PROPERTY TAX BURDENS ARE RISING, SO IS INTEREST IN TAMING THEM

The move to lower and flatter income tax rates has been one of the top state policy trends of the past decade, with more than half of the nation's state legislatures cutting personal income tax rates since 2021. As lawmakers have had success brining down state income tax rates, however, property tax burdens have been heading in the opposite direction in many parts of the country. That dynamic has fueled growing interest among state lawmakers all over the country in reining in rising property tax burdens.

The 2024 election demonstrated the public's interest in stronger property tax limits. Georgia voters passed a constitutional amendment capping the rise in home property assessments at the rate of inflation. Next door in Florida, voters approved Amendment 5, which will tie the homestead exemption — the amount of property valuation for owner-occupied homes that's exempt from taxation — to inflation. Amendment 5 was one of only two constitutional amendments approved by Florida voters in 2024. Even the notoriously left-leaning electorate in Austin, Texas, meanwhile, rejected a ballot measure that would've raised property tax burdens.

There are property tax limitation laws already on the books in 46 states, but they differ in design and effectiveness. As state lawmakers introduce and debate proposals to limit or even reduce property tax bills, it's instructive to examine existing property tax limits to learn what has and hasn't been working.

THE TEXAS ROLLBACK RATE

In 2019, the Texas Legislature and Governor Greg Abbott (R) strengthened a statutory limit on the growth of local government spending when they reformed a mechanism commonly referred to as the rollback rate. The rollback rate, simply put, is the rate of annual growth in local government collections that cannot be exceeded unless approved by voters.

The rollback rate had been 8% until 2019, when legislation was enacted to lower the rollback rate to 2.5% for school districts and 3.5% for most other local government entities.

Since the enactment of that 2019 reform, local governments in Texas whose revenue collections exceed 3.5% annually must return the surplus funds to taxpayers unless voters agree to let local officials keep and spend it.

The lower rollback rate, however, has not sufficiently tamed rising property tax bills in Texas for a couple of reasons. For starters, the 3.5% rollback rate does not apply tax collections derived from new development, nor does it apply to natural disaster areas. A September 2024 interim hearing in the Texas Senate Finance Committee made it clear that the rollback rate's exemption of water districts and other special taxing districts has mitigated the effectiveness of the lower rollback rate when it comes to reining in property tax bills.

The rollback rate reduction of 2019 has saved Texas taxpayers billions of dollars, but property tax burdens in too many parts of Texas remain unacceptably high. Expect Texas lawmakers to advance legislation in 2025 that makes the rollback rate more effective by repealing exemptions and making sure it applies to more of local government spending. A reduced, tightened up rollback rate could prove to be an effective longterm safeguard against unsustainable growth in property tax burdens.

CALIFORNIA'S PROPOSITION 13

In California in the late 1970s, a major property tax revolution under the leadership of Howard Jarvis ended up kicking off a nationwide tax limitation movement. In 1978, Howard Jarvis and Paul Gann collected signatures to place Proposition 13 on the Golden State ballot and voters approved it by a whopping 30-point margin.

Practically speaking, the most important requirement imposed by Prop 13 is its twofold cap on revenue and valuation growth:

1. The property tax rate is set at a uniform 1% throughout the state.

2. Property valuation increases are limited to 2% annually, until the property is sold.

Other important provisions of Prop 13 force policymakers to reach much greater consensus around tax increases, both at the state and local level:

1. All statewide tax increases require a 2/3 supermajority vote in both the House and Senate.

2. Most local tax increases require a 2/3 supermajority vote of the people.

Despite decades of undermining Prop. 13 in service to local government unions, it remains extremely popular in California. Thanks to its strict revenue and assessment limits – plus its unique requirement that local tax hikes be approved by a supermajority vote of the people – Prop. 13 has saved taxpayers billions.

Several court decisions have weakened Prop 13 over the years, particularly a California Supreme Court decision that created a carve-out for certain bonds and local taxes. Those taxes now only require a mere 55% of voters to become law.

While Prop. 13 has saved taxpayers billions, it is not flawless. An assessment cap creates an obvious disincentive for property owners to sell their homes, since the property tax burden for any property is reassessed at the time of sale. Thus, two identical homes in the same neighborhood could have extreme discrepancies in their property tax bills, simply because one family moved in thirty years ago and the other moved in three years ago.

Still, Prop. 13 is without a doubt better than no cap at all. The growth of government in California seems to know no bounds, except those drawn around it nearly fifty years ago by Howard Jarvis and company. Polling demonstrates that taxpayers all across California resoundingly approve of the protections offered by Prop. 13 and even the most progressive Democrats face political peril in attempting to subvert them. While the form of tax cap is not optimal for those starting from scratch, lawmakers in other states can continue look to California for one of the first examples of a property tax cap that successfully reined in the growth of property tax burdens.

FLORIDA'S "SAVE OUR HOMES" PROPERTY TAX CAP

In the early 1990s, Florida experienced a period of rapid housing market growth, driven by surging real estate prices and a large influx of new residents. This boom led to sharp increases in property valuations, causing many homeowners to face substantially higher property tax bills.

To address the drastic growth in property taxes, Florida voters overwhelmingly approved the "Save Our Homes" constitutional amendment in 1992. This measure capped annual increases in the assessed value of homesteaded properties at the lesser of 3% or the percentage change in the Consumer Price Index (CPI) for the prior year.

Notably, the amendment applies exclusively to properties that qualify for a homestead exemption, limiting valuation increases only for primary residences. Rental properties, vacation homes, and commercial properties are not covered by the amendment's protections. Recognizing the need for broader relief, Florida voters approved Amendment 1 in 2008, capping annual increases in the assessed value of non-homestead properties at 10%.

The Save Our Homes property tax caps have proven to be both highly popular and successful, saving Florida taxpayers billions of dollars since their adoption. These measures provide significant tax relief to property owners by protecting them from massive increases in their property tax bills. With these caps in place, raising property taxes is no longer a default solution for local politicians, requiring them instead to adopt fiscal responsibility. Notably, despite Florida's lack of a state income tax, its average property tax rate remains below the national average.

TRUTH IN TAXATION

States around the country are witnessing the growing popularity and effectiveness of "Truth in Taxation" laws. Such legislation typically requires municipalities to provide detailed information to residents about their property tax bills, as well as hold a public hearing on any proposed increase from the neutral mill rate (or "roll-back rate") that would bring in the same amount of revenue as the previous year.

Designed to ensure taxpayers aren't left in the dark about how much their bill increased from the previous year or why that increase was approved, Truth in Taxation legislation has proven instrumental in empowering taxpayers to fight back against unnecessary increases in their property tax bills.

In 2021, Kansas lawmakers successfully championed a model Truth in Taxation law known as SB 13. That law imposes three main requirements upon all local taxing jurisdictions:

1. Initial budgets must be set using the prior year's revenue levels.
2. Any proposed revenue increase must have a public hearing.
3. Constituents must be informed about the tax increase and the date of its public hearing via physical mailers.

Although there is little preventing municipalities from passing a large property tax increase anyway, Kansas' bill ensures residents are fully informed. It gives them a meaningful opportunity to push back at a public hearing. It forces elected officials to choose between a tax increase and maintaining the status quo; one can no longer insist that tax increase is the only path forward. Finally, it presents local leaders with the challenge of defending their tax increase to voters ahead of time, increasing the odds that unworthy proposals are quickly scrapped in the face of public opposition.

Kansas's recent reform mirrors a 1985 effort by Utah lawmakers, who established their own version of Truth in Taxation nearly four decades ago.

Utah offers a "Tax Rate Increase Checklist" for any local entity wishing to raise more tax revenue than the prior year, which includes the following stipulations to be reviewed by the County Auditor ahead of the election:

1. Public hearings: Must be held at least 14 days prior to the election to discuss the intent behind the proposed rate increase; its purpose; the dollar value of the tax increase; and the percentage increase.
2. Advertisements: Two physical advertisements and one digital advertisement must be posted prior to the public hearing.
3. Physical mailers: Must be sent to constituents at least 7 days prior to the election.

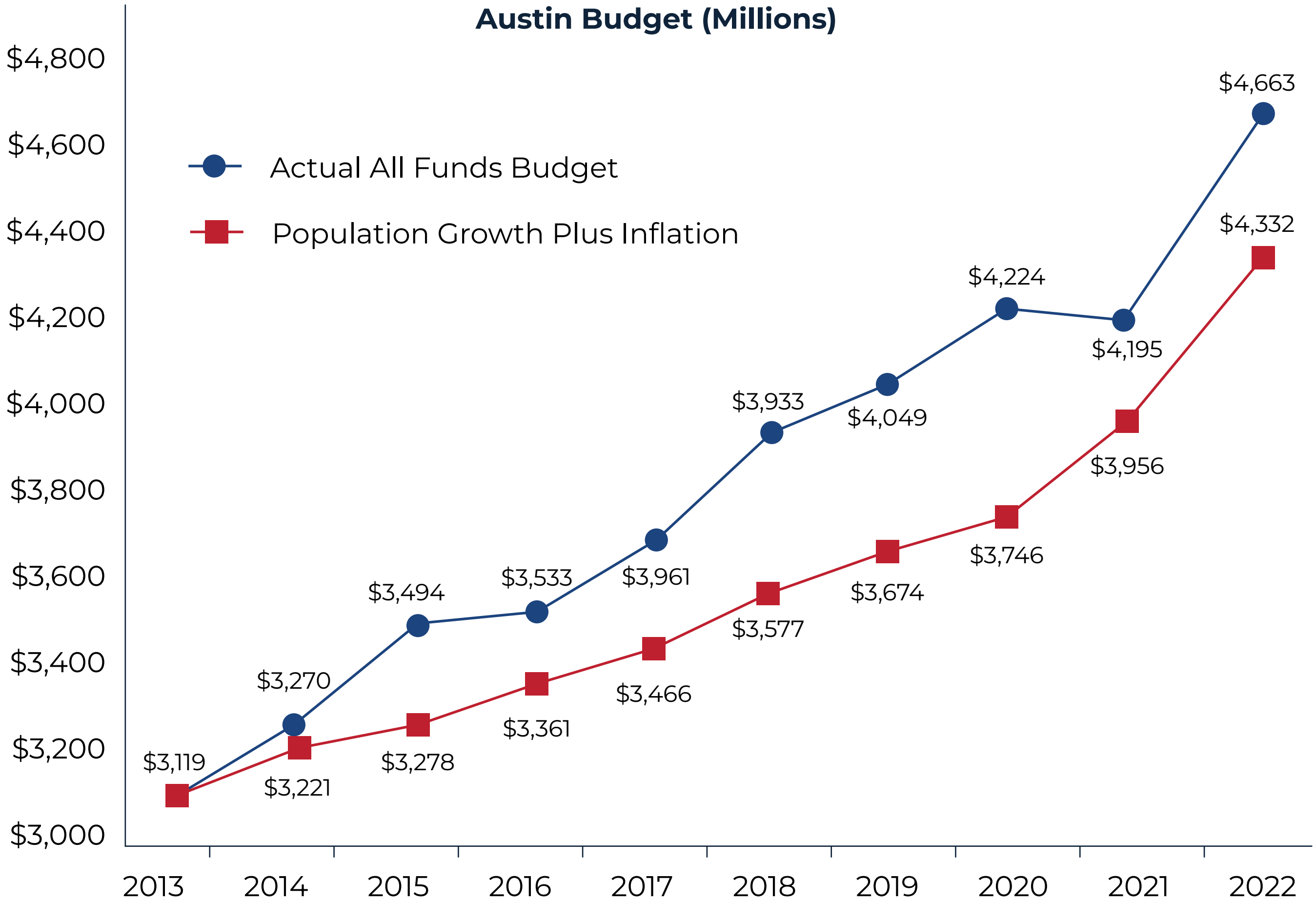
Much like Kansas, Utah's strict requirements to hold public hearings, calculate the value of the tax increase, and inform the public of the purpose of the tax increase gives voters significant power to hold their elected officials accountable for an unnecessary tax hike.

Importantly, Truth in Taxation in both Utah and Kansas is revenue-driven. Total tax revenue collected – not mill rates – are the deciding factor in whether a certain proposal is subject to the public hearing and advertising requirements. As a result, local leaders cannot use an unusually high valuation increase as an excuse to raise taxes without raising the mill rate. The need for such provisions has become particularly important in the wake of the housing market surge of the last several years.

LOCAL SPENDING CAP ARE GREATLY NEEDED, GET TO THE CRUX OF THE MATTER

A hard local spending cap is needed and is a more effective approach to reining in local tax burdens than property assessment or rate caps. The following historical spending charts for the past decade in select cities illustrates how local spending is growing at an unsustainable clip, even in cities located in red states where state legislators have done a relatively good job of budgeting conservatively.

AUSTIN, TX


Austin Budget (Millions)
$4,800
$4,600
$4,400
$4,200
$4,000
$3,800
$3,600
$3,400
$3,200
$3,000
Actual All Funds Budget
Population Growth Plus Inflation
$3,119
$3,270
$3,494
$3,533
$3,961
$3,933
$4,049
$4,224
$4,195
$4,663
$3,221
$3,278
$3,361
$3,466
$3,577
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2013
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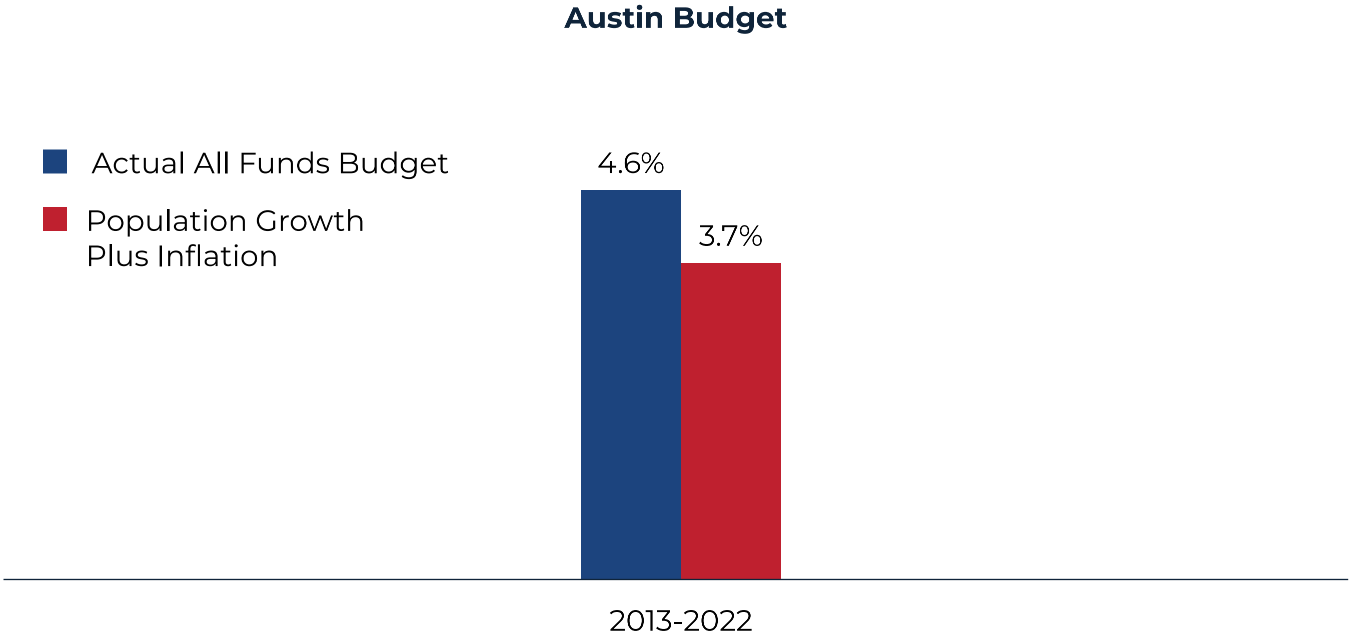
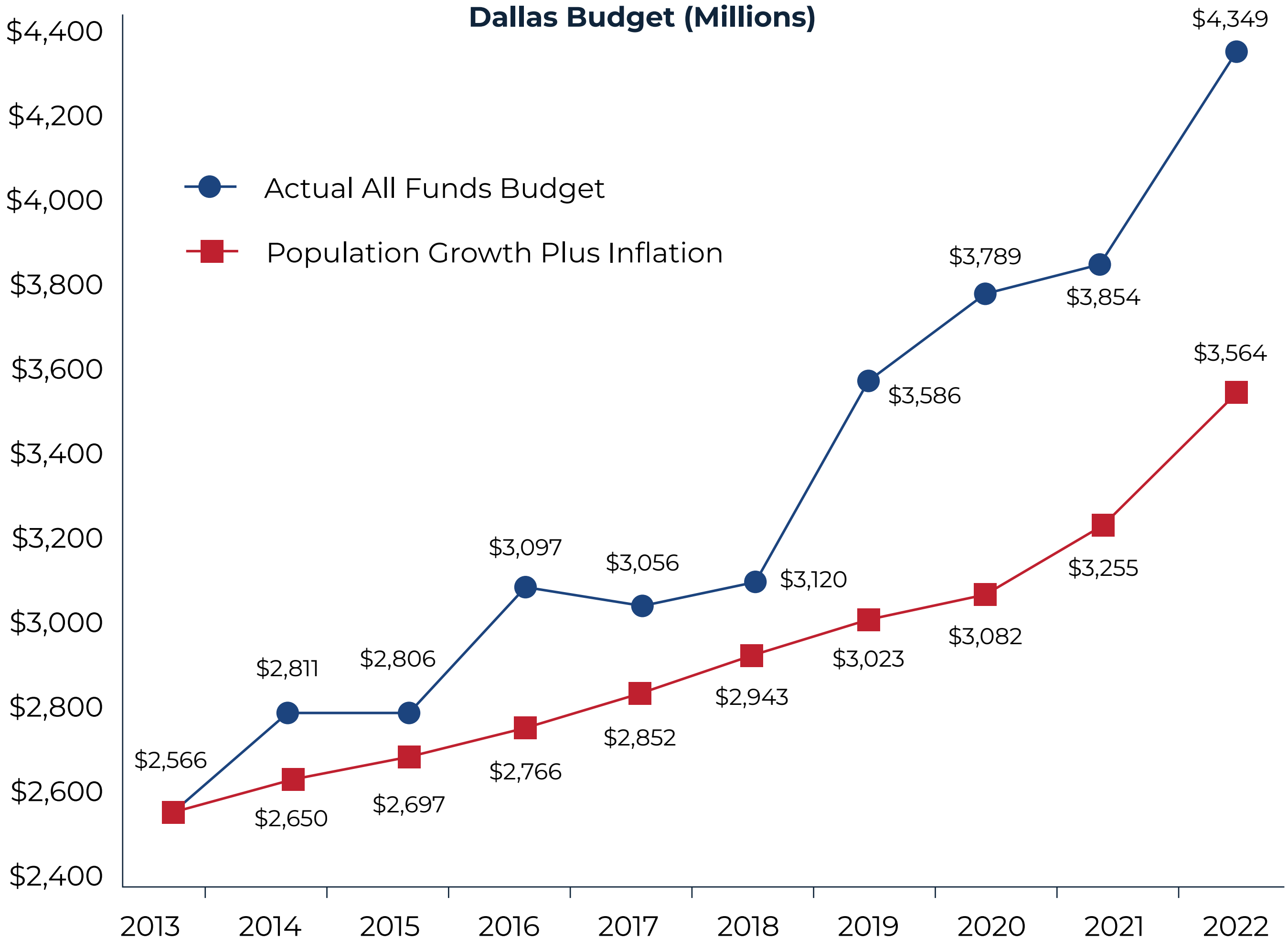
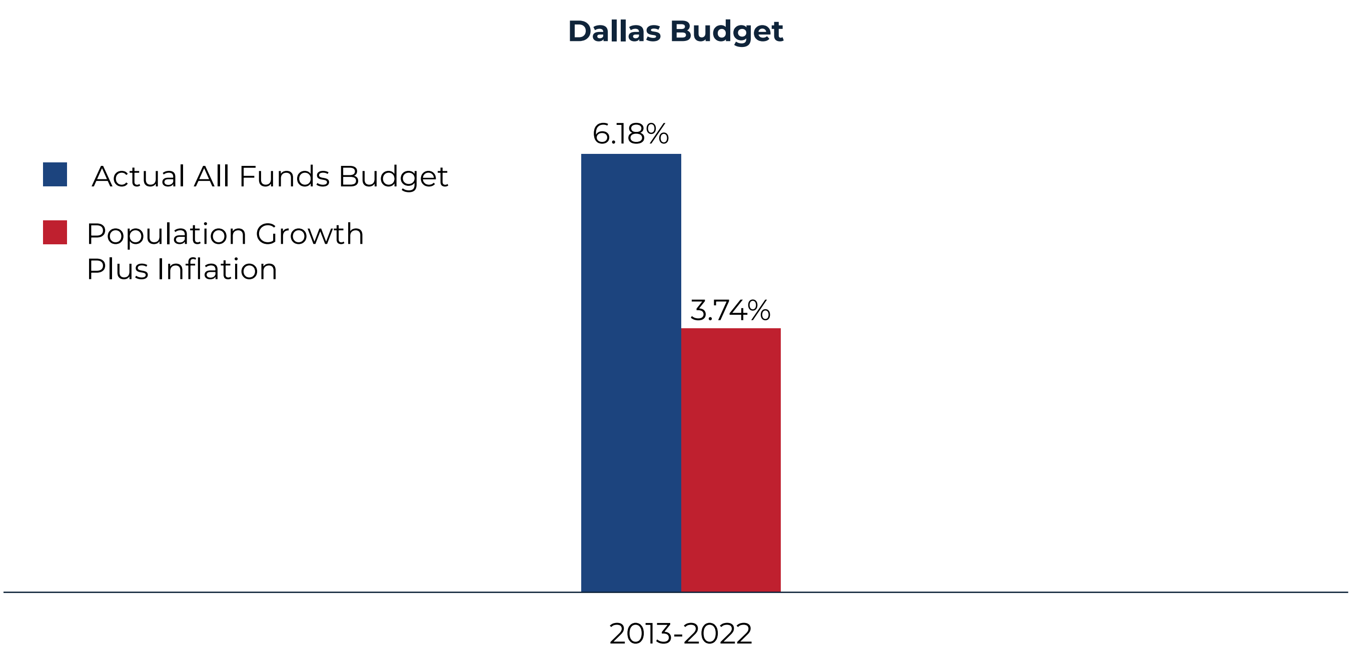
2015
2016
2017
2018
2019
2020
2021
2022


Austin Budget
Actual All Funds Budget
Population Growth Plus Inflation
4.6%
3.7%
2013-2022

DALLAS, TX

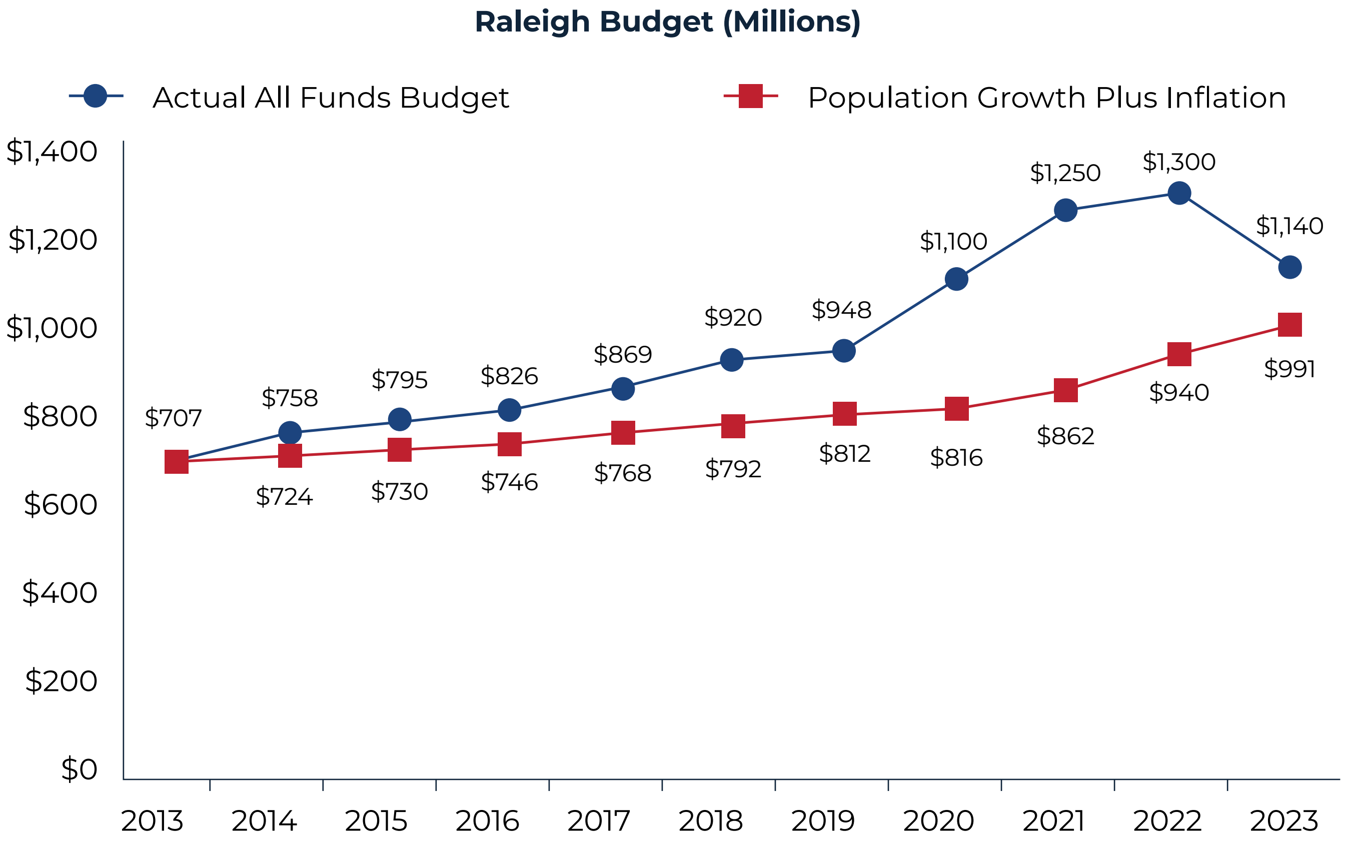


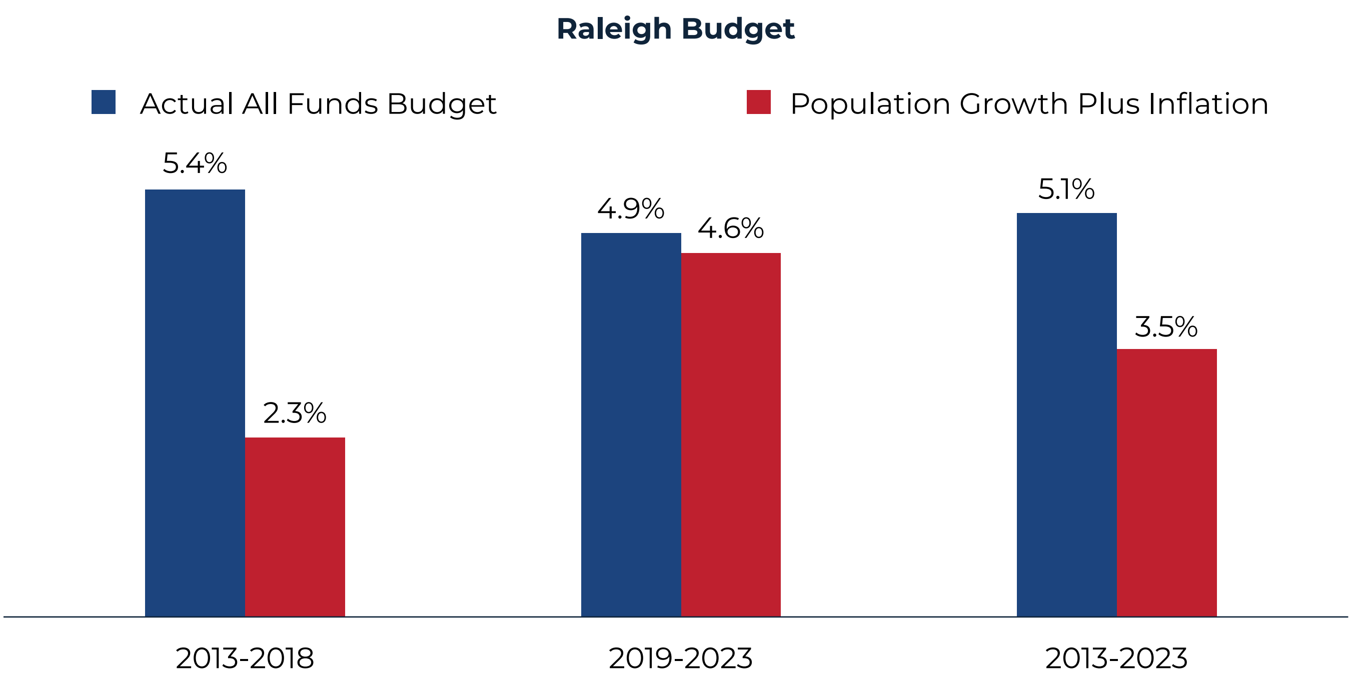
Dallas Budget (Millions)
Actual All Funds Budget
Population Growth Plus Inflation
$4,400
$4,200
$4,000
$3,800
$3,600
$3,400
$3,200
$3,000
$2,800
$2,600
$2,400
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
$2,566
$2,811
$2,806
$3,097
$3,056
$3,120
$3,586
$3,789
$3,854
$4,349
$2,650
$2,697
$2,766
$2,852
$2,943
$3,023
$3,082
$3,255
$3,564



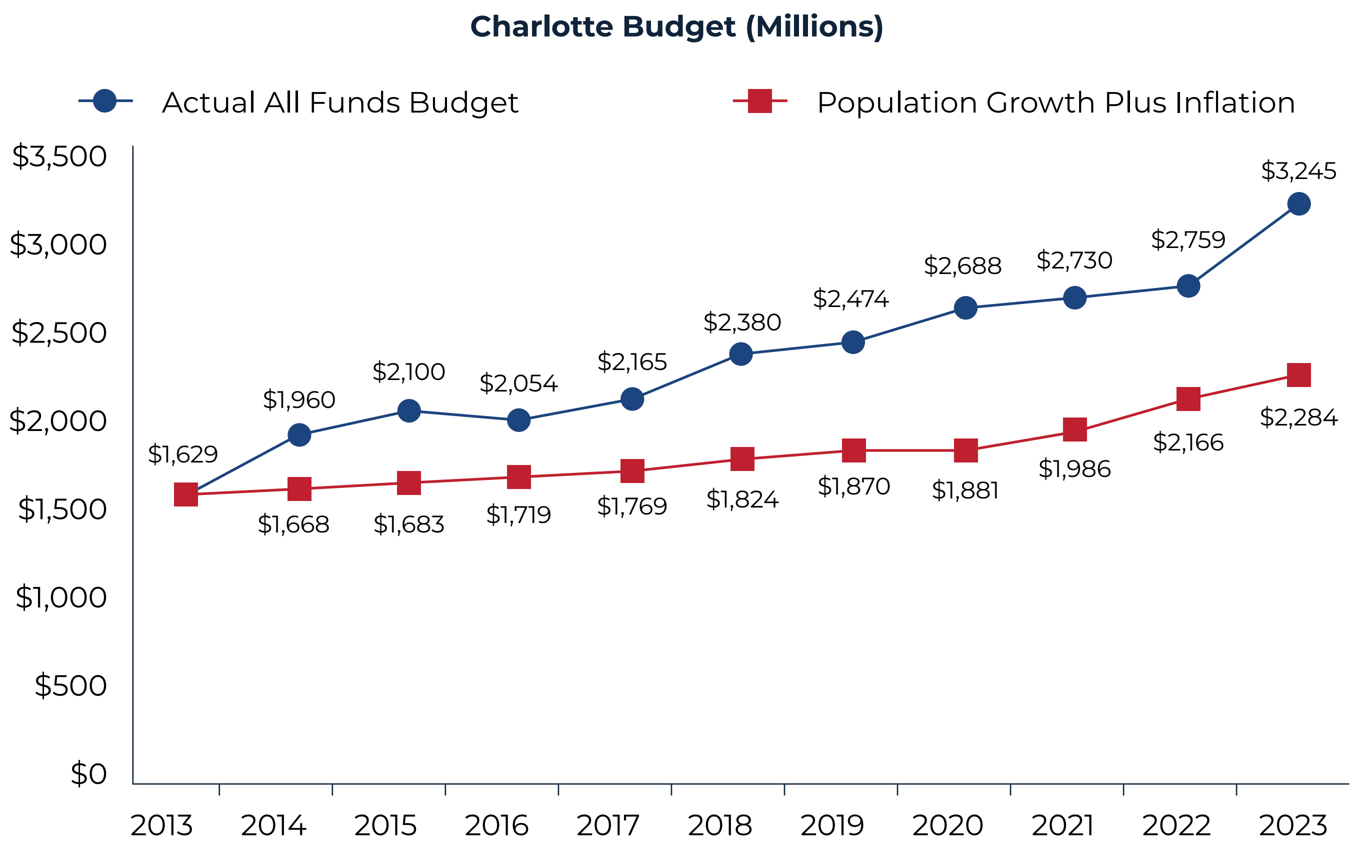
Dallas Budget
Actual All Funds Budget
Population Growth Plus Inflation
6.18%
3.74%
2013-2022

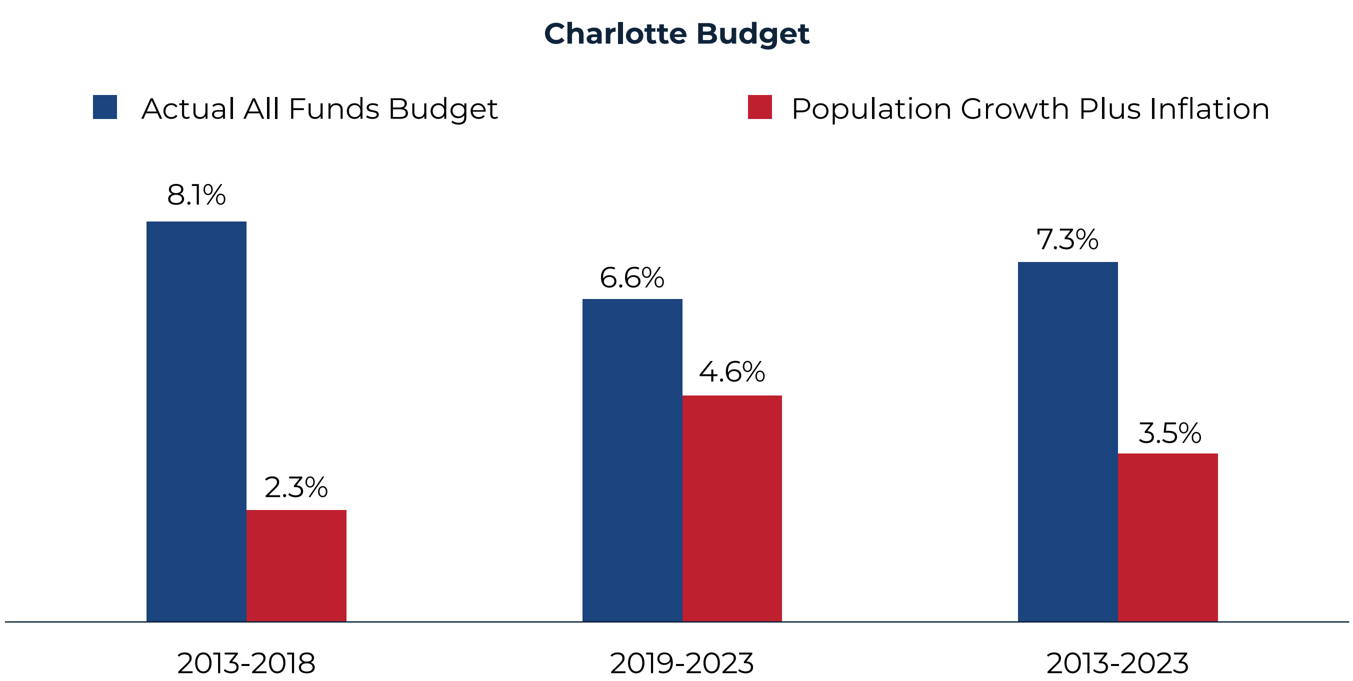
RALEIGH, NC


Raleigh Budget (Millions)
Actual All Funds Budget
Population Growth Plus Inflation
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$707
$758
$795
$826
$869
$920
$948
$1,100
$1,250
$1,300
$1,140
$724
$730
$746
$768
$792
$812
$816
$862
$940
$991
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

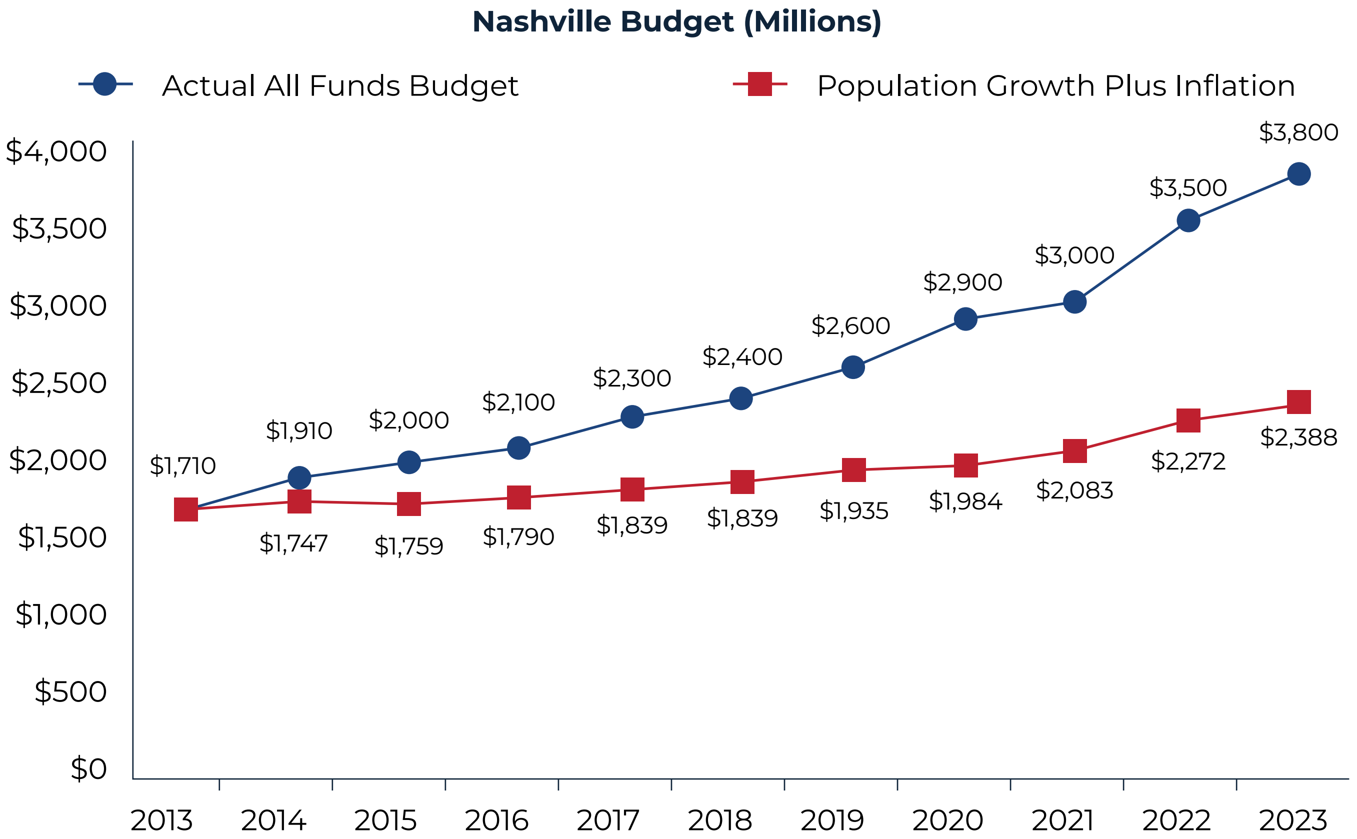

Raleigh Budget
Actual All Funds Budget
Population Growth Plus Inflation
5.4%
2.3%
4.9%
4.6%
5.1%
3.5%
2013-2018
2019-2023
2013-2023

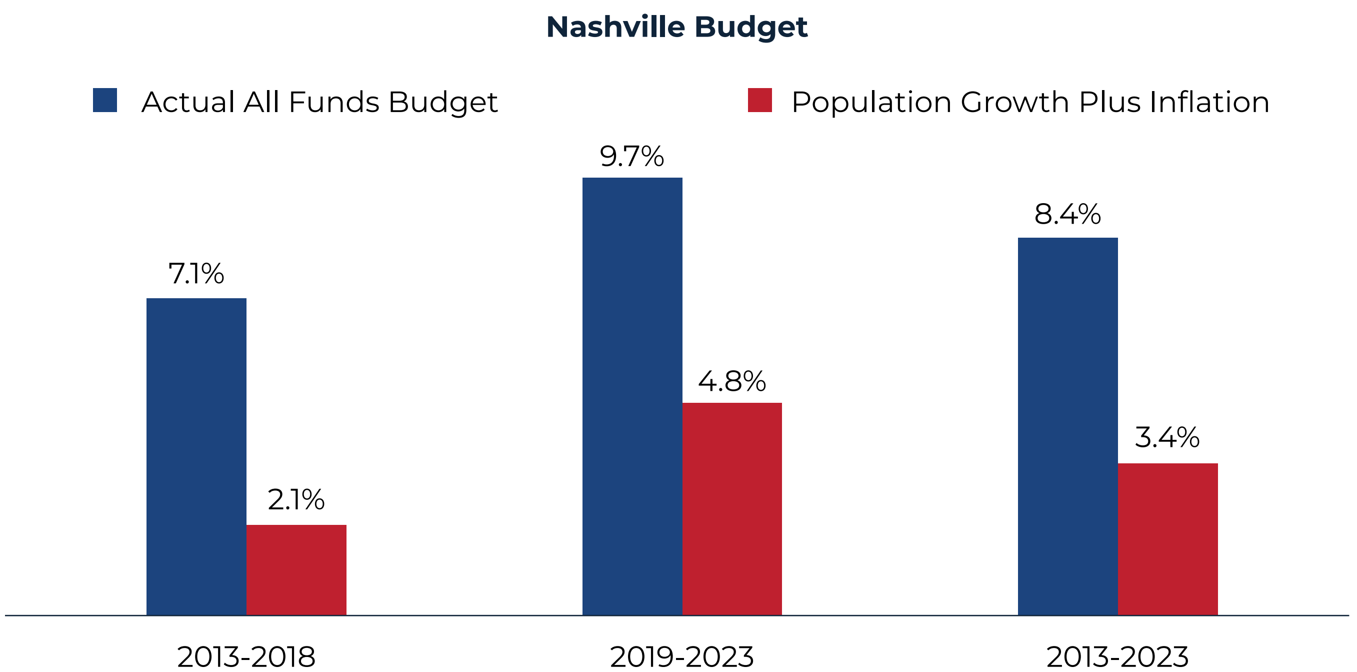
CHARLOTTE, NC



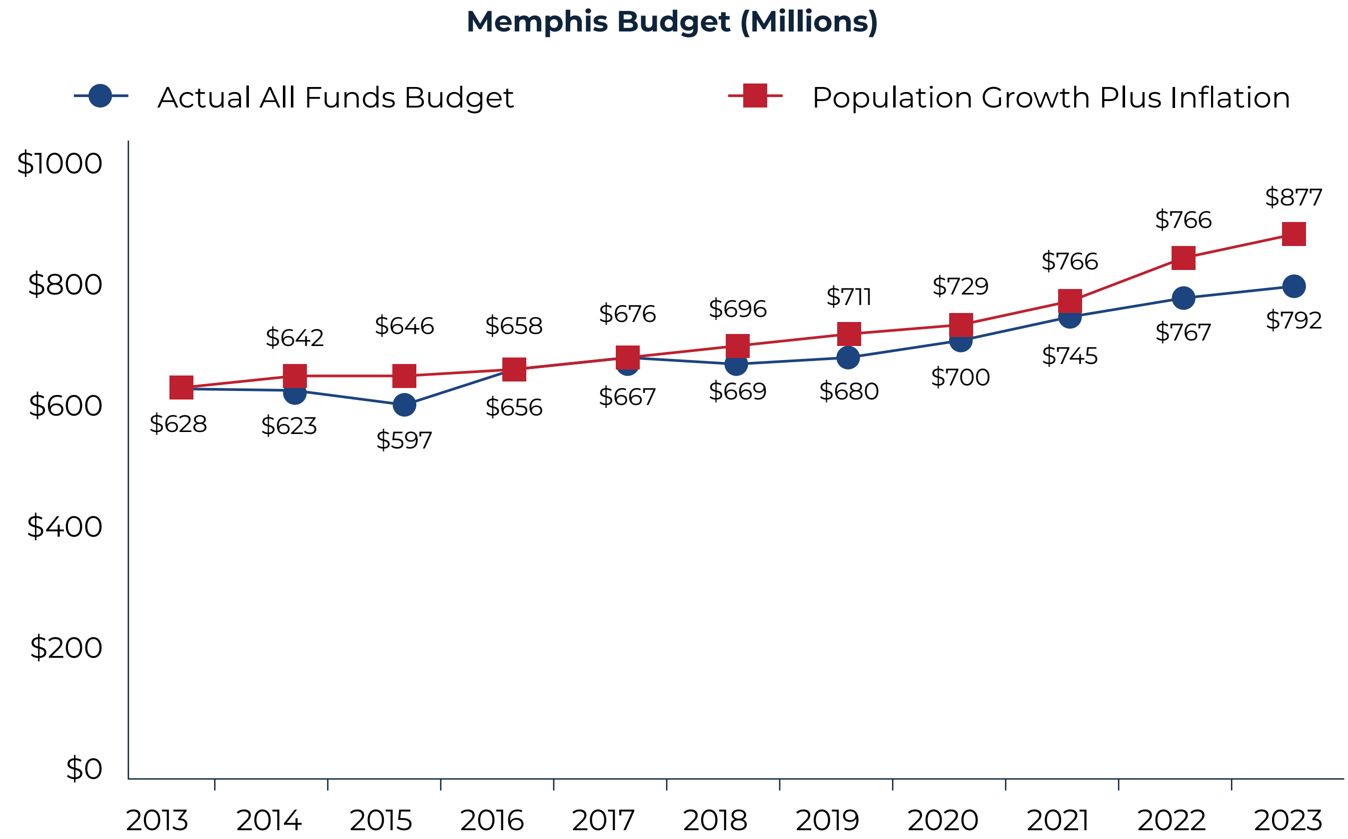


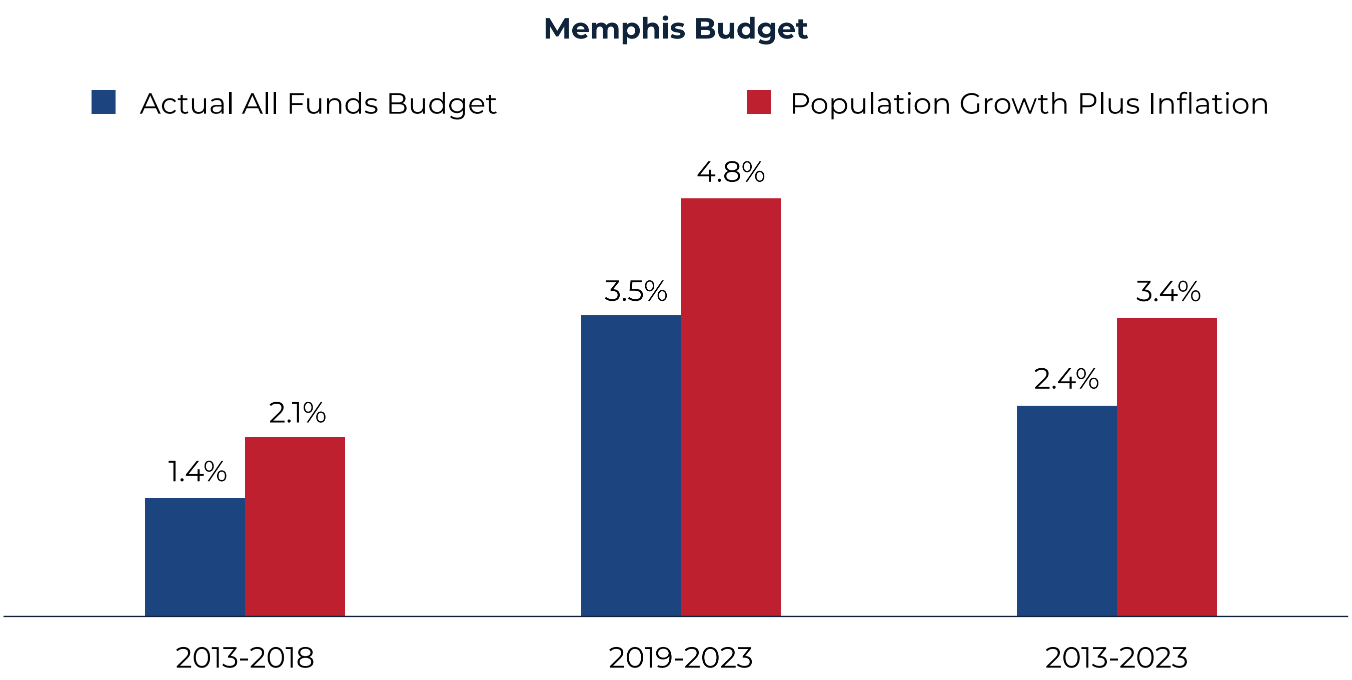
NASHVILLE, TN



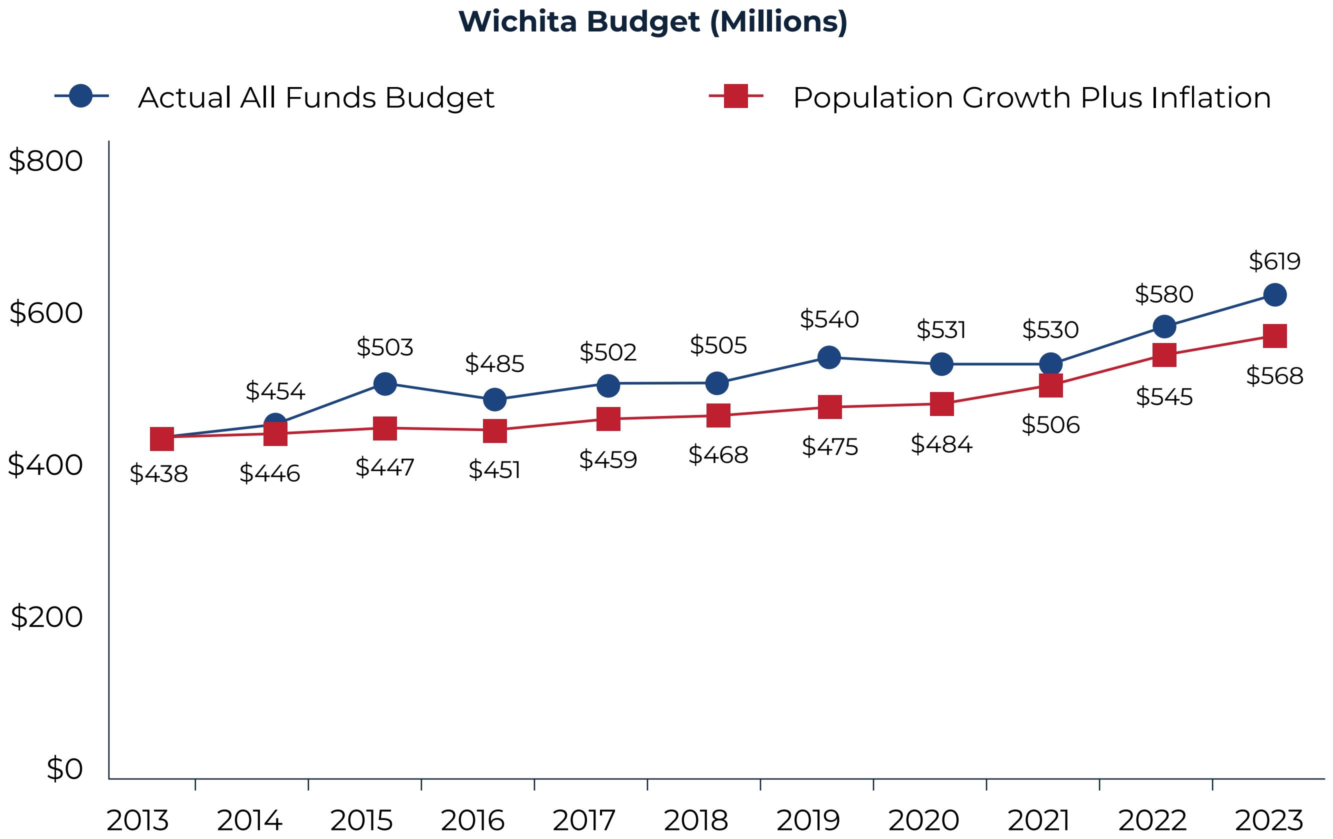


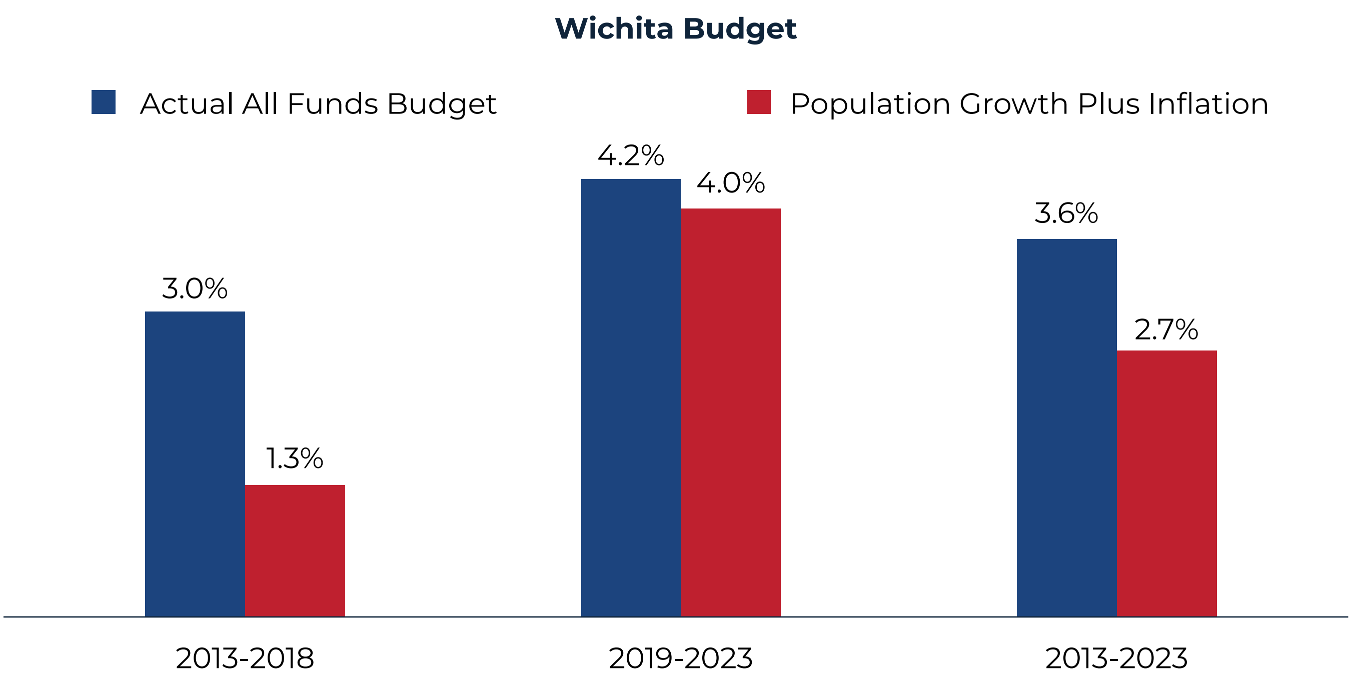
MEMPHIS, TN


Memphis Budget (Millions)
Actual All Funds Budget
Population Growth Plus Inflation
$1000
$800
$600
$400
$200
$0
$877
$766
$766
$729
$711
$696
$676
$658
$646
$642
$628
$623
$597
$656
$667
$669
$680
$700
$745
$767
$792
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023

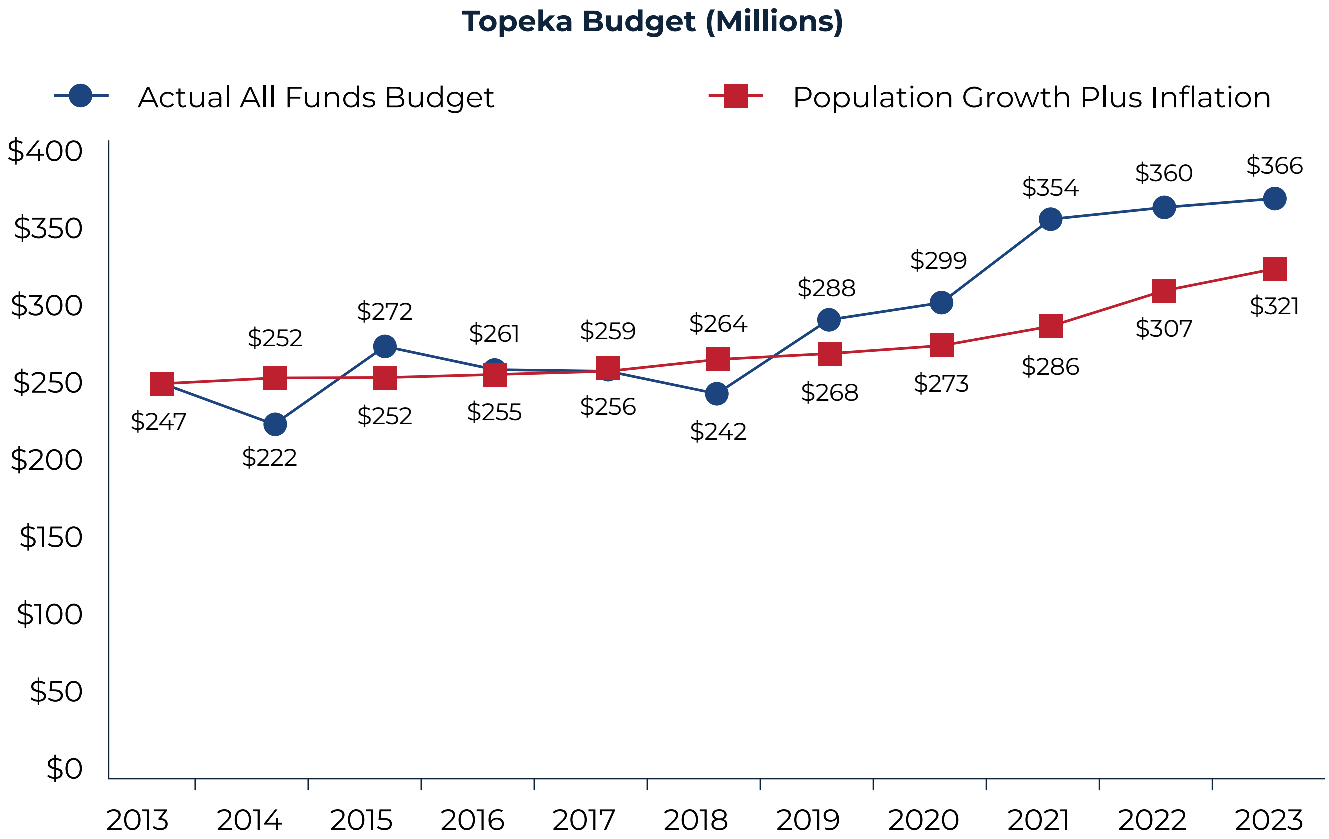

Memphis Budget
Actual All Funds Budget
Population Growth Plus Inflation
1.4%
2.1%
3.5%
4.8%
2.4%
3.4%
2013-2018
2019-2023
2013-2023

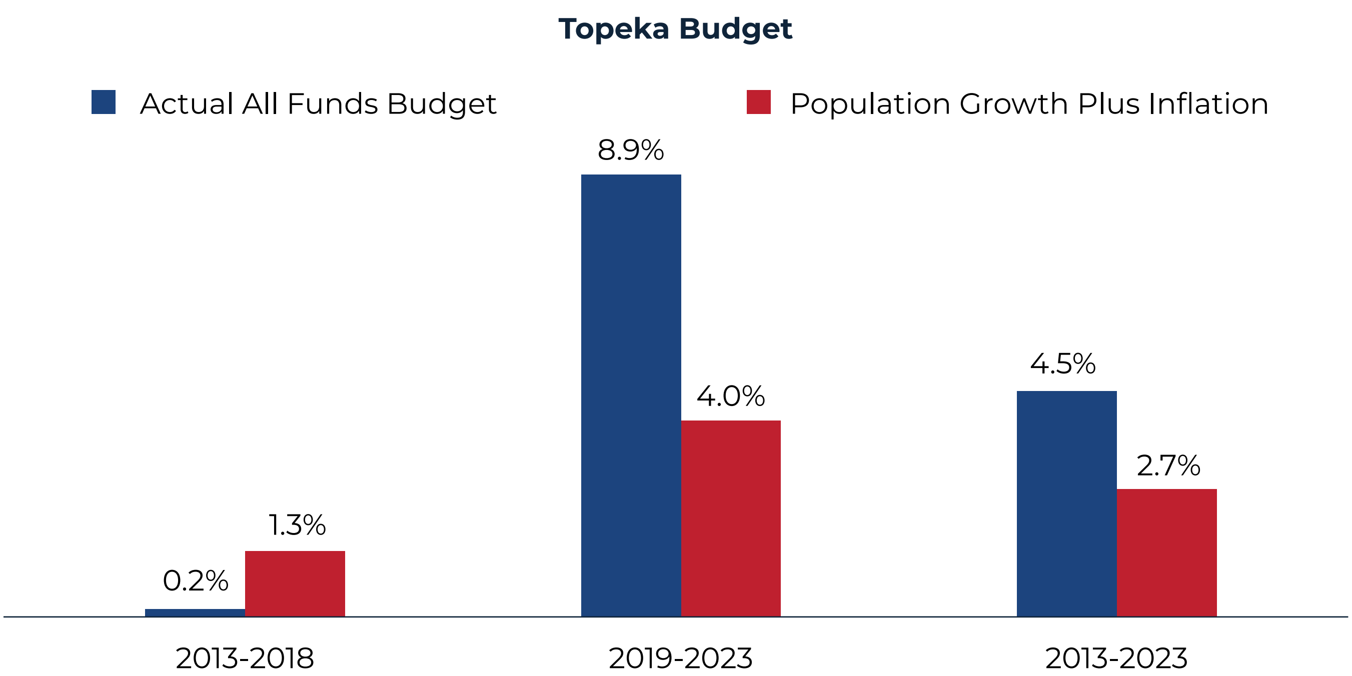
WICHITA, KS


Wichita Budget (Millions)
Actual All Funds Budget
Population Growth Plus Inflation
$800
$600
$400
$200
$0
$619
$580
$540
$531
$530
$503
$502
$505
$485
$454
$438
$446
$447
$451
$459
$468
$475
$484
$506
$545
$568
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023


Wichita Budget
Actual All Funds Budget
Population Growth Plus Inflation
3.0%
1.3%
4.2%
4.0%
3.6%
2.7%
2013-2018
2019-2023
2013-2023

TOPEKA, KS


Topeka Budget (Millions)
Actual All Funds Budget
Population Growth Plus Inflation
$400
$350
$300
$250
$200
$150
$100
$50
$0
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
$247
$252
$222
$272
$252
$261
$255
$259
$256
$264
$242
$288
$268
$299
$273
$354
$286
$360
$307
$366
$321


Topeka Budget
Actual All Funds Budget
Population Growth Plus Inflation
0.2%
1.3%
8.9%
4.0%
4.5%
2.7%
2013-2018
2019-2023
2013-2023

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