

# **SPECIAL REPORT**

# **Voter Approval Required**

**New Texas Property Tax Reform and  
Transparency Act Requires Increased  
Emphasis on Budget Engagement**

**January 2020**

**By Kelsey Foster**

**BalancingAct**

## A New Reality for Texas Local Government

With the passage of the Texas Property Tax Reform and Transparency Act of 2019, the Lonestar State's already unique revenue system will take on some new parameters: all property taxes levied by major taxing authorities increasing at a rate of 3.5 percent or more will require a vote by residents. This new requirement could leave many Texas cities and counties with budget gaps, placing pressure on core services such as police, fire and public works. When the cost of maintaining services exceeds revenue, how can jurisdictions communicate the need for a tax increase to residents?

The Texas Property Tax Reform and Transparency Act of 2019 caps property tax increases at a rate of 3.5 percent without approval from voters. The legislation also requires jurisdictions to provide residents with new ways to learn about their property taxes via an online database that outlines how new property tax measures would impact an individual homeowner's tax bill and when public meetings will be held to discuss the issue.

The bill will take effect in January 2020, and means big changes to property tax and appraisal systems in the education, health, safety, special district and tax codes, including a more compact timeline for budget preparation.

The Texas Association of Counties has provided a [directory of resources](#) for jurisdictions adapting their practices for SB 2, including a budget timeline, 2019 legislative analysis, and FAQ page. The Texas Municipal League is also providing their members with legislative briefings, updates, and best practices moving forward, including a new campaign called "Our Home, Our Decisions" aimed at engaging with residents and messaging the importance of local control on fiscal issues. One of the campaign's messages says, "the most important decisions we must make as a community involve the level of services we want and how much we are willing to pay for them. Those decisions should be made by you and the people you and your neighbors elect locally to lead your community and not legislators who live hundreds of miles away."

While the legislation may help shine a light on tax bills for residents going forward, local governments and other taxing entities have good reason for concern: many municipalities in the state are [predicting a budget shortfall in the coming years](#). With ever-growing needs for government programs and services but a challenging path to new revenues, how can Texas officials keep up?

## Learning From Other States

Texas is not alone in facing these new fiscal challenges.

*"The most important decisions we must make as a community involve the level of services we want and how much we are willing to pay for them. Those decisions should be made by you and the people you and your neighbors elect locally to lead your community and not legislators who live hundreds of miles away."*

—Texas Municipal League





A report by the [Brookings Institute](#) shows that 70 percent of U.S. states impose some sort of binding property tax limitation on city-level governments. While the report suggests lobbying state legislatures for a more sustainable, systemic fix to this long-term fiscal problem, it also illustrates that there are lessons to be learned nation-wide to raise revenues. Tax Expenditure Limitations (TEs), such as the Texas Transparency Act, have been around for more than twenty years, providing a wealth of insight into their effects on local governments across the nation.

Washington State has capped property tax growth at one percent—far lower than Texas’s 3.5 percent—since 2001. Washington, like Texas, has no income tax to offset limitations by property tax caps and is home to residents with diverse political beliefs. Washington has seen a consistent down-sizing of government programs and services, particularly at the county level where property taxes make up nearly 60 percent of all revenues.

Washington jurisdictions have had time to adapt to their property tax cap, but time, it appears, is one of the biggest hurdles. Just as is the case in Texas today, many jurisdictions predicted a budget shortfall in 3-5 years after the one percent property tax cap took effect. But good public administrators are entrepreneurial; they can

find new ways to fill budget gaps and trim fat until the books are balanced. Those efficiencies may have worked at first, but as time has gone on, expenses have consistently outpaced cuts; costs related to indigent defense alone has been growing steadily between 8-16 percent across the state.

## A Proactive Solution: Roseville, CA

Asking residents to self-impose higher taxes can be as challenging as breaking the news of public service cuts. Roseville, CA offers a glimpse into the power of a multi-faceted public engagement campaign to succeed at the polls.

The city launched [EngageRoseville](#), a cross-departmental initiative that focused on research, education, and, as its title suggests, engagement with taxpayers. The research found, unsurprisingly, that the community was not enthusiastic about paying more in taxes. However, it also found that residents were "keenly interested in preventing any erosion of services they value."

Education and engagement strategies included formation of an advisory committee composed of non-governmental leaders, a large-scale "community conversation" with any resident who wanted to participate, and [Balancing Act](#), an online, interactive budget simulation. Roseville chose to start their simulation with the budget in deficit, requiring users to indicate what they would cut -- and to see the consequences in real time.

The feedback indicated to city staff and the council that residents did not want to cut services, which meant finding a way to increase taxes. This prompted city council to refer a measure to voters to raise sales taxes by

a half-cent. The measure passed with 62 percent of the vote in a conservative city that had never before put a sales tax measure on the ballot.

EngageRoseville won the 2019 Government Finance Officers Association Award for Excellence for the best practice of public engagement in the budget process, five awards from the California Association of Public Information Officers, and more.

## Advocating For State Policy Change: Milwaukee County, WI

As the Brookings Institute's report notes, sometimes a more systemic approach is needed to meaningfully address the budget shortfalls created by TELs. Milwaukee County, WI has been using [Balancing Act](#) budget simulation for three years as the cornerstone of a robust public engagement campaign that has led to an effort to win greater local control of sales taxes.

Milwaukee County found themselves staring down a steep fiscal cliff; in 2020 their capital budget will face a \$100 million gap and by 2023 the operations budget gap will be \$80 million. To avoid falling over the edge of that cliff, the county launched [Fair Deal Milwaukee County](#), a campaign to educate residents about the state legislature's control of taxing authority and the realities of public services cuts they may begin to see in their communities in the coming years. Over the last three years, Milwaukee County has had more than 15,000 visitors to its online simulation, with an average of more than 20 minutes for each visit. This extraordinary participation has given them evidence of widespread community support which they are using to convince the Wisconsin legislature to allow them the ability to raise their own sales taxes. With the table already set for more trusted, informed conversations about public money, Milwaukee County hopes residents may be more likely to support their campaign at the state house.



## Medina, WA: An Ironic Problem

Medina, WA, a small town of just over 3,000 near Seattle is often associated with its wealthy and famous residents like Bill Gates and Jeff Bezos. Despite its affluent reputation, Medina found itself running out of money to pay for basic services like police, firefighting, and parks as expenses rose at an average of 4-5 percent per year while revenues grew at an average of 2.5 percent. Despite a median home price over \$2 million, the town didn't have the authority to increase the property tax rate, the mainstay of its revenue, by enough to cover their budget shortfall because of the state's one percent property tax cap. After a concerted effort in the fall of 2019, a "levy lift" was approved by the slimmest of margins—23 votes.

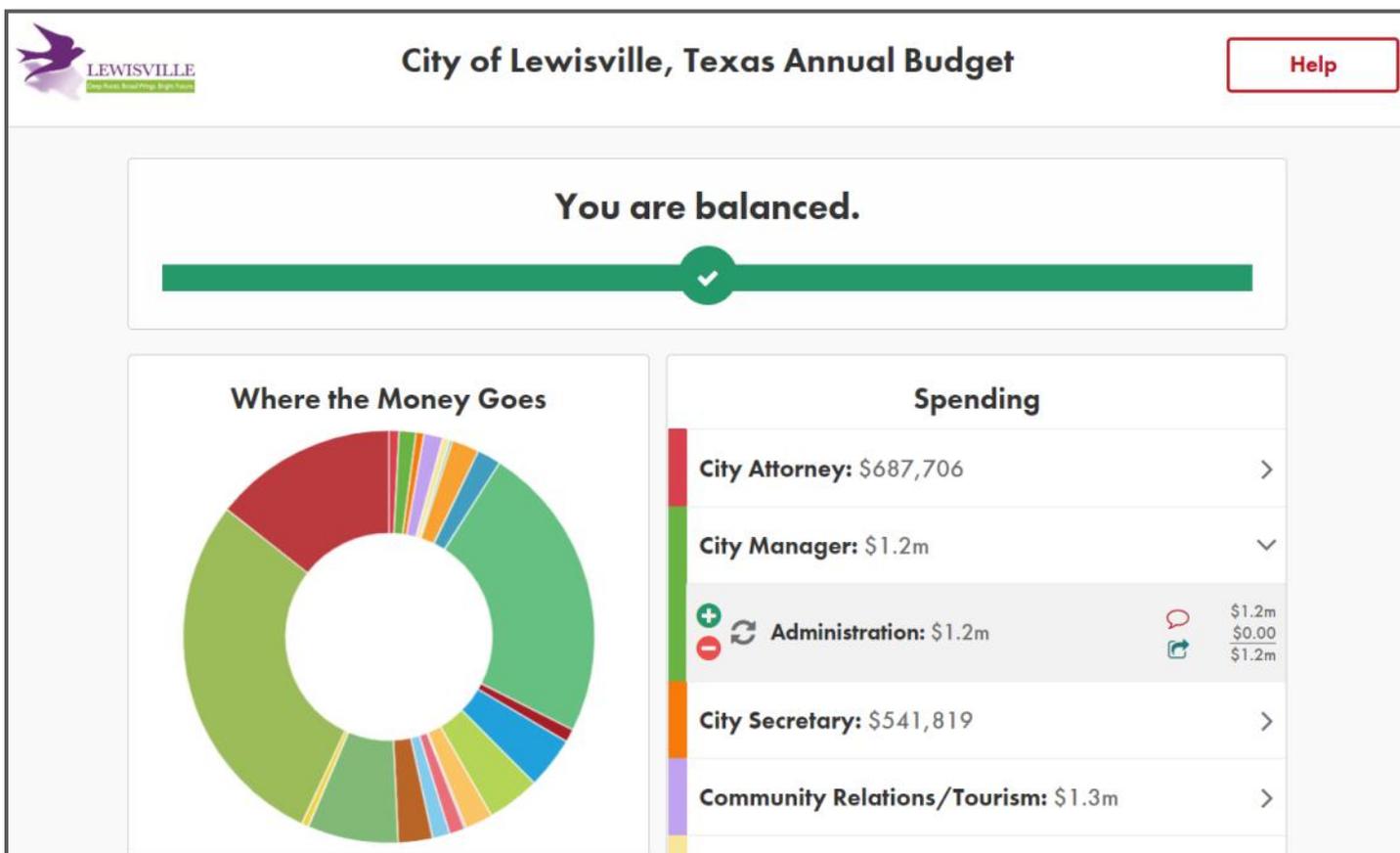
In their first year of using Balancing Act, Milwaukee County showed residents the only options the county government itself was allowed to utilize in order to raise new revenues: pull from reserves or raise a vehicle registration fee. Throughout the Balancing Act process, many citizens expressed discontent with the lack of flexibility and the limits of available options. According to Milwaukee County Director of Performance, Strategy and Budget Joe Lamers, this is reflective of the real-life challenges associated with the Milwaukee County budget, due in large part to restrictions placed on the county by the state. "We're not statutorily allowed to increase taxes in our own district without

state approval,” Lamers said. “We have a lot of limitations and that’s what ultimately causes the budget structural deficit situation we’re currently faced with. People were frustrated with the options we allowed them and that led to the understanding that quite frankly, those are the options that we have.”

This realization led to an increased interest in reforming higher level policy decisions and a better overall awareness of the challenges associated with the county’s budget. Lamers said that residents had come to the conclusion that a county-wide sales tax was one of the only solutions to their budgetary problems before the Fair Deal campaign launched. When the County opened up new, currently unavailable revenue options during their third cycle with Balancing Act, 75% of residents selected an option to increase sales taxes by 1% to close the budget gap— the same solution identified by the Fair Deal Working Group introducing the sales tax to the state legislature.

Other options included raising property taxes, which Lamers said are already very high, or relying on money from the reserves or the state—options that wouldn’t have raised new taxes on residents at all, and yet were still less popular than the 1% sales tax.

Going forward, Jeremy Lucas, Director of Administration & Planning for the parks department and the original developer of the county’s simulation, said that Milwaukee County plans to continue to collect and use data from the simulation to foster an increasingly engaged citizenry. “There’s a lot of information that can be gleaned from this engagement that will help operationally and fiscally in the future,” Lucas said. Lamers added that he looks forward to using the results of Balancing Act to give Milwaukee County what he calls the *ultimate democracy*. “I think being out there and meeting with the public and having a lot of engagement on our physical challenges, we knew people wanted to find solutions. There was more



City of Lewisville is proactively seeking to educate residents about the budget—both revenue and spending—and to get their informed input by utilizing Balancing Act budget simulation.

confidence in our plans to lay out sales tax as something that should be considered. People want to be able to choose.”

## The Case for Budget Simulation Tools

In addition to the qualitative studies above, quantitative studies have found that cities that engaged their residents around budget issues are more successful in passing new revenue measures. A report by researchers at the University of Colorado and other universities finds that showing

residents where their taxes go or asking if they approve of new revenues isn't enough; a holistic approach allowing for education of and engagement with both expenses and revenues is required.

[This research](#) suggests that to break down the “more services for lower taxes” mindset, showing a visualization of both revenues and expenses, as Balancing Act does, helps citizens form a more holistic opinion of government services, “We believe this added context leads to more refined measures of preferences than more traditional instruments like surveys, which essentially ask questions in a compartmentalized vacuum.”

[The Center for Budget and Policy Priorities has found](#) that while many states with property tax caps report shortfalls related to public education or layoffs to public employees, the most common outcome for municipalities scrambling to find new revenues is finding new wells to tap. “Academic studies have found that in most cases, property tax limits have led not to a shrinkage in the public sector but instead to a shift to other revenue sources, such as state aid and fees.”

Indeed, engagement strategies like Balancing Act align with a call from the Government Finance Officers Association to promote collaboration, build trust and open communication, use collective decision making, create clear rules for budgeting, and treat everyone fairly when discussing the complicated world of public finance with residents. GFOA's report, [Financial Foundations for Thriving Communities](#), suggests smart, nuanced engagement with constituents lay the groundwork for more sustainable, publicly supported revenue measures and expenses.

Mike Bailey, a former municipal finance director and now a consultant with [Municipal Research and Services Center](#), a non-profit organization that studies and assists local governments across Washington State, echoed GFOA's call to de-wonk budget information, particularly in states where new or larger revenue streams are difficult to access. Bailey drew a picture familiar to Washington state lawmakers, and perhaps one that their Texan counterparts will soon encounter: residents understand a property tax cap as a limit on their personal property tax rate, regardless of assessed value. But, what happens when, he asks, after the first year of new legislation, a homeowner in a gentrifying area sees a larger increase? Or, on the other side of the coin, when their local park begins charging an admission fee for entrance?

“It becomes a game of characterizing the consequences [of budget cuts] in terms of the things the public is typically supportive of, such as public safety. Break away from government-speak to address your audience



and not just dish out government finance 101. Residents want to know how their dollars translate into what their government will deliver. If you can't deliver that conversation, they'll move on," Bailey said.

## Taxpayer Accountability Resources

Texas officials can turn to budget engagement tools to help them rally support for these "levee lid lifts" However the law also requires budget accountability. Local governments must inform residents of how and where their property taxes are going as well. Balancing Act's supplemental tool, [Taxpayer Receipt](#), quickly estimates a resident's tax obligation and then shows how much goes to each service. They see a personalized view of how their taxes help fund parks and recreation, schools, or any number of public services. Often, budget engagement tools like Balancing Act and Taxpayer Receipt can be embedded directly in a jurisdiction's website at an affordable cost. Additionally, many of these tools are available with translations built-in, particularly useful for jurisdictions with large non-English speaking populations who may face expenses related to traditional translation services.

## Scaling Best Practices

Texas officials already staring down the barrel of a budget shortfall don't need to invest their limited resources in developing budget engagement and accountability software. Tools already exist to offer even small and rural jurisdictions access to best practices in civic engagement from tax accountability. While the Property Tax Reform and Transparency Act may present new challenges in sustainability and sustainable revenue generation, it also offers jurisdictions a unique opportunity to create a more engaged, informed, and collaborative democracy for Texans across the state.

Balancing Act is a suite of budget engagement tools, including a [simulation](#) and [Taxpayer Receipt](#), designed to create a two-way, fact-based conversation with residents about a local government's finances and priorities. It is in use in over 60 of the largest, and smallest, cities, counties and districts in the nation. To learn more contact us for a free consultation.

Email: [info@balancingact.com](mailto:info@balancingact.com)

Website: [abalancingact.com](http://abalancingact.com)

(303) 877-0111

# BalancingAct