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# Replacing Property Taxes: Key Issues

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## What property taxes do you want to replace?

### 1) School maintenance and operations taxes:

- a) What do you want to replace them with?
- b) What impact will the tax shift have on:
  - i) the Texas economy, including specific industries?
  - ii) Texas' economic competitiveness?
  - iii) on individual Texans and Texas families?
  - iv) opportunities for tax avoidance?
- c) Will the replacement tax be a state tax redistributed to districts, or will it be a local tax?
  - i) If it is a state tax,
    - (1) What are the formulas by which state aid will be distributed to districts?
    - (2) What financial discretion will school districts retain?
    - (3) Will schools have any incentive to spend less than what the state provides?
  - ii) If it is a local tax,
    - (1) What are the formulas by which state aid will be distributed to districts?
    - (2) How will you address differences in local tax bases?
    - (3) Will you require recapture, or Robin Hood, to ensure funding is equitable?
    - (4) Will there be a cap on local tax rates, and if so, what?
    - (5) Will businesses move out of districts with little retail activity and high tax rates?
    - (6) What impact will the tax replacement have on school district cash flow?
    - (7) Will the system meet the constitutional test of "efficiency" that has been at the heart of multiple school finance lawsuits?

### 2) Will local option enrichment be allowed?

- a) What will the local option enrichment tax be?
- b) How will a district with little tax base be able to generate enrichment funds?
  - i) Will the state provide additional aid to equalize enrichment funding, and if so, how will the level of aid be determined?
  - ii) Will the state recapture taxes above some level?

### 3) School maintenance and operations taxes and school debt service taxes (all of the above questions, plus):

- a) Will financial investors (i.e. bond purchasers) accept a revenue source other than property tax?
- b) If it is a state tax,
  - i) Will the state be the bond issuers?
  - ii) How will the state pay for local facilities?
  - iii) How will the state determine which school districts are authorized to build new facilities?

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## Replacing Property Taxes: Key Issues, *continued*

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- iv) Will local communities have any recourse if the state denies a facilities request?
- v) Will taxpayers in one school district essentially pay for facilities in another school district?
- c) If it is a local tax,
  - (1) How will the state ensure that “tax-poor” districts have the ability to finance debt?
  - (2) What will districts do if their replacement tax falls short of debt service requirements in a particular year (possibly because of either bad estimating or because of an unforeseen economic slowdown)
- 4) **All property taxes—school districts, cities, counties, and special districts (all of the above questions for schools, plus the following questions for other districts):**
  - a) Will the replacement tax be a state tax redistributed to cities, counties, and special districts or will it be a local tax?
    - i) If it is a state tax,
      - (1) How will the state tax be redistributed to local jurisdictions?
        - (a) By specific appropriation in the General Appropriations Act?
        - (b) By formulas, and if so what will those formulas include?
          - (i) Will the formulas make special provision for fast growth areas?
        - (c) What financial discretion will jurisdictions retain?
        - (d) How will the state protect itself against lawsuits over funding, similar to those the state has seen over local school finance?
      - (2) Will local jurisdictions have any incentive to spend less than what the state provides?
      - (3) How will new special districts be created and financed?
      - (4) How will infrastructure for new residential developments be financed, if local municipal utilities districts have no access to their own tax base?
      - (5) Will current local sales taxes be retained, or turned over to the state for redistribution?
    - ii) If it is a local tax,
      - (1) How will you address differences in local tax bases?
      - (2) Will you require recapture, or Robin Hood, to ensure funding is equitable?
      - (3) Will there be a cap on local tax rates, and if so, what?
      - (4) Will businesses move out of jurisdictions with little retail activity?
      - (5) What impact will the tax replacement have on a local jurisdiction’s cash flow?
      - (6) How will infrastructure for new residential developments be financed, if local municipal utilities districts have no sales tax activity?