TEXAS APARTMENT ASSOCIATION

September 26, 2024

Chair Meyer, Vice Chair Thierry, and Committee Members:

The Texas Apartment Association ("TAA") is made up of 12,000 property owners, managers, and other rental-housing professionals who provide rental housing for more than 7 million Texans and proudly offer a diverse array of both single family and multifamily rental homes across the State of Texas. We appreciate the opportunity to provide testimony to the House Committee on Ways & Means regarding interim charges 1.1 (Monitoring of H.J.R. 2/S.B. 2) and 2 (Property Tax Relief).

Reducing property taxes has been and continues to be a top priority for TAA and its members. We applaud the 88th Texas Legislature for passing a historic $18 billion property tax reduction package, which (1) increased the existing homestead exemption from $40,000 to $100,000 for 5.72 million homeowners, (2) compressed (i.e., reduced) school district maintenance and operations ("M&O") tax rates by around 23% (from a 2022 state maximum compressed rate ("MCR") of $0.8941 to a 2023 state MCR of $0.6880), and (3) implemented a 20% circuit-breaker on appraised-value increases for non-homestead real property valued up to $5 million for three years.

Although this property tax reduction bill was overwhelmingly positive for Texas homeowners, we believe there is still more that can be done to ensure ALL property owners see the benefits. And the most recent financial projections from the Comptroller indicate that Texas's continued strong economic position will ensure that another substantial budget surplus of roughly $20 billion is available to support further compression of school district tax rates.

Housing affordability is impacted by multiple expense drivers—including insurance, labor, land costs and materials—however, **property taxes continue to be among the single largest expenses for rental housing owners in Texas**. In fact, approximately 20% of every rent dollar paid by Texas renters goes toward property taxes. This figure is even higher in many of Texas' urban areas.

TAA and its members strongly support continuing to reduce property taxes and efforts to reform the property tax process to ensure a more consistent, predictable approach to tax rates and property valuations. Primarily, TAA supports further compression of school district M&O tax rates as the best option to continue cutting Texans' property taxes. Statewide compression of school district M&O tax rates ensures that all Texans and all types of property owners benefit equally while also minimizing economic distortions in Texas's tax system. And with Texas's projected $20 billion surplus, the Legislature could compress school district M&O tax rates by another $0.107 like it did in S.B. 2. (at a biennial cost of around $8.1 billion) or by $0.1856 to reach a statewide MCR of $0.4999 (at a biennial cost of around $14.1 billion).

With the unprecedented levels of new rental housing supply coming online to enhance availability of housing, additional property tax reduction will allow our members to continue working to enhance affordability for Texas renters. Policies that facilitate the development, construction, and operation of an array of rental housing options are the most effective ways to address affordability.

TAA would also like to express its concerns with proposals to replace property taxes with increased sales and use taxes. Using 2023 data, accomplishing this replacement would require a total state and local sales tax rate of around 12.11% to eliminate all school district M&O taxes, 13.63% to eliminate both school district M&O and interest and sinking taxes, or 19.25% to eliminate all property taxes (for school districts, counties, municipalities, and special purpose districts). Our concern is that increasing the sales tax to these unprecedented levels would stifle economic growth and incentivize tax avoidance. Adopting any of those proposals would result in Texas having the highest combined state and local sales tax rate in the nation (a rank currently held by Louisiana and Tennessee at 9.55%), far exceeding those of California (8.85%) and New York (8.53%), and exceeding the combined state and local sales tax rates of Texas's neighboring states: 7.72% (New Mexico), 8.98% (Oklahoma), 9.46% (Arkansas), and 9.55% (Louisiana).

Additionally, the two recent homestead-exemption increases (from $25,000 to $40,000 in 2022 and $40,000 to $100,000 in 2023) mean that the homestead exemption has more than kept pace with inflation and is well above its historic average percentage of home prices. First, adjusting the initial, 1979 $5,000 homestead exemption for inflation would result in a roughly $22,000 exemption in 2024, which is well below the current $100,000 exemption. Similarly, adjusting the 1997 $15,000 exemption and 2015 $25,000 exemption for inflation would result in 2024 exemptions of roughly $29,000 or $33,000, respectively. Second, from 1990 to 2022, the value of the homestead exemption averaged 8.15% of the statewide average home price. But in 2024, the new $100,000 exemption is over 23% of the statewide average home price. Together, this data indicates that the Legislature can maintain the homestead exemption at its current amount without further increases next session.

We look forward to working with members of the Committee and the Legislature to serve as a resource and develop effective legislative solutions to address the needs of property owners as you consider additional measures to reduce and reform property taxes.

Sincerely,

Chris Newton
Executive Vice President