Episode Summary

In this episode of Driving It Home, Housing Economist Dr. Clare Knapp and Taylor Smith, Deputy Director of Government Affairs, discuss Texas property taxes and their impact on homeowners. Taylor explains the state's unique tax system, where local governments collect property taxes for schools, roads, and public services. Despite recent $18 billion tax relief measures, including increased homestead exemptions and school tax rate reductions, rising property appraisals—driven by pandemic-era housing market surges—continue to strain homeowners, highlighting affordability as a key issue.

Taylor addresses why property taxes remain high despite declining Austin home prices, citing appraisal lags, steady tax rates due to local budget needs, and voter-approved bonds for community improvements. These factors create a complex challenge, balancing relief for homeowners with funding essential services like schools and public safety.

The episode offers practical advice for managing property taxes, including protesting appraisals, planning for annual increases, and staying engaged in local budget and tax discussions. Listeners are encouraged to join ABoR advocacy efforts, such as workshops and REALTOR® Day at the Capitol, to advocate for meaningful tax reforms and better support Texas homeowners.

Links Mentioned

REALTOR® Day at the Capitol | Mar. 26
ABoR Advocacy
advocacy@abor.com

Episode Transcript

[00:00:00] **Dr. Clare Knapp:** Hi, everyone. Welcome back to another episode of Driving It Home. We've got a little bit of a twist to this week's episode. I will be hosting a Q& A with our wonderful Deputy Director of Government Affairs, Taylor Smith, on property taxes. Welcome, Taylor.

[00:00:26] **Taylor:** Thanks for having me back, Clare. I also want to point out that you gave me a hard topic. I see that Emily and Kelea got out of this one, so I'm excited to be a part of this discussion.

[00:00:36] **Dr. Clare Knapp:** Oh, poor Taylor. Thank you so much for hopping on. And I'm really sorry I'm putting you in the hot seat with this topic, but property taxes bear significant implications for current and future homeowners in Texas, and it's an issue that you and the entire ABOR advocacy team always monitor but is especially putting the spotlight on in 2025, and we'll touch on, in little bit ways to join in on the conversation with the ABOR advocacy team, as to property taxes. But just as a reminder to our listeners, Taylor was actually on a recent episode of Driving It Home and talked all about ABOR Advocacy, including its purpose and mission, 2024 accomplishments, and 2025 objectives. So, if you missed that episode or you just want a refresher, please refer back to our December 10th episode of Driving It Home. So, Taylor, just to set the stage, property taxes are obviously such a broad topic. However, it feels like property taxes have attracted more attention in Texas over the past several years. The state legislature even passed, and voters approved 18 billion in reductions from the school portion of property tax bills. So why, then, amid that property tax relief, are property taxes still such a hot topic, still such a topic of contention?

[00:02:13] **Taylor:** You're certainly right, Clare. Property taxes in Texas are currently and have always been a hot topic. And I would say even more recently, with the significant changes that we've seen over the past few years, particularly because of changes enacted by the Texas legislature. But before I dive into the main part of your question, I really want to make sure that all of our listeners are starting from the same foundation of information in this conversation. Just as a reminder, Texas has no state property tax. Instead, local governments set tax rates and collect those property taxes to provide essential community services like public schools, roads, police, and fire protection.

There's actually over, you know, close to the 4000 local entities like school districts, cities, counties, special districts throughout Texas to actually collect these taxes. It is the largest single funding source for community services. And so we have to keep that in mind as we're talking about property taxes, how they're collected, and how they're spent.

Your individual property tax rate is determined by a pretty simple formula. You just multiply your property's appraised value by the local tax rate. Of course, you have to do that calculation for all the taxing entities that your property falls into, like a school district, a county, or a city. And as a homeowner, that adds up fast. Particularly, as a first-time homeowner, you learn a lot about property taxes and how they add up pretty quickly. The biggest chunk that most Texas homeowners see on their property bills is actually going to pay school property taxes. It's the state's primary way of funding public schools. For example, in Austin, about 48 percent of your tax bill goes to AISD, followed by about 25 percent that goes to the city of Austin, 17 percent that goes to Travis County, and then the remaining 10 percent is a split between central health and our local community college here.

Of course, if you live in other parts of the city, you might have other special districts that are tacked onto that, but in general, that's kind of the breakdown. I mean, 48 percent of your bill goes to public schools, which is a very significant portion of your bill. And that's also, I think, why you see the Texas legislators when they talk about Public school funding; they're also talking about tax rates at the same time, typically. It accounts for half of all the property tax revenue collected in this state. And it really is, you know, a very complex issue that does have an impact daily on Texans, and that's why, again, each legislative session, you see that the legislator has tried to address the impact of property taxes, particularly because what we've seen since the pandemic, affordability and particularly housing affordability has been brought to the forefront. And so the most recent attempt that you mentioned is that historic 18 billion of property tax reform from 2023. It included more than doubling the homestead exemption, which raised it to 100,000. It also allocated about 12 billion to buy down local school tax rates, also known as compression.

The impact of those reforms we definitely saw in 2023, homeowners bills, I think, did see some good savings in that. The average homeowner in Travis County most likely saw about a 500 decrease in their property bill in 2023, which is pretty much attributed to the property tax reforms that the legislature approved.

And while that 18,000,000,000 property tax reductions have helped, there are still some underlying dynamics that play into the property tax. During COVID, Texas and really most of the country experienced some unprecedented increases in our home prices. Many homeowners saw the value of their property soar far beyond what they probably anticipated pre-pandemic.

And while rousing home values are typically seen as a positive, they also can come with some significant downsides, which are higher property tax assessments, which then play into your property tax bill. And so, since

property taxes are calculated as a percentage of that home-assessed value, we've seen some rapid increases in the tax bills here locally.

Even with the legislature's efforts to reduce rates and provide relief, those starting points for those, you know, assessed values are higher and have remained significantly higher than they would have been pre-pandemic. And so the affordability challenge really is here at the forefront for current and even future homeowners.

And so despite the relief measures, this base effect of higher evaluations means homeowners are still shouldering a tax burden that feels pretty big, you know, and additionally, local governments also then have to rely on property tax revenue, so that there's a constant balancing act locally between providing relief to property taxes, but then also ensuring significant funding for public services like schools, infrastructure, police and fire and EMS.

So, at the end of the day, property taxes and the debate surrounding them typically will always come back to affordability. It's a question about how communities should fund public services that they need while having the smallest financial impact on property owners through the tax rates that help drive these scoring property bills.

[00:08:14] **Dr. Clare Knapp:** So affordability really is at the heart of today's discussion. And with property taxes, it's a double whammy in that both current and future homeowners are affected by home values. You know, if you think about home values, well, vis-a-vis prices, if you're a future buyer, that's one part of the story, but rates are another.

And just as an aside, of course, we don't pay state income tax. So, property taxes in Texas are among the highest in the nation. So that's part of the reason why there's such a hot-button issue. So, any changes in property taxes in our state bear even more implications for homeowners or future buyers than in most states.

But, the confusing wrinkle in the fold is that home prices have actually come down in Austin over the past few years. This decline hasn't been significant. The median sales price only declined about 12 percent from its peak in 2022 to now, you know, kind of ending 2024, heading into 2025. But if home prices have declined, why are folks still seeing an increase in their property taxes?

[00:09:32] **Taylor:** Yeah, great question, Clare. I mean, the relationship between home prices and property taxes. It is, again, like I said, complex. And sometimes, it's a little bit counterintuitive, especially here in Texas. While it's true that the median home price in Austin has declined about 12% since 2022, homeowners are still seeing increases in those property tax bills.

And there's a couple of reasons behind that. For 2024, the Travis County tax office estimates that the average property tax bill for homeowners would be about, you know, a little more than 1 100 higher than their bills in 2023. That's that's an 11 percent increase. It was the largest projected jump in the average tax bill since 2014, and diving into some of the reasons for those increases, let's first talk about kind of the lag and appraisals property taxes, you know, again, as we mentioned are based on the assessed value. A home is determined by your local property tax district. However, sometimes, there are delays between the housing market changes and those changes when they're fully represented in your property assessment.

Again, many homeowners are still feeling those effects of the significant run-up in home values during the pandemic with Austin's housing market, when the Austin housing market was really hot. Even though those prices

are coming down slightly, the baseline for those appraisals remained significantly higher than they were in the pre-pandemic.

So this higher starting point continues to drive higher property tax assessments. The second part. While home prices may have dipped the property tax rate, the percentage, you know, that is applied to your assessed value hasn't really followed the same trajectory as we mentioned earlier; local governments like school districts and cities really heavily rely on the property tax revenue to provide their services and they face those constant budget constraints, making it difficult sometimes to actually lower the property tax rates significantly, you know, to put this in, in context, a little bit funding for police fire and ems collectively take about 63 percent of the city of Austin's general fund budget.

Austin isn't alone. I would say it's probably safe to say that public safety is the largest cost driver for most cities in central Texas. So this really just highlights the challenges that local governments face when developing budgets, keeping in mind that they were trying to have the smallest financial impact on property bills.

So even when we see modest reductions in home prices, homeowners are still impacted by the overall tax increases due to this kind of interplay between property tax rates that these local government entities set and those property valuations. The last thing I would like to highlight is property bills are also impacted by bonds and propositions that we, the voters, approve at the voting box. This past November, voters in Travis County approved several propositions, including an AISD measure to increase teacher pay and a Travis County proposition to expand access to affordable child care. The approval of these items comes with increased cost to your tax bill.

Collectively, these two voter-approved propositions are anticipated to increase the average tax bill by about $540 annually. That's, you know, a significant increase that the voters themself approved. Again, when you take all these into combination, the higher the assessed values are. The property tax rates that local governments set based on their budget and constraints, and then the bonds and propositions that voters approve, all come into play to have an impact on your property tax bills and the annual family budget. So again, it's a complex issue, but one that elected officials, both locally and at the state level, we'll continue to talk about, and we'll continue to attempt to tackle head-on.

[00:13:55] **Dr. Clare Knapp:** Right. And property taxes they're an especially tricky subject in the sense that we know that our taxes go to a lot of really great things like you were talking about at the top of the podcast; I believe you said 48 percent of our taxes in Austin go to Austin ISD. So, you know, 25 percent are going to the city of Austin.

So obviously, you know, there's It's the desire to, of course, fuel money into our local public schools and really help them thrive, but it is, you know, hard when folks are facing an increase in their property taxes as well on an annual basis. So, it's a tricky subject, and like me, you don't have a crystal ball, but can you please tell us what is on the horizon in terms of property taxes over the coming years?

Do you think that property taxes will continue to be a hot-button issue for the state legislature, and will we potentially see more property tax relief? Or do you think that there has been a lot of ground made and, this is, you know, kind of an issue that will fade a little bit more into the background?

[00:15:12] **Taylor:** Yeah, well, we certainly don't have a crystal ball, but we do have the words of Benjamin Franklin, who, I think, famously stated that, you know, in this world, nothing is certain except death and taxes. So

I think those words still ring pretty clear today, which is why, you know, I do believe property taxes will absolutely be a significant issue that's discussed during this legislative session and will likely remain a hot topic, but an issue for Texas for years to come.

You know, the 89th Texas legislator just started about two weeks ago, and property taxes are expected to stay at the forefront of the discussion. The state budget surplus for this, this legislative year, is nearly 24 billion dollars, and Texas lawmakers are considering additional property tax relief measures this session to use some of that surplus.

It provides a great opportunity for the legislator to explore new ways to further alleviate homeowners' tax burdens while addressing the state's long-term revenue needs. We got a little glimpse into what both chambers are thinking with the release of the initial state budgets from both chambers last week and how they intend to use that surplus.

Both budget proposals include spending more than 32 billion to continue funding the tax cuts that were approved back in 2019 and 2023. Most of which covers the cost of school districts cutting their tax rates. Both proposals also include spending about 5 billion, another 5 billion to increase public school funding.

And an additional 3. 5 billion for property tax cuts. But those are both kinds of unspecified cuts in the draft proposals right now. And so, while both budgets are pretty similar or have similar spending priorities, the legislator over the session is going to have to iron out the differences before they send that final version to the governor's desk.

The lieutenant governor has said that he wants to spend that 3. 5 billion set aside for new tax cuts to be used to increase the school homestead exemption again. He spearheaded the push. The last legislative session was to raise that homestead exemption to 100,000. And now he's proposing another 40000 increase to that homestead exemption, bringing it up to 140 000.

That, I think, is a significant conversation that will happen. He was successful again, you know, last year. And so I would anticipate you'll see some changes there. And so that the discussion around increasing the homestead will continue. Another option that I expect to discuss is further reducing the school district's portion of your property tax bill.

This option would most likely involve lowering the tax rates by setting aside money in the budget to further buy down that school's property tax rates across the state. Essentially, this option would build on the compression that was originally adopted in 2019 and then further expanded in the last session in 2023. Both of these options, whether it's increasing the homestead exemption or buying down the school tax rates, would build on the 18 billion in property tax release from the past last session and could provide some even more meaningful relief to homeowners.

I think it'd be remiss of me not to also talk about another option that I honestly don't think is realistic, but that's a complete structural reform. For years, some lawmakers have actually advocated for completely eliminating property and local property taxes altogether. This would completely shift how public services are funded in Texas and would create a huge funding gap that lawmakers would have to fill somehow. Last year, the Texas Senate Finance Committee, during the interim, actually looked into this funding gap and what would actually be needed to fill it. It was estimated that just to eliminate the school district property tax part of the equation would cost the state 39. 5 billion in 2023. Again, that's just to eliminate the school district tax rate.

If you completely eliminated local property taxes across the state, they would have to find another 42 billion dollars to cover the property taxes collected by cities, counties, and special districts. So, all in all, the state would have to spend or find the money for about 81, 82 billion just to completely eliminate property taxes.

To put that into perspective, that's more than half of the existing 144 billion budget that lawmakers approved last session. So, I think it's pretty safe to say that completely eliminating property taxes is something that we won't see really move this session or probably anytime soon. But it is, again, one of those underlying conversations that we have to be aware of.

I think what is probably more realistic is a property tax relief package that again combines some form of buying down school tax rates and increasing the homestead exemption, like what we saw in 2023. Uh, One thing that lawmakers and the community should keep in mind as we go through this, this conversation, this session is that any efforts to reduce property taxes, we'll still have to balance the need for homeowners' relief with the demand for adequately providing funding for things like roads, schools, and public safety services. So, I think it's safe to say that this topic isn't going away anytime soon, and affordability will continue to drive the conversation when it comes to property taxes.

[00:21:27] **Dr. Clare Knapp:** Gotcha. So, that was a lot of information for our listeners, but as we're breaking it down, can you please help us educate our fellow constituents? That only feels like the appropriate term to use when talking to you, our Deputy Director of Government Affairs. But what are key takeaways that our listeners can impart to their clients, whether they be buyers or sellers, about property taxes?

[00:22:01] **Taylor:** Yeah, I would say, you know, particularly as someone who bought the first home last year, one of the biggest takeaways is just to help educate your clients about what to expect when it comes to property taxes. In Travis County, for about the past decade, we have had the norm of annual increases to your property tax bills.

KUT did an analysis recently using tax office data, and it highlighted that since 2013, the average annual increase in property taxes here locally has hovered between $280 and $540. So, that is something to keep in mind as your clients are working their way through the process of buying a home.

You know, they need to be aware that property taxes most likely will increase on an annual basis. And they should plan for that. Hopefully, they will build some cushion into their annual household budget to cover those expected. Increases in taxes. I'd also encourage our listeners to help their clients learn more about how to protest their property appraisals every year.

Appraisal notices are sent out by essential appraisal districts, typically in April. The deadline to follow your protest is typically May 15th. And it's certainly a part of the property tax calculation that property owners have a little say in, a little control over because they have the right to protest that assessed value.

And so keeping an eye out for those appraisal notices when they come out and protesting them when possible so that you can try and keep the property evaluation as low as possible in that property tax formula. It's always a great idea to, you know, work with a trusted real estate professional as you go through that process.

Often, your real estate professional can help you provide comps and really look at if the assessed value that my central appraisal district provided actually reflects what Is on the market today. And that's something that, you know, our real estate professionals in Central Texas are always willing to work with their clients to help.

And finally, I would, you know, encourage not only our listeners but their clients to stay civically engaged, particularly when their local elected officials are developing future budgets, future tax rates. Future bond propositions and get involved, you know, if you think property taxes are too high, you have to get involved and stay on top of that.

[00:24:42] **Dr. Clare Knapp:** Absolutely. Absolutely. And then two, can you please remind our listeners just of ways that they can get plugged into ABOR advocacy, specifically when it comes to advocating on behalf of homeowners for property tax reform? And I know that I teased this at the beginning of the podcast, you know, and you'll talk about this more, but just being a part of conversations about appraisals and joining in on all of the variety of discourses that you and your team put on that you host to help tackle some of these issues.

So anyways, how, how can our listeners get involved?

[00:25:24] **Taylor:** Yeah, I would say first come, get plugged in with ABOR advocacy, you know, attend one of our upcoming policy team meetings, one of our coffees with the council member events that we do throughout the year, or even our TREPAC fundraisers. If you want to learn more about these events or our advocacy efforts, you can visit unlockmls.com/advocacy or send us an email at advocacy@abor.Com. These are great activities and ways to stay informed but also to lend your experience and expertise to our advocacy efforts to help make real change here in Central Texas. As you mentioned, we're also trying to get out in the community more and help our members get out there to help their clients.

And so this spring, we will be conducting some community workshops. The first one, we'll focus on how to protest your property tax appraisal. The goal is to get our members out in the community to help educate their clients and their community members on what a notice of appraised value is.

You know, how should I go about if I think that notice or that appraised value is wrong, and how can I protest that, and what are my rights in that process? So, look out for more information on those community workshops. They'll be hosted in April before that May 15th deadline. And so we really encourage our members to come get involved in that.

If you have expertise in helping your clients with protesting their their appraisals, reach out to us. Come be one of the trainers come lead one of our community workshops. If you're not an expert in protesting property appraisals, encourage your clients that to come, encourage your neighbors to come out and learn more about that process.

The more informed that our community is, the better off I think we are. Finally, I would encourage our listeners to plan on joining ABOR and Texas Realtors on March 26th for Realtor Day at the Capitol. Each session, realtors from across the state come to the Capitol one day to meet with their legislators and discuss issues that affect private property owners and our real estate industry.

We'll be talking with our legislators on a number of these realtor issues, and I would certainly anticipate that property taxes will be one of those. And also housing affordability. It's a great event. You're not going to want

to miss it. The Capitol is right in your backyard. It's easy. So I would, you know, mark it on your calendar, March 26.

Registration for that will be opening up soon. You can learn more about Realtor Day at the Capitol by visiting unlockmls.com/events. And I hope we'll all see you there on March 26th. Again, our advocacy efforts aren't possible with the hard work of our volunteer members and the day-to-day experiences that each of our members has.

And so again, please come get involved, learn how you can get plugged in, and again reach out to us and help serve not only your business but also your clients.

[00:28:39] **Dr. Clare Knapp:** Totally. And I can definitely put a plug-in for Realtor Day at the Capitol. I've attended before, and it was a blast. And Realtors, really, you guys, you show up, and you show out. So I was so impressed just by the level of attendance at that event. And it was really a lot of fun. So, I can't recommend that especially enough. Anyways. All right. All. Thank you so much for listening. I know that this was a really meaty podcast, but it is a heated topic. I hope that it helps educate you. In turn, we will help educate your clients. Thank you for sticking with us. Until next week, please take care and stay warm out there.

It's been, there's been some crazy weather. So yes, definitely stay warm, get some hot cocoa, and all of that good stuff. And we will see you soon. Thanks guys.

[00:29:32] **Taylor:** Thanks.