
The Property Tax in Financing Texas Public Schools

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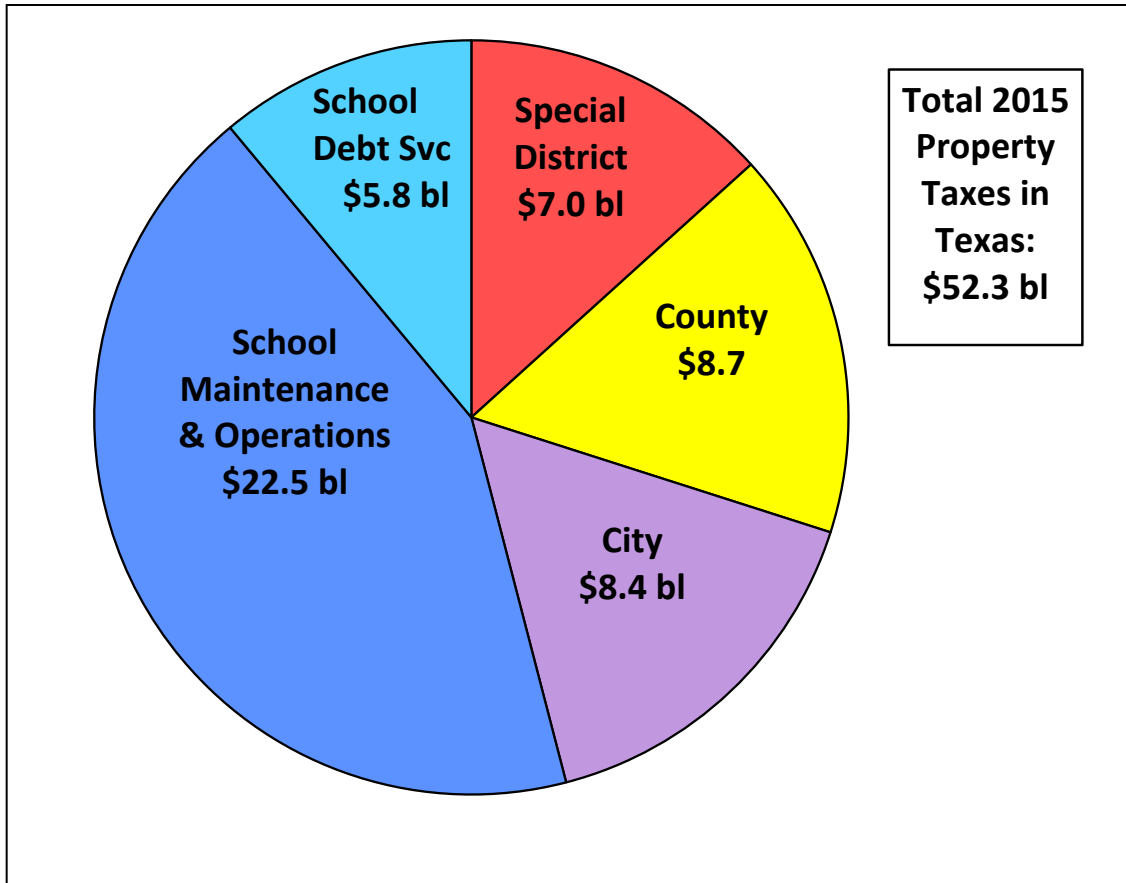
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The Property Tax in Texas

2015 Tax Levy



In Texas, the property tax is the domain of local governments.

The state of Texas used to levy a property tax, but it was essentially abolished in 1968 and prohibited in the Texas Constitution in 1982.

Generally a tax may not be levied without the approval of the voters in the local jurisdiction.

In 2015, just over 1,000 school districts levied total property taxes of \$28.3 billion, of which \$22.5 billion was used for the general maintenance and operations (M&O) of local districts while \$5.8 billion was used to retire bonds issued for facilities (commonly referred to as "interest and sinking fund," or I&S taxes).

Some 1,200 cities levied property taxes totaling \$8.4 billion in 2015

In 2015, 254 counties levied total property taxes of \$8.7 billion.

Special districts accounted for just under \$7 billion of property taxes levied.

What Property is Taxed? What Property is Exempt?

(For School Tax Purposes)

Taxable:

All real property and tangible personal property in this State, unless exempt as required or permitted by this Constitution, whether owned by natural persons or corporations, other than municipal, shall be taxed in proportion to its value, which shall be ascertained as may be provided by law. (Texas Constitution, Article 8 Section 1(b))

Exempt:

- Household goods not held for the production of income (Article 8, Section 1(d))
- \$25,000 of a residential homestead (Article 8 Section 1-b)
- The portion of homestead property that increased by more than 10 percent in value in a given year (Article 8, Section 1(i))
- Additional \$10,000 of the homestead of an individual 65 years of age or older
- State disabled veteran or their surviving spouse (Article 8 Section 1-b)
- Up to 20 percent of the value of a homestead (at the option of the school district); (Article 8 Section 1-b)
- Incremental taxes on the homestead of a owner who is 65 or older
- Certain property with a historical designation
- Goods in transit (aka "Freeport Exemption) at the option of the school district
- Property mandated be in place for pollution control requirements
- Certain new industrial property at the option of the school district, subject to review by the state (under Chapter 313 of the Tax Code; exemption may not exceed 10 years)
- Certain low income housing projects
- Certain farm and ranch property that exceeds the productive value of the property

*Essentially, all real estate is taxed
(subject mostly to homestead exemptions)
plus any tangible personal property
owned by a business*

The School Property Tax Base (Dollars are in billions)

| Type of Property | Market Value | Exempt/ Removed | Taxable Value | Percent Taxable |
|----------------------------|--------------|--------------------|---------------|-----------------|
| Homestead | \$1,026 | \$292 | \$734 | 71.5% |
| Residential Rental | \$395 | \$0 | \$395 | 100.0% |
| Business (non-residential) | \$1,025 | \$61 | \$964 | 94.1% |
| Agricultural | \$255 | \$239 | \$16 | 6.5% |
| Total | \$2,701 | \$591 | \$2,109 | 78.1% |

In 2015, the total market value of assessed property in Texas totaled \$2.7 trillion.

Homestead property was appraised at just over \$1 trillion¹; however, homestead exemptions eliminated roughly \$300 billion from being subject to the property tax—leaving 72 percent of the value of the average homestead subject to tax.

Residential rental property totaled roughly \$400 billion in value. No significant exemptions are available.

Business property, including both real property (land and buildings) and tangible personal property (machinery, supplies, inventories, etc.) totaled just over \$1 trillion in market value. Of this approximately \$60 billion was exempt—primarily Freeport property (i.e. items in interstate commerce), Chapter 313 school tax limitations, and pollution control property.

The market value of farm and ranch property was estimated at \$255 billion; however, this property is taxed based on its productive value of \$16 billion.

¹ Imputed by assuming that 80 percent of the value of residential property is homestead property. In fact, 70 percent of residential parcels claim the homestead exemption.

How Does Texas' Property Tax Compare?

| Item | Texas | Comparison to Other States |
|--------------------------|---|--|
| Property Tax Rate | <p><u>Residential property</u>: average effective tax rate in 2014 was 1.85 percent of market value</p> <p><u>Industrial property</u>: average effective tax rate in 2014 was just under 2.6% of market value</p> | <p><u>Residential property</u>: Texas' effective tax rates rank us 15th highest nationally, 25 percent above the national average</p> <p><u>Industrial property</u>: Texas' effective tax rates rank us 5th highest nationally, or 61 percent above the national average</p> |
| Property Tax Base | Texas taxes all real estate plus any tangible personal property used for business purposes (equipment and inventory); goods in interstate commerce are exempted at local option (i.e. Freeport property) | Texas' base is generally broader than that of other states: 11 states exempt all business tangible personal property; inventories are generally exempt in all but 7 states. |

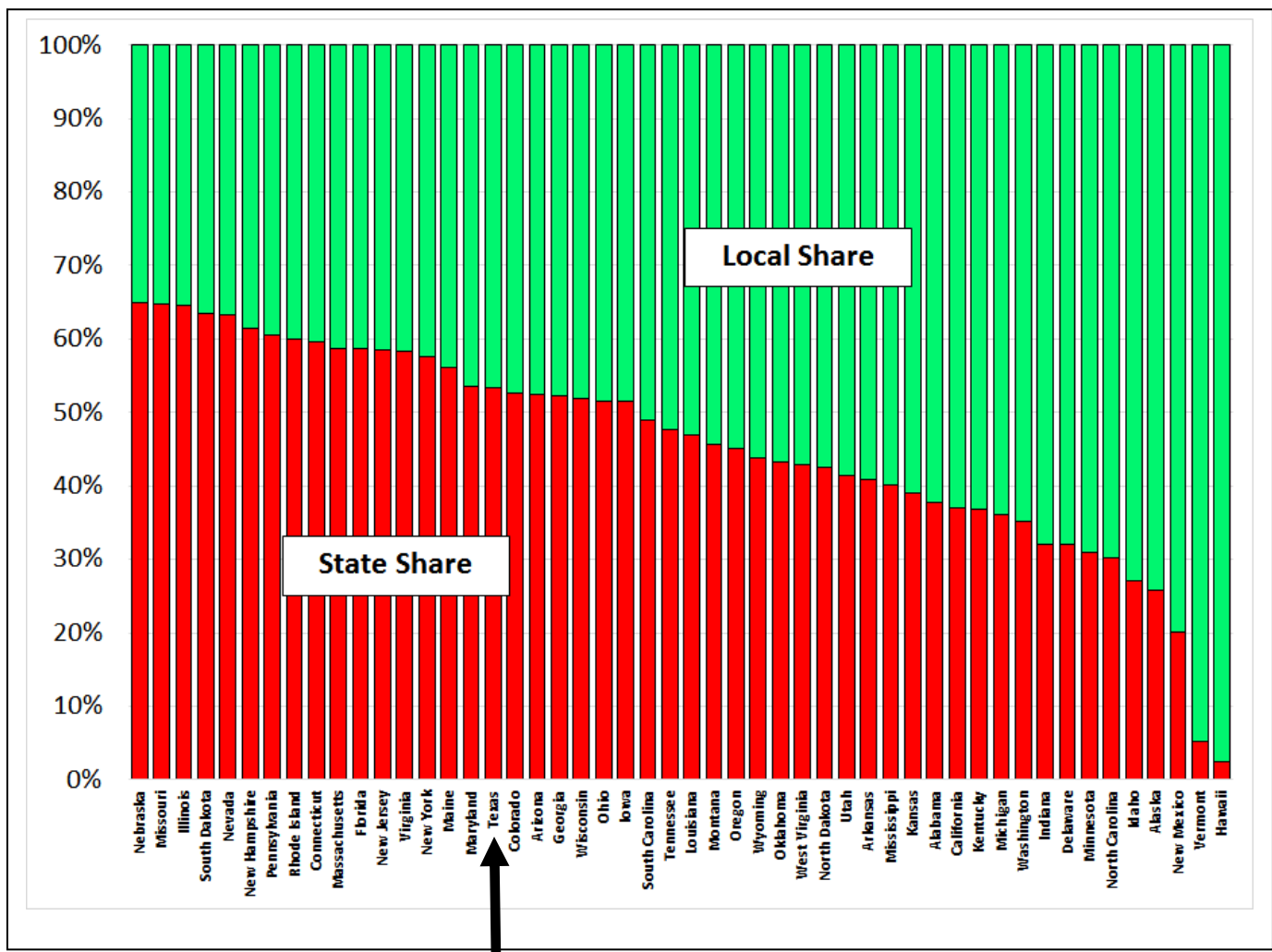
Texas' property tax base is relatively broad—taxing many items exempted in other states. Texas property tax rates are among the highest among the states.

Broad base, high rates.

Source: 50-State Property Tax Comparison Study, Lincoln Land Institute and the Minnesota Center for Fiscal Excellence (April 2015); Tax Foundation, States Moving Away from Taxes on Tangible Personal Property (October 2012).

The Property Tax in School Finance, 2012

50 State Data



Note: Above data excludes revenues from the federal government.

Source: National Center for Education Statistics, Revenues and Expenditures for Public Elementary and Secondary School Districts.

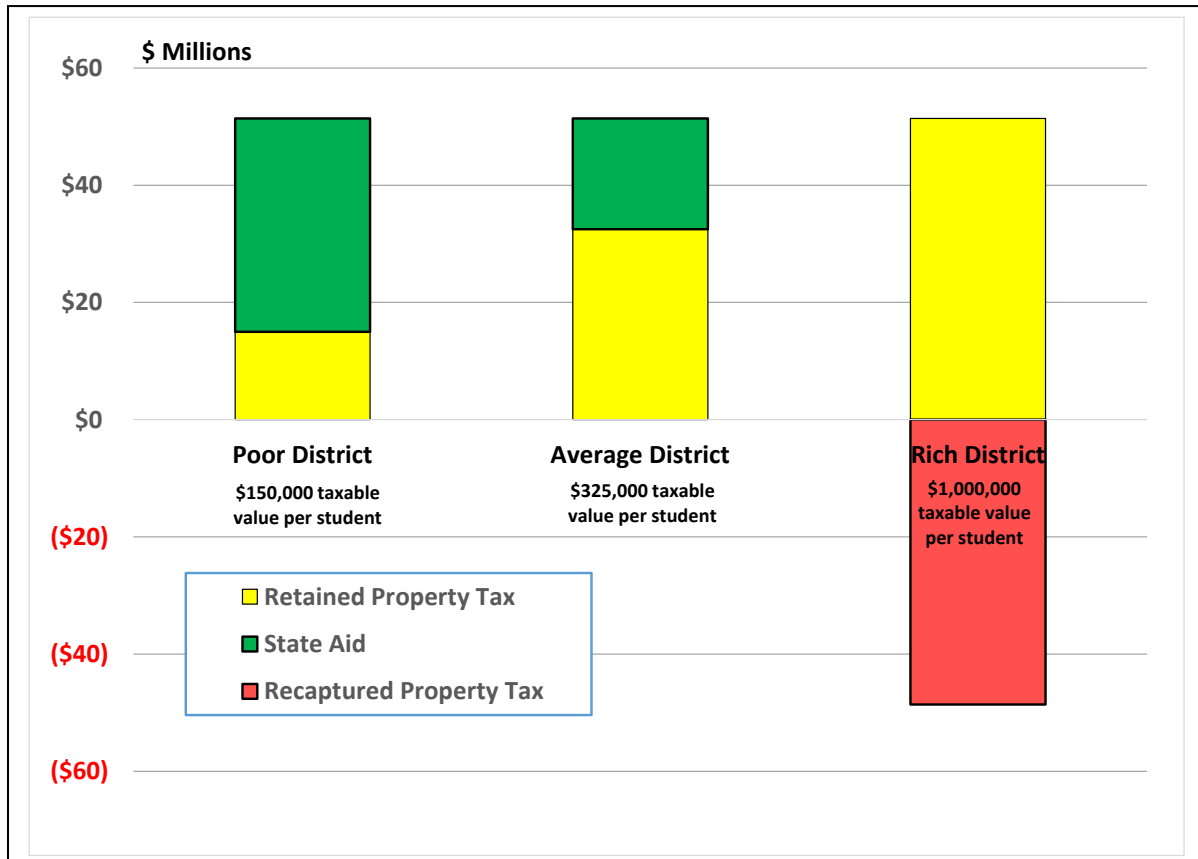
School finance is generally a shared responsibility of states and local school districts across the 50 states. School districts pay their portion of the program costs by levying a local property tax, while state aid typically comes from general revenue appropriations.

While percentages vary widely across the states, the “average” share of school finance is roughly 50 percent local and 50 percent state.

In Texas, the local share of school finance in 2013 was 53 percent—17th highest of the 50 states.

An Overly Simplistic View of Texas School Finance

(3 Districts with Varying Property Wealth and a \$1.00 M&O Tax Rate)



The above chart is a grossly simplistic illustration of how school finance works in Texas (for purposes of maintenance and operations). It is based on three districts, each with 10,000 students and a local tax rate of \$1.00 per \$100 of taxable property operating under the state's current basic allotment of \$5,140 of revenue per student at a tax rate of \$1.00. The basic allotment guarantees each district \$51.4 million in total revenue based on their student count.

"Property poor" district (taxable property per student of \$150,000) generates \$15 million from its local property tax. The district receives \$36.4 million in state aid to reach the basic allotment guarantee.

"Average" district (taxable property per student of \$325,000) generates \$32.5 million from its local property tax. The district receives \$18.9 million in state aid to reach the basic allotment guarantee.

"Property wealthy" school district (taxable property per student of \$1 million per student) generates \$100 million in local taxes—well above the state guarantee. In order to equalize access to revenues to districts, \$48.6 million of the district's revenues are recaptured.

The Impact of Rising Property Values on Texas School Finance

| | Base | If Property Values Were 5% Higher | Difference |
|----------------------------------|----------------|-----------------------------------|--------------|
| Total Tier 1 (Basic) Entitlement | \$34 bl | \$34 bl | \$0 |
| District's Share | \$21 bl | \$22 bl | \$1 |
| State Share | <u>\$13 bl</u> | <u>\$12 bl</u> | <u>(\$1)</u> |
| Total School District Revenues | \$34 bl | \$34 | \$0 |

Note: The above example is essentially comparable to figures for Texas for the 2015-16 school year, based on total taxable property of \$2.1 trillion.

Under our equalized system of school finance, to ensure they generate the basic allotment of \$5,140 in revenues per student, school districts with a lower property tax base per student receive greater amounts of state aid than “wealthier” districts. Consequently, as the local property values in a district increase from one year to the next, a district becomes “wealthier” and its state aid is reduced. The growth in local appraisals primarily benefits the state, allowing it to reduce the amount of aid it must provide to districts. For the purposes of school finance, as local appraisals increase, state formula spending for schools decreases.

Rising local property values benefit the state. The state gets credit for “budget cuts” as local property owners see their school taxes rise.

Tax Rollback/Ratification Elections

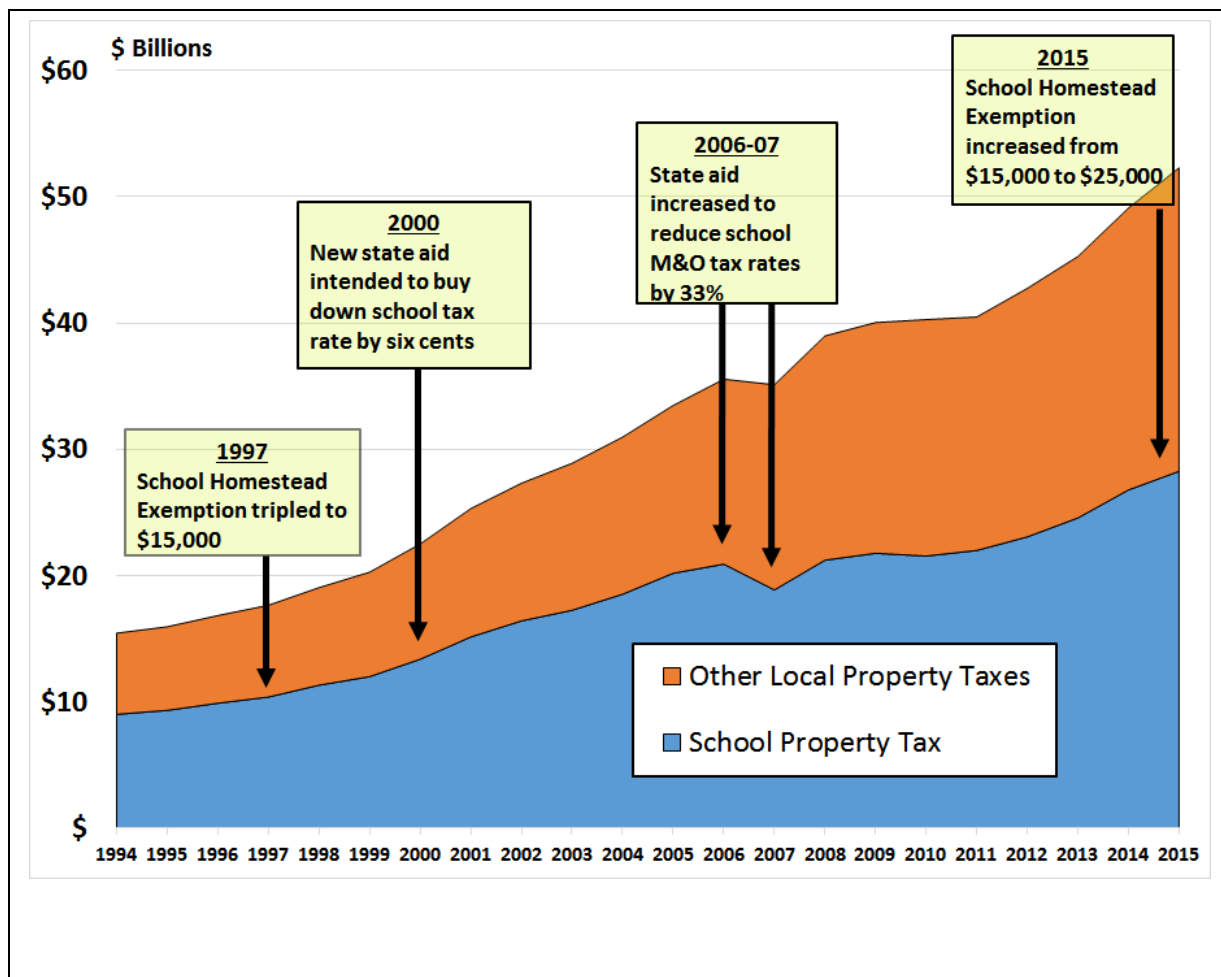
| Method | Tax Year | Total | Passed | Failed | Pct Passed |
|------------------|----------|------------|------------|------------|------------|
| 8%; petition | 1982 | 24 | 11 | 13 | 46% |
| | 1983 | 4 | 2 | 2 | 50% |
| | 1984 | 3 | 0 | 3 | 0% |
| | 1985 | 1 | 1 | 0 | 100% |
| | 1986 | 4 | 2 | 2 | 50% |
| | 1987 | 9 | 2 | 7 | 22% |
| | 1988 | 12 | 4 | 8 | 33% |
| | 1989 | 23 | 10 | 13 | 43% |
| | 1990 | 11 | 6 | 5 | 55% |
| \$0.08; petition | 1991 | 1 | 1 | 0 | 100% |
| \$0.08; petition | 1992 | 0 | 0 | 0 | 0% |
| \$0.06; TRE | 1993 | 3 | 0 | 3 | 0% |
| | 1994 | 2 | 1 | 1 | 50% |
| | 1995 | 2 | 0 | 2 | 0% |
| | 1996 | 3 | 1 | 2 | 33% |
| | 1997 | 0 | 0 | 0 | 0% |
| | 1998 | 4 | 2 | 2 | 50% |
| | 1999 | 11 | 3 | 8 | 27% |
| | 2000 | 11 | 2 | 9 | 18% |
| | 2001 | 30 | 2 | 28 | 7% |
| | 2002 | 5 | 3 | 2 | 60% |
| | 2003 | 4 | 0 | 4 | 0% |
| | 2004 | 23 | 2 | 21 | 9% |
| | 2005 | 17 | 2 | 15 | 12% |
| \$0.04; TRE | 2006 | 15 | 14 | 1 | 93% |
| | 2007 | 120 | 94 | 26 | 78% |
| | 2008 | 117 | 71 | 46 | 61% |
| | 2009 | 47 | 29 | 18 | 62% |
| | 2010 | 77 | 60 | 17 | 78% |
| | 2011 | 44 | 32 | 12 | 73% |
| | 2012 | 44 | 36 | 8 | 82% |
| | 2013 | 42 | 39 | 3 | 93% |
| | 2014 | 29 | 24 | 5 | 83% |
| | 2015 | 40 | 37 | 3 | 93% |
| 2006-2015 | | 575 | 436 | 139 | 76% |

Before 1993, a successful election “rolled back” the proposed tax rate increase, so a failed election allowed a higher rate to take effect. After 1993 a failed election rejected the proposed higher tax rate.

School District Tax Rates 2006-2015

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Above \$1.17 M&O Rate | 2 | 4 | 2 | 3 | 3 | 2 | 2 | 2 | 2 |
| # Granting Optional Hmstd Exempt. | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| # Without Optional Hmstd Exempt. | 0 | 2 | 0 | 1 | 1 | 0 | 0 | 0 | 0 |
| \$1.17 M&O Rate | 95 | 143 | 179 | 213 | 249 | 245 | 286 | 283 | 327 |
| # Granting Optional Hmstd Exempt. | 12 | 21 | 27 | 30 | 37 | 37 | 45 | 41 | 46 |
| # Without Optional Hmstd Exempt. | 83 | 122 | 152 | 183 | 212 | 208 | 241 | 242 | 281 |
| \$1.05 - \$1.16 M&O Rate | 24 | 45 | 48 | 56 | 53 | 74 | 65 | 88 | 84 |
| # Granting Optional Hmstd Exempt. | 4 | 9 | 10 | 15 | 15 | 17 | 16 | 24 | 21 |
| # Without Optional Hmstd Exempt. | 20 | 36 | 38 | 41 | 38 | 57 | 49 | 64 | 63 |
| \$1.04 M&O Rate | 699 | 703 | 686 | 655 | 634 | 613 | 577 | 562 | 540 |
| # Granting Optional Hmstd Exempt. | 140 | 145 | 147 | 142 | 140 | 125 | 119 | 114 | 98 |
| # Without Optional Hmstd Exempt. | 559 | 558 | 539 | 513 | 494 | 488 | 458 | 448 | 442 |
| \$1.01 - \$1.03 M&O Rate | 98 | 54 | 42 | 37 | 30 | 28 | 27 | 26 | 23 |
| # Granting Optional Hmstd Exempt. | 22 | 16 | 12 | 10 | 6 | 9 | 6 | 8 | 10 |
| # Without Optional Hmstd Exempt. | 76 | 38 | 30 | 27 | 24 | 19 | 21 | 18 | 13 |
| \$1.00 M&O Rate | 10 | 9 | 12 | 10 | 6 | 9 | 13 | 5 | 4 |
| # Granting Optional Hmstd Exempt. | 2 | 2 | 5 | 3 | 2 | 4 | 5 | 3 | 2 |
| # Without Optional Hmstd Exempt. | 8 | 7 | 7 | 7 | 4 | 5 | 8 | 2 | 2 |
| Below \$1.00 M&O Rate | 98 | 67 | 56 | 50 | 49 | 51 | 50 | 53 | 39 |
| # Granting Optional Hmstd Exempt. | 32 | 23 | 15 | 16 | 16 | 15 | 16 | 18 | 14 |
| # Without Optional Hmstd Exempt. | 66 | 44 | 41 | 34 | 33 | 36 | 34 | 35 | 25 |
| Total School Districts | 1026 | 1025 | 1025 | 1024 | 1024 | 1022 | 1020 | 1019 | 1019 |
| # Granting Optional Hmstd Exempt. | 214 | 218 | 218 | 218 | 218 | 209 | 209 | 210 | 193 |
| # Without Optional Hmstd Exempt. | 812 | 807 | 807 | 806 | 806 | 813 | 811 | 809 | 826 |

Texas' Efforts to Cut the School Property Tax



The Legislature has made a number of efforts to reduce the school property tax over the past 20 years, most of which have had a minimal impact on the growth trajectory of the tax.

In 1997, the state used a surplus of state revenues to increase the mandatory school homestead exemption from \$5,000 to \$15,000. The state incurred an annual cost of \$0.5 billion to replace school district's lost property tax revenues.

In 2000, the state appropriated an additional \$0.5 billion in anticipation that districts would reduce tax rates by \$0.06.

In 2006, the legislature used a combination of surplus funds, franchise tax restructuring, and a tobacco tax increase totaling roughly \$7 billion annually to phase in a 33 percent reduction in school maintenance and operations taxes over a two year period.

In 2015, the Legislature appropriated an additional \$0.6 million on an annual basis to increase the mandatory school homestead exemption from \$15,000 to \$25,000.