation features a reduction of the “rollback tax rate,” which is a taxation limit that effectively serves as a revenue cap for Texas cities and counties. The rollback tax rate is the sum of two components: 1) a maintenance and operations (M&O) rate, which includes salaries, utilities and day-to-day operations of the taxing unit; and 2) a debt service rate. Debt service covers the interest and principal on bonds and other debt secured by property tax revenues. Usually, the rollback tax rate exceeds the effective tax rate, but a decrease in a taxing unit’s debt service will cause the effective tax rate to be higher than the rollback tax rate.

According to the Texas Tax Code, if a taxing unit adopts a tax rate that exceeds the rollback tax rate, voters may petition for an election on the tax increase. A successful election limits the taxing unit’s current tax rate to the rollback tax rate.

SB 2’s [bill analysis](#) explains that under current law, the statewide trigger point for a rollback election is 8 percent. The original goal was to reduce this to 4 percent, but lawmakers settled on 5 percent. In addition, the measure removes the petition requirement for an election, making an election automatic when a city, county, or special district exceeds the rollback rate.

The bill analysis states that although most home and business owners see regular double-digit increases to their property taxes, taxpayers have largely been unable to keep up, despite the growth of Texas’ post-recession economy. For this reason, several of SB 2’s sponsors [celebrated](#) its progression. Senator Paul Bettencourt observed that “[p]roperty taxes are rising too fast. As appraisal values rise, tax rates do not come down enough to provide property tax relief. Senate Bill 2 will save future money for hard-pressed homeowners and business owners.”

Senator Van Taylor “reaffirmed that SB 2 represents the ultimate form of local control, ‘putting power back in the hands of the people to check the growth of government...If we want to give our children a future where they are free, we have to pass Senate Bill 2.’”

Five-year projections in the [fiscal note](#) show no impact on the state’s general revenue funds, but somewhat significant losses for counties, cities and special districts,

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as follows:

| Fiscal year | Probable Revenue Gain/(Loss) from Counties | Probable Revenue Gain/(Loss) from Cities | Probable Revenue Gain/(Loss) from Other Special Districts |
|--------------------|---|---|--|
| 2018 | \$0 | \$0 | \$0 |
| 2019 | -\$108,281,000 | -\$86,048,000 | -\$104,503,000 |
| 2020 | -\$113,695,000 | -\$90,350,000 | -\$109,728,000 |
| 2021 | -\$119,380,000 | -\$94,868,000 | -\$115,214,000 |
| 2022 | -\$125,348,000 | -\$99,611,000 | -\$120,975,000 |

For this reason, not everyone is so delighted. For example, Senator Kirk Watson, who represents most of Travis County, where Austin is located, points out that SB 2 does not address the biggest recipient of property taxes, public schools: "If we were serious about providing citizens with property tax relief, than we would get serious about reforming school finance," quoted WOAI.

And the City of San Antonio refers to SB 2 as "Public Enemy Number One." Rather than seeing the legislation as "a step toward lean and efficient government," there are worries that "the bill will handcuff [San Antonio's] ability to make the needed investments in infrastructure and public safety to prepare for a large population growth forecast for the coming decade."

The House's companion bill, [HB 15](#), was referred to the Ways and Means Committee in early March.



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