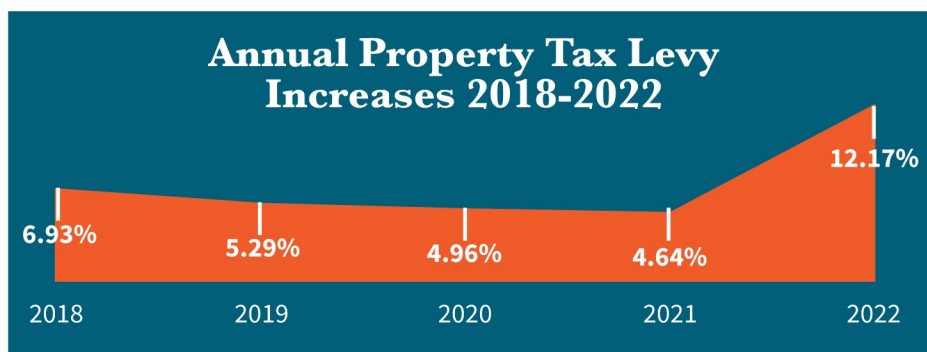


House Bill 2: Straying from the Path of Eliminating the School M&O Property Tax

By Bill Peacock and Don Huffines

The Legislative Budget Board estimates that HB 2 would send, on average, about \$6 billion per year in additional state funding to school districts over the next biennium for the purpose of reducing school maintenance and operations (M&O) property tax levies. Yet HB 2 only treats the symptoms of our broken property tax system while failing to address the underlying disease: incessant growth in local government and school district spending. Texans deserve definitive action that permanently locks in property tax relief and puts Texas on the path to eliminate school M&O property taxes.



Source: Texas Comptroller of Public Accounts

HB 2 Fails to Stop the Future Growth of Texans' Property Tax Bills

A major shortcoming of HB 2 is that it does nothing to limit future increases in rates and levies by local governments, including school districts. In 2022, the same year that the Legislature's recent increase in the homestead exemption went into effect, the total property tax levy increased by 12%, led by a 13.7% increase in the school property tax levy. Given the recent 6.7% average increase in the property tax levy, even if HB 2 becomes law the total property tax levy will continue to grow and overwhelm the \$6 billion two-year increase in state aid to schools. Even with the passage of HB 2, after a slight dip in 2024, annual property tax payments by Texans will increase by \$8.2 billion within four years.

Texas' Total Property Tax Levy - Current and Projected			
	Current	House Bill 2	Senate
2022	\$81,981,548,816		
2024		\$79,449,031,340	\$82,060,187,783
2026		\$90,197,326,119	\$93,161,733,932
Increase		\$8,215,777,303	\$11,180,185,116

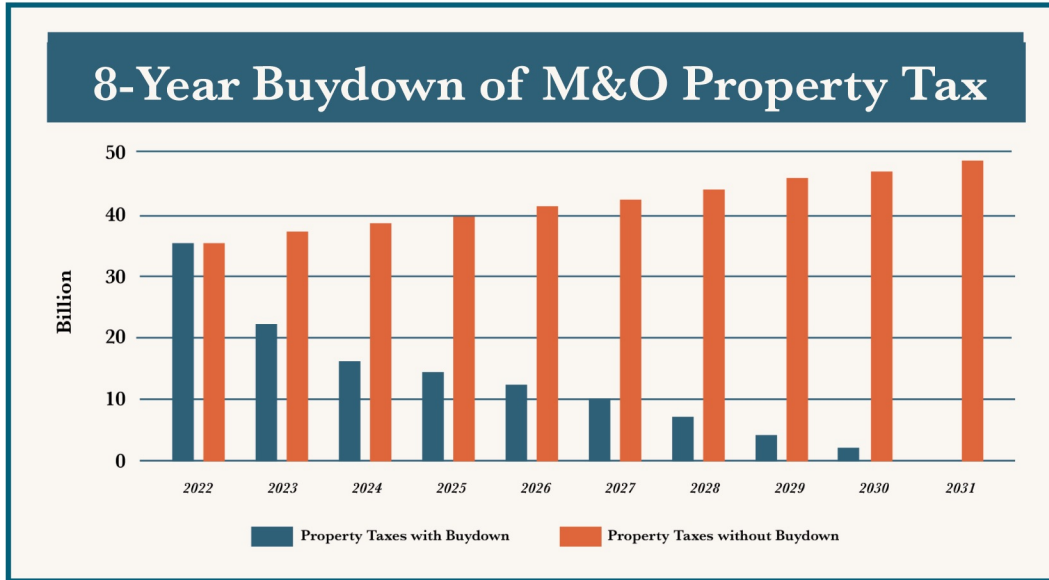
Source: Texas Comptroller of Public Accounts and Calculations of the Author

Appraisal Caps Raise Property Tax Rates

Another challenge with HB 2 is its expansion of appraisal caps. While the appraisal cap expansion is estimated to cost \$800 million in the 2024-25 biennium, that cost will likely rise over time. The problem with an appraisal cap is that it provides minimal relief while misdirecting funds from the primary focus of providing property tax relief—buying down the school M&O property tax rates to zero. Appraisal caps, **like the homestead exemption**, move rates in the opposite direction as rates rise to maintain increased revenue from properties with lower taxable valuations.

\$12 Billion is Not Enough

The Texas Comptroller estimates that Texas has a \$32.7 billion budget surplus of state funds for the 2022-23 biennium. Add to that projected available revenue for the 2024-25 biennium, and Texas has approximately \$64 billion of additional revenue for the upcoming biennium over what the Legislature appropriated in 2021. Yet HB 2 would give only \$12 billion of the \$64 billion back to Texas taxpayers. The rest the Legislature would spend or put in the bank, presumably to fund future spending. Yet, by limiting annual spending growth to 2.9% and dedicating 90% of the current and future surpluses to property tax relief, the school M&O property could be eliminated in only eight years.



Source: Huffines Liberty Foundation

These five steps would lock in stone a definitive path to eliminating Texas' school M&O tax:

Limit State Spending Growth: Limiting state spending growth to no more than 5.9% per biennium (2.9% annually) would provide budget surpluses that could be dedicated to property tax relief.

Freeze School M&O Property Taxes: Freezing school M&O property tax revenue at the current level stops school districts from undermining efforts to eliminate the M&O tax with constant increases.

Use 90% of Texas' Budget Surpluses: Using 90% of state funds budget surpluses will provide enough funds to eliminate the M&O property tax in 8 years (or less).

Require Voter Approval to Exceed the No-New-Revenue Tax Rate: Cities, counties, and special districts must ask voters for permission to Exceed the No-New-Revenue Tax Rate.

Enshrine Property Tax Relief in the Texas Constitution: Property tax relief must be made permanent by passing an amendment to the Texas Constitution.

About the Foundation:

The Huffines Liberty Foundation is a 501(c)(3) non-profit, non-partisan research institute. 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 have developed an agenda 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.

