



TEXAS LEGISLATIVE STUDY GROUP

An Official Caucus of the Texas House of Representatives

Please Contact: Raul Lopez
512-787-7199

Members

- Rep. Alma Allen
- Rep. Rafael Anchia
- Rep. Michelle Beckley
- Rep. Diego Bernal
- Rep. Cesar Blanco
- Rep. Rhetta Bowers
- Rep. John Bucy
- Rep. Gina Calanni
- Rep. Terry Canales
- Rep. Sheryl Cole
- Rep. Garnet Coleman
- Rep. Nicole Collier
- Rep. Phillip Cortez
- Rep. Yvonne Davis
- Rep. Joe Deshotel
- Rep. Alex Dominguez
- Rep. Harold Dutton
- Rep. Jessica Farrar
- Rep. Barbara Gervin-Hawkins
- Rep. Mary Gonzalez
- Rep. Jessica Gonzalez
- Rep. Vikki Goodwin
- Rep. Bobby Guerra
- Rep. Ryan Guillen
- Rep. Roland Gutierrez
- Rep. Ana Hernandez
- Rep. Abel Herrero
- Rep. Gina Hinojosa
- Rep. Donna Howard
- Rep. Celia Israel
- Rep. Eric Johnson
- Rep. Jarvis Johnson
- Rep. Julie Johnson
- Rep. Tracy King
- Rep. Oscar Longoria
- Rep. Eddie Lucio III
- Rep. Armando Martinez
- Rep. Trey Martinez Fischer
- Rep. Terry Meza
- Rep. Ina Minjarez
- Rep. Joseph Moody
- Rep. Sergio Muñoz Jr.
- Rep. Victoria Neave
- Rep. Poncho Nevarez
- Rep. Evelina Ortega
- Rep. Leo Pacheco
- Rep. Mary Ann Perez
- Rep. Ana-Maria Ramos
- Rep. Richard Peña Raymond
- Rep. Ron Reynolds
- Rep. Eddie Rodriguez
- Rep. Ramon Romero
- Rep. Toni Rose
- Rep. Jon Rosenthal
- Rep. Carl Sherman
- Rep. James Talarico
- Rep. Shawn Thierry
- Rep. Senfronia Thompson
- Rep. John Turner
- Rep. Chris Turner
- Rep. Hubert Vo
- Rep. Armando Walle
- Rep. Gene Wu
- Rep. Erin Zwiener
- Sen. Jose Menendez
- Sen. Jose Rodriguez

Texas LSG recommendation: Unfavorable, Vote No.

SB 2: A Threat to Public Safety and Economic Success, but Not a Property Tax Cut

Overview

Property taxes provide cities, counties, local school boards, hospital districts, and community college districts with revenue needed to meet the needs of their communities. This includes public health and safety, education, transportation, drainage, libraries, parks, and more. SB2 proponents believe local property taxes can be held in check by putting a straightjacket on local governments' ability to levy property taxes. SB2 would mandate a 2.5% cap on revenue increases generated by local property taxes.

Current law places an 8% revenue cap on property taxation, and voters are allowed to petition for a rollback election if a local jurisdiction increases property tax revenue in excess of that 8% cap. Under SB2, exceeding the much more restrictive 2.5% cap would trigger an automatic election. In addition, smaller local jurisdictions that generate less than \$15 million in property and sales tax revenue would be exempt from the 2.5% cap, however they would be mandated to hold an election to opt in to the cap by a local election.

Perhaps the most significant change that would be mandated by SB2 is the stated intent of the Senate bill author – as indicated by “placeholder” language in the bill - to place school districts under the 2.5% cap at a time when the state has reduced its share of education funding, forcing local school districts to make up the difference with property tax revenue. The current school finance system provides very specific provisions related to the use of property tax revenue by school districts.

For that reason, **the Legislative Budget Board cannot calculate a state or local fiscal note absent school finance legislation that would address changes that would be caused by the passage of SB2.** Nonetheless, SB2 proponents insist on moving forward without knowing how it would impact the school finance system and our local schools.

Where do property tax dollars go?

On average, statewide, here's where your property tax bill goes. School district property tax collections are typically almost 3.5 times higher than city or county property tax collections.

- School districts – 54% (varies between 50% and 75%)
- Counties – 17%
- Cities – 16%
- Special Districts – 13%

What is Causing Property Tax Increases?

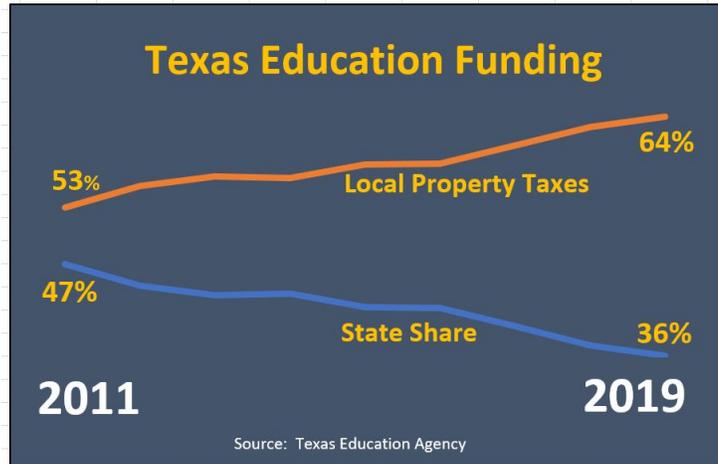
Explosive population growth and a corresponding rapid increase in appraised property values is the driving force behind property tax increases.

State School Finance Policy is the Primary Cause of Property Tax Increases. Year after year, the state forces school districts to pass on the obligation of public school funding on homeowners and businesses. Instead of trying to shift the blame with restrictions on local services Texans depend on, state officials need address the elephant in the room and first fix the public school finance problem they created.

City and county taxes make up only one third of the average property tax bill. They already operate under a state-mandated 8% revenue growth cap, and some local governments have adopted even tighter revenue caps.

However, state school finance and budget policy has forced property tax increases on local school districts. For example, the current state budget assumed a 14% biennial increase in property values (7.04 percent for tax year 2017 and by 6.77 percent for tax year 2018), which allowed the state to divert roughly \$3 billion of state revenue from public education to other budget items.

Absent a school finance plan that puts more state funds into the system, the Commissioner of Education has said state education funding in the next budget could be reduced by \$3.5 billion, an amount that would again be covered by rising property values that cause local property tax increases.



Education Funding Sources (only local funding source is property taxes):

2011: 47% state, 53% local

2019 (projected): 36% state, 64% local

The Potential Adverse Impact of SB2 on Texans and the Texas Economy

The extraordinary diversity of a state the size of Texas allows local government to attract a strong and diverse economy that is not reliant on any single industry. No two Texas cities or regions are exactly alike, and local governments have played a pivotal role in generating and supporting economic growth and providing the quality of life required for millions of Texans who have come to Texas to be part of our robust economy. The potential adverse effects of SB2 could become a pothole on the road to our quality of life and economic success.

- Public safety makes up a majority of city and county budgets (50 to 70 percent), and budget constraints could impact our ability to hire and maintain salaries for first responders to secure public safety.
- When it is a matter of life and death and the ambulance needs to get there quickly, we shouldn't have to wait for a local election to make sure we have the resources to improve response times in our fast growing Texas communities.
- When a child needs additional support to learn how to read at grade level, we shouldn't have to wait another school year to find the resources needed to keep that child from falling further behind.
- Restrictions on hospital districts could have a harmful impact on public health.
- Business and industry rely on local transportation systems to move the products we produce and consume, and we lose productivity when workers are stuck for hours in traffic.

- The ability of cities, counties and school districts to fund needed facilities and capital improvement projects to provide for population growth provides ongoing employment growth and economic activity.

SB2 Would Not Cut Property Taxes

- Revenue caps could slow the rate of property tax increases but they will not cut property taxes.
- Revenue caps provide negligible reductions in the rate of property tax increases for the average homeowner.
- For example, the City of Houston operates under a 4.5% revenue cap (or the combined rate of population growth and inflation, if lower). According to a survey of tax cap effects done by the Hobby School of Public Affairs, under that cap, the average homeowner's rate of city property tax increase could have slowed by \$436 since 2014, an average of \$87 per year or \$7 a month - enough to get a burger and fries. Of course, that assumes the city would have chosen to spend an additional \$533 million that would have been available to address fixed budget costs that are continuously on the rise. Thus, the cap inevitably leads to fewer services and infrastructure projects, including reductions in appropriations for capital improvements like the storm drainage projects essential for flood protection.
- **Property Tax Relief for homeowners is possible.** The state could provide real relief for homeowners who need it the most by increasing the homestead exemption for school property taxes while providing additional state funding for local school districts.

Conclusion and Recommendation

SB2 is a stricter version of a bad public policy proposal that failed in the 2017 legislative session. At a time of rapid population growth and increasing costs for essential services that are necessary to sustain our quality of life and economic growth; it makes no sense to place local government in a fiscal straightjacket. This concern is further exacerbated given the lack of reliable state and federal funding to meet those needs.

Furthermore, SB2 would not cut property taxes. It would only slow the rate of property tax increases, a poor substitute for real property tax relief that could be accomplished by increasing the state share of education funding and increasing the homestead exemption. Instead of imposing mandates on local government, the state should trust Texans to vote for local candidates who will carry out the policies needed at the local level.

Bottom line: Local property taxes cannot be reduced unless the state makes a sufficient investment in funding public education to take the burden off the backs of local property taxpayers.

OK for Distribution – Rep Garnet Coleman

