

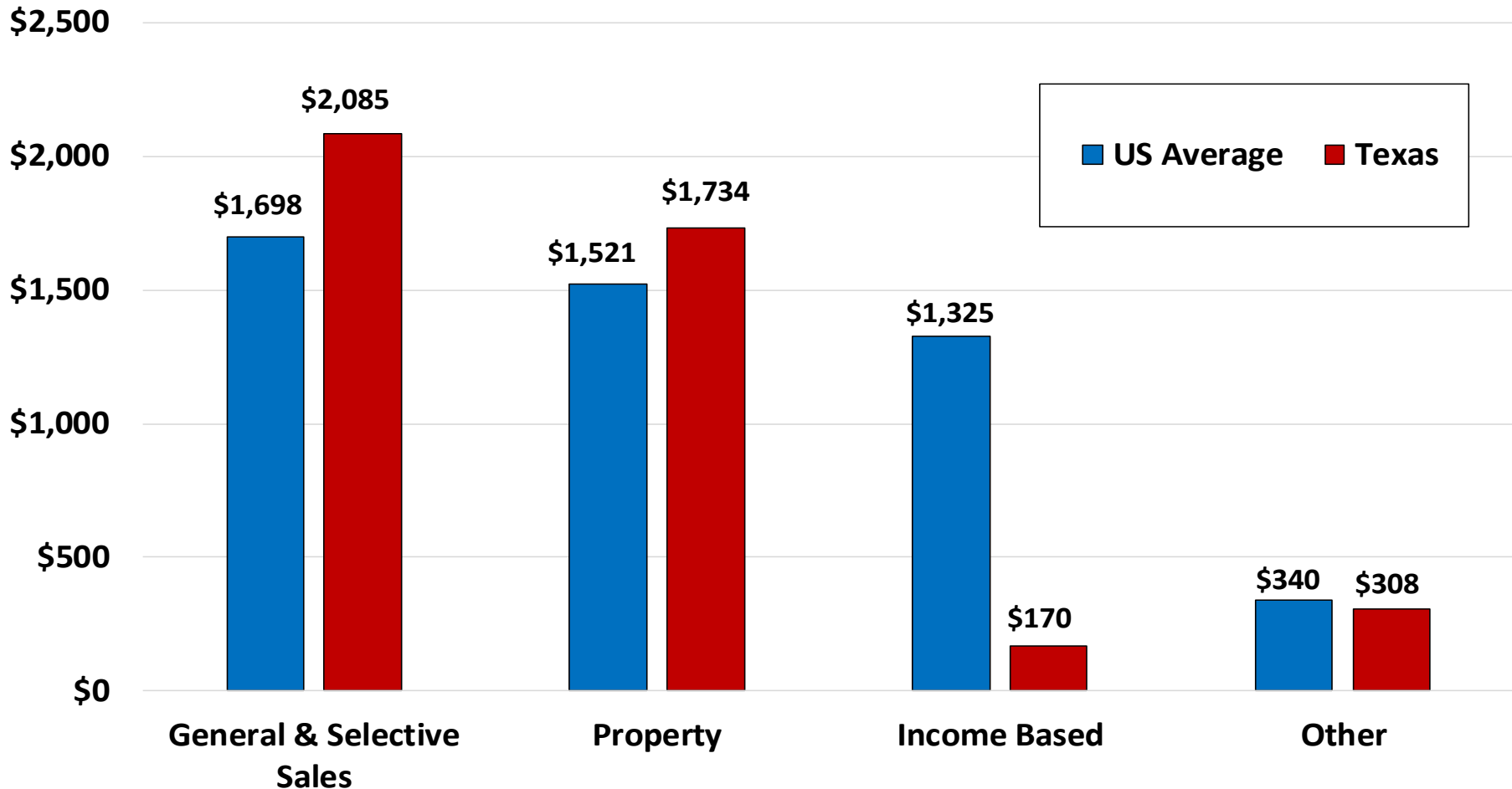
# *Property Taxes and School Finance*

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# State and Local Tax Comparisons

## Texas and the US Average on a per capita basis



# Texas State & Local Taxes

Item	Business	Individuals
Percent of State and Local Taxes Paid, Texas	61.5 %	38.5 %
Percent of State and Local Taxes Paid, Average State	43.9 %	56.1 %
Burden Rank Among the States	20 <sup>th</sup> Highest	47 <sup>th</sup> Highest
Net Tax Burden Relative to Average State	4 % Higher	42 % Lower

# Property Taxes on a \$1 Billion Plant

(25 year lifespan)

Millions of Dollars

\$1,200

\$1,000

\$800

\$600

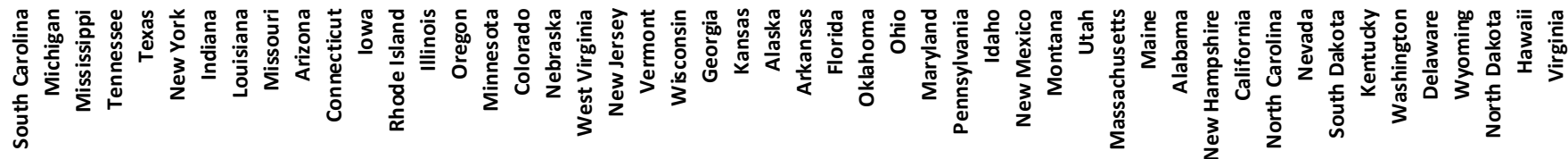
\$400

\$200

\$0

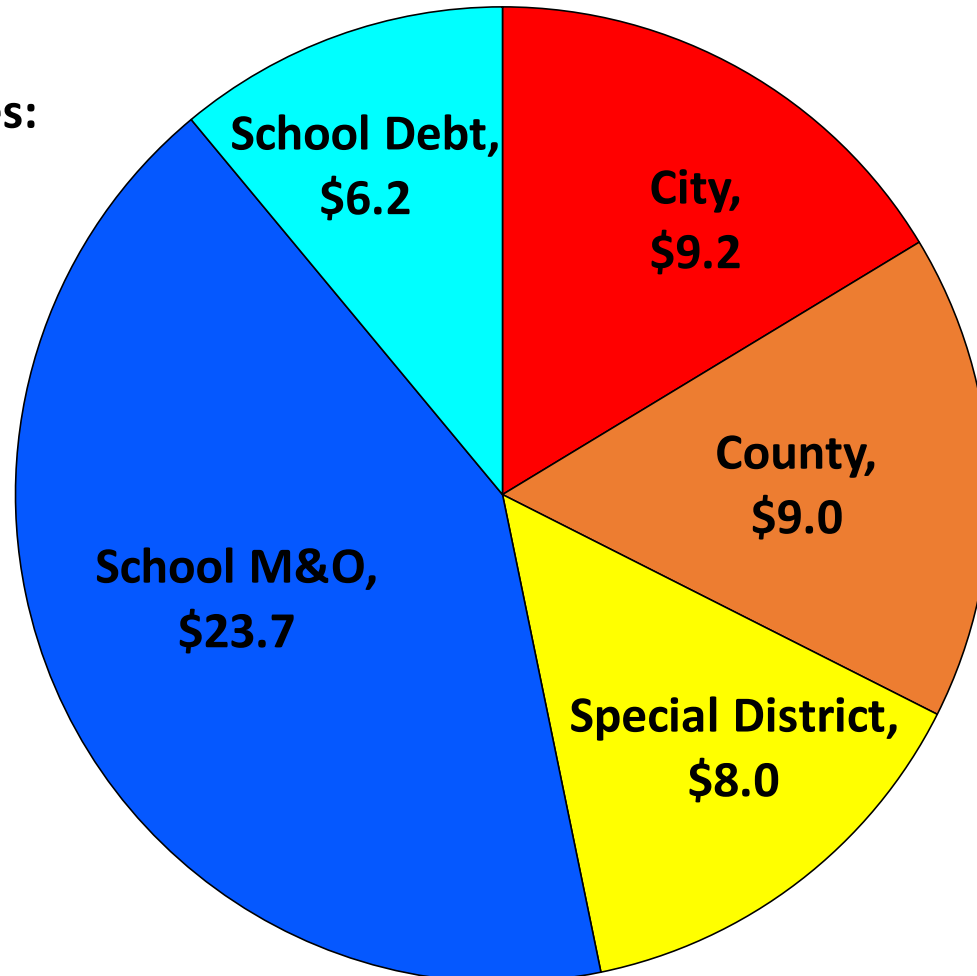
Texas: \$632 million

50 State Average = \$394 million

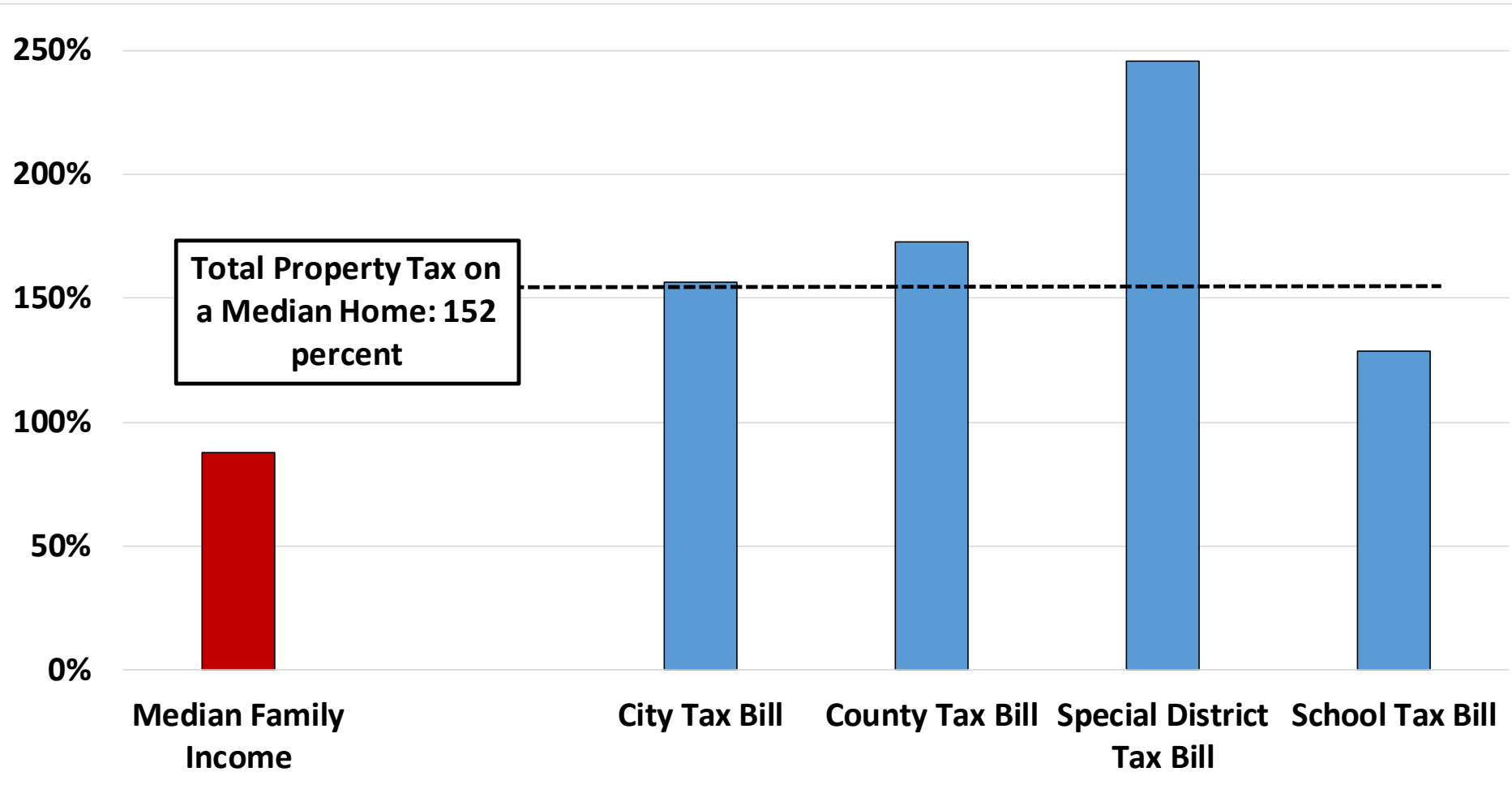


# Texas Property Tax Levy

**Total 2016  
Property Taxes:  
\$56.1 billion**

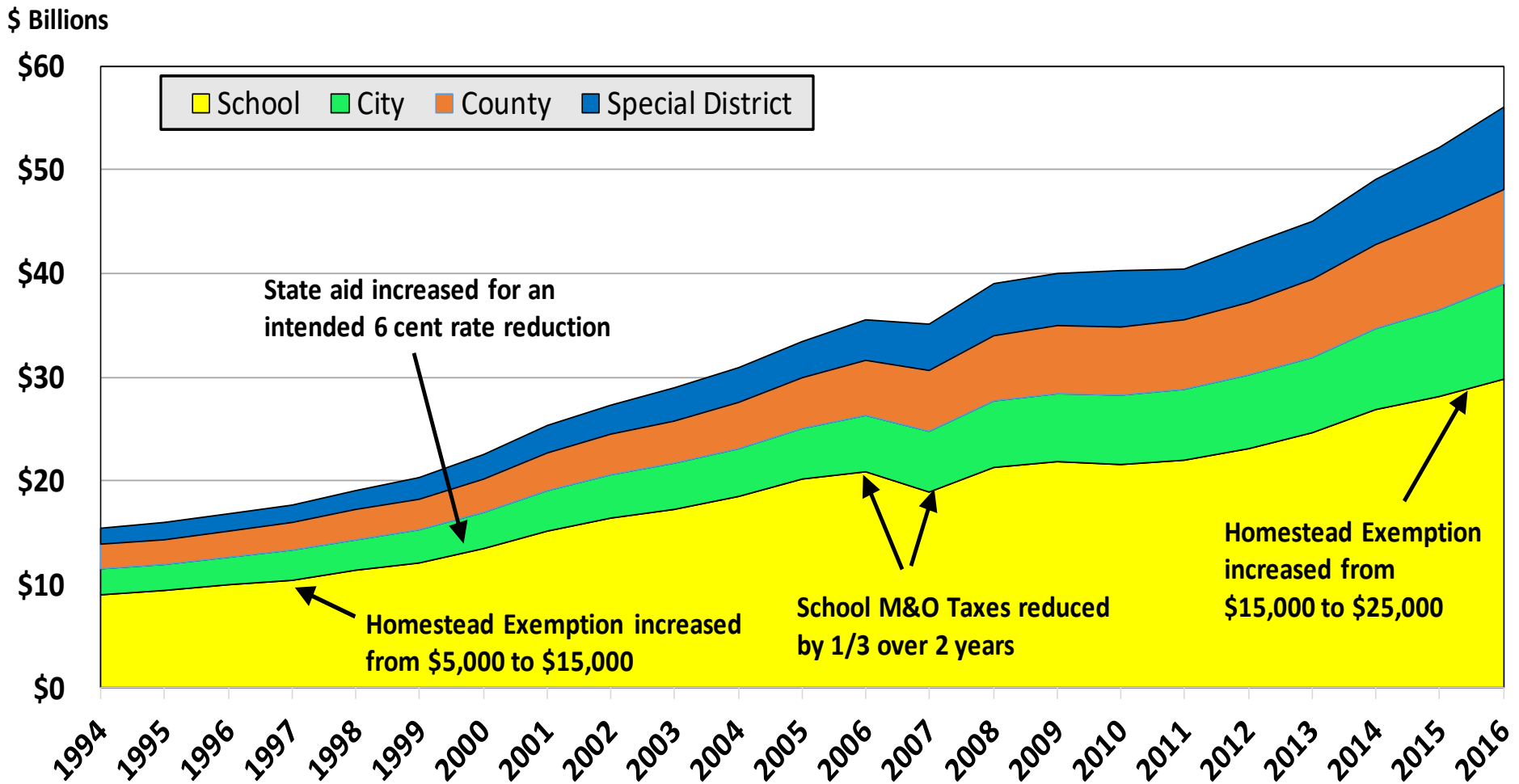


# Property Tax Growth Relative to Median Family Income, 1994-2016

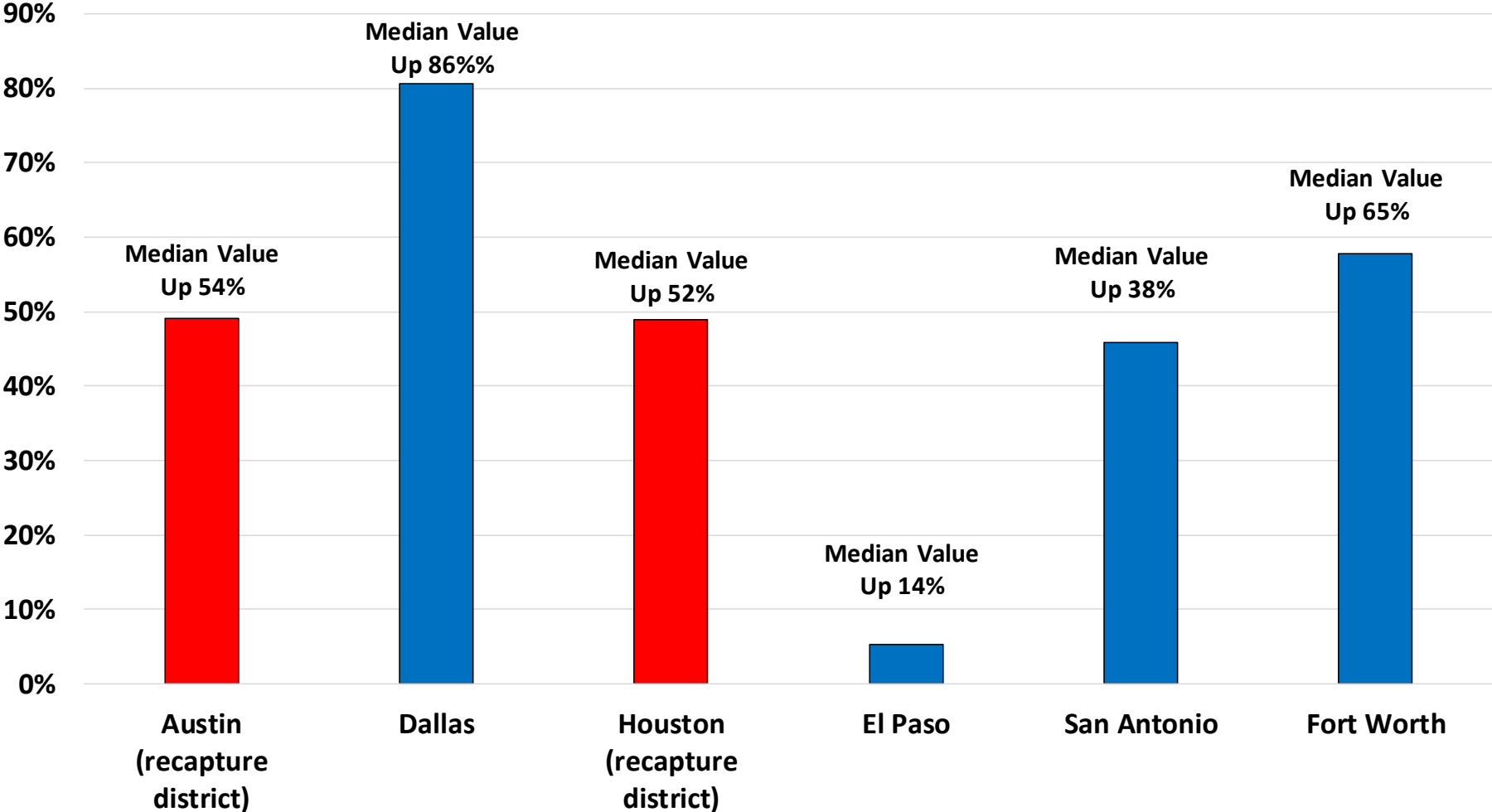


Total Property Tax on a Median Home: 152 percent

# Texas Property Taxes, 1994-2016



# Increase in School M&O Tax Bill, 2011-2017



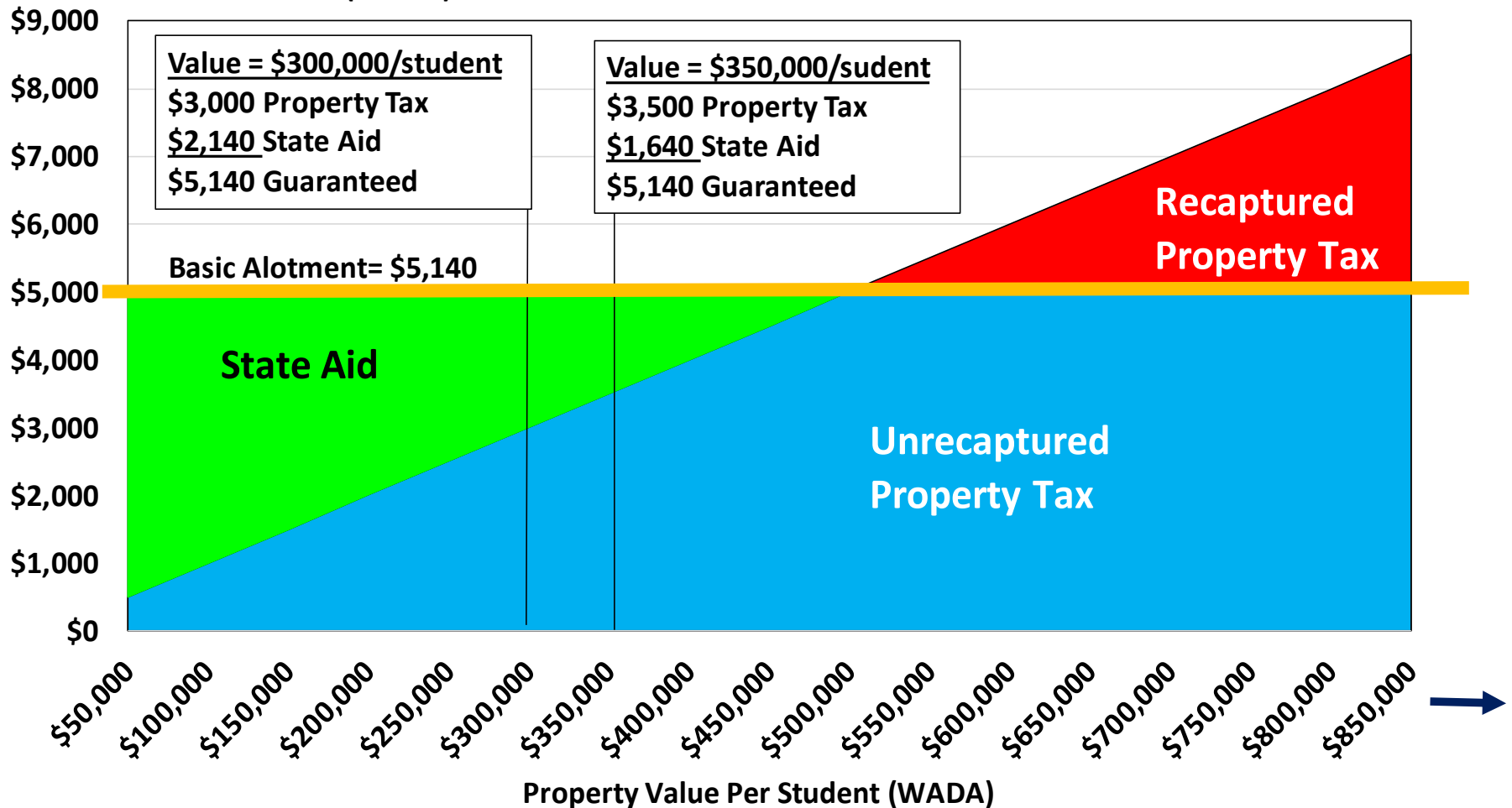


# Property Tax Swap Considerations

- Absent a personal income tax, Texas relies much more heavily on property and sales taxes—taxes of which a large proportion fall on business
- Property taxes in Texas are among the highest in the nation, posing a barrier to:
  - New capital investment and
  - Home ownership
- However, simply swapping the property tax for other taxes that fall heavily on business may do little to improve Texas' tax attractiveness

# An Overly Simplified Picture of the Foundation School Program

Total Revenue Per Student (WADA)



# Basics of How the Property Tax Works in School Finance

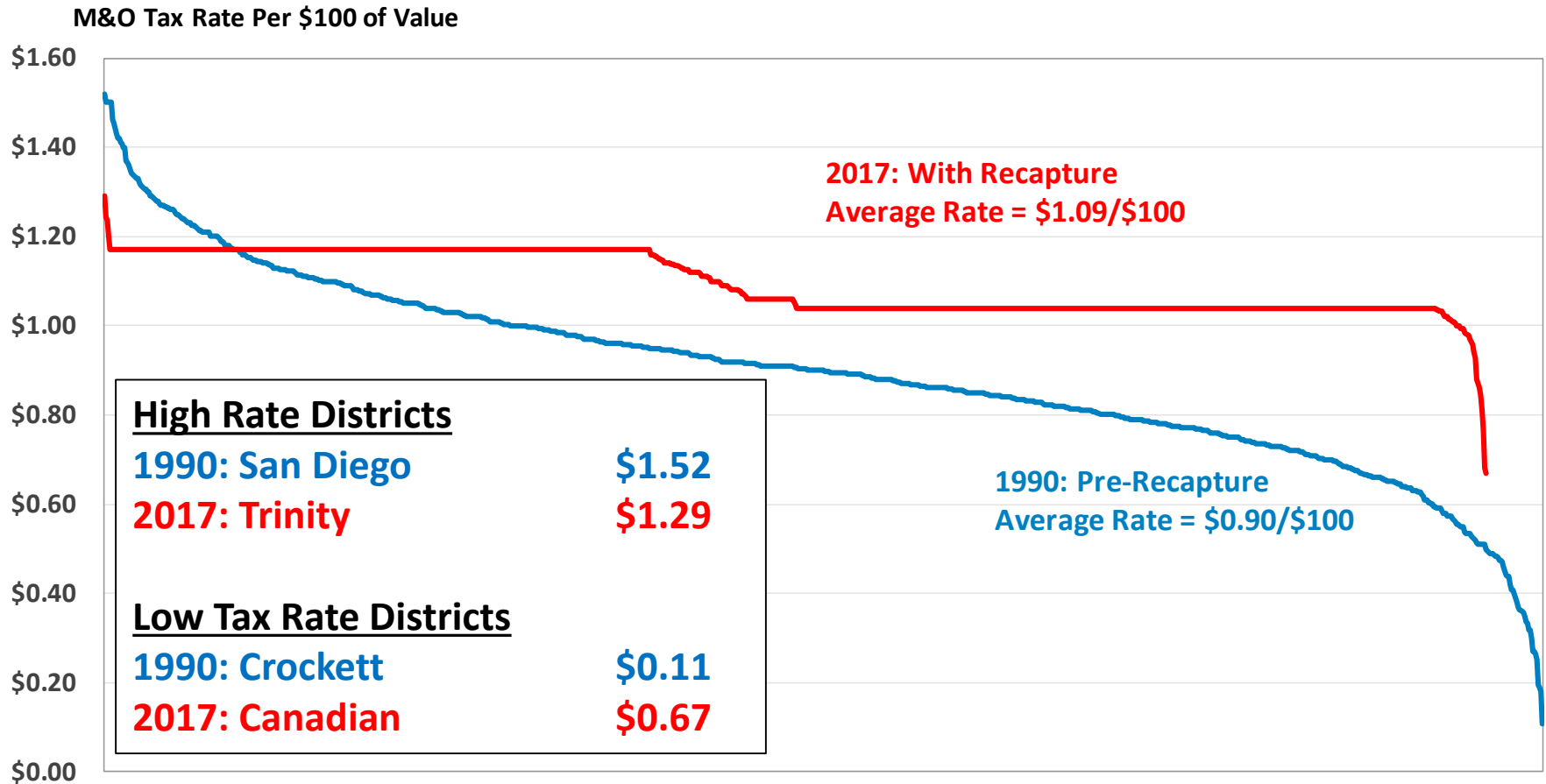
- Districts with higher levels of taxable property wealth per student generate more local property tax dollars, meaning they qualify for less state aid than other districts
- Districts with high levels of taxable property wealth are subject to “recapture” in which they must share a portion of their local tax revenues
- The system is highly equalizing—not only in terms of revenues per student across districts, but also in terms of tax rates across districts

# Equity and Its Consequences

- The current school finance system is working exactly as intended:
  - ✓ Funding across districts is highly equalized
  - ✓ Tax rates across districts are highly equalized

# School M&O Tax Rates

## Pre- (1990) and Post- (2017) Recapture



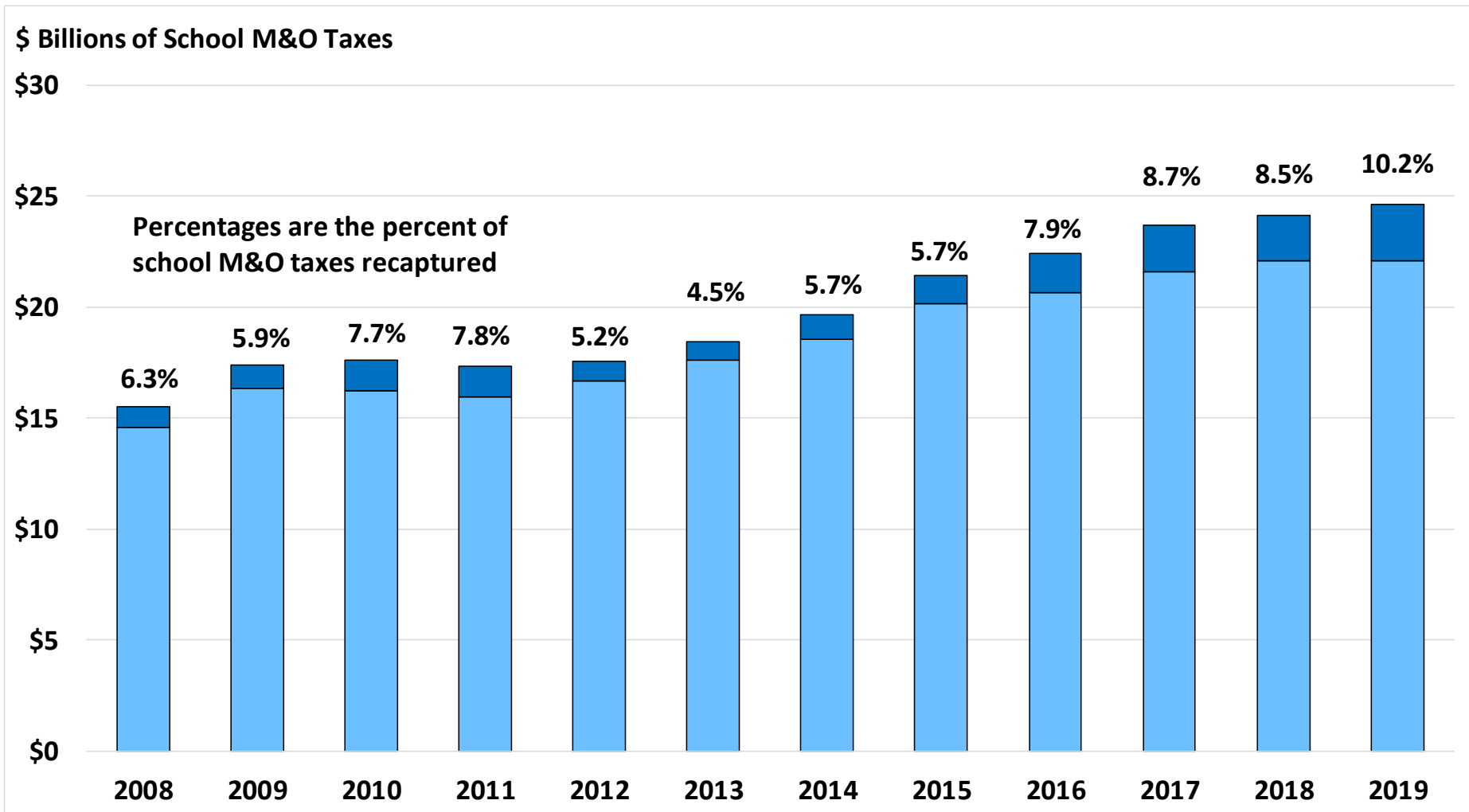
M&O Tax Rates: Highest to Lowest

# Equity and its Unintended Consequences

- Value increases resulting from normal economic growth, makes a district “wealthier” (i.e. property wealth per student)
- As a district becomes “wealthier” it qualifies for less state aid; absent a change in the formulas, state appropriations fall
- Faced with losing state aid, districts maintain their tax rates as property values rise—meaning local school tax bills rise with values
- In effect, rising school property taxes allow the state to spend less

# School M&O Taxes and Recapture

2008 - Current



# Key Elements of the General Appropriations Act Foundation School Program Rider 3

*Out of the funds appropriated above, a total of \$21,468,235,602 in fiscal year 2018 and \$21,503,735,602 in fiscal year 2019 shall represent the sum-certain appropriation to the Foundation School Program.*

*Property values, and the estimates of local tax collections on which they are based, shall be increased by 7.04 percent for tax year 2017 and by 6.77 percent for tax year 2018.*

*For purposes of distributing the Foundation School Program basic tier state aid... the Basic Allotment is established at \$5,140 in fiscal year 2018 and \$5,140 fiscal year 2019.*

*For purposes of distributing the Foundation School Program enrichment tier ... the Guaranteed Yield is \$99.41 in fiscal year 2018 and \$106.28 in fiscal year 2019.*



# Improving the Visibility of School Funding

Expand Rider 3 to include the following:

*For informational purposes, amounts for the Foundation School Program are based on the following sources of revenue:*

<i>Available School Fund No. 002, estimated</i>	<i>\$XXX,XXX</i>
<i>Foundation School Fund No 193, estimated</i>	<i>\$XXX,XXX</i>
<i>Lottery Proceeds, estimated</i>	<i>\$XXX,XXX</i>
<i>Property Tax Relief Fund, estimated</i>	<i>\$XXX,XXX</i>
<i>Local Property Tax Revenues Redistributed through Recapture, estimated</i>	<i>\$XXX,XXX</i>
<i>Local Property Tax Revenues Not Redistributed, estimated</i>	<i><u>\$XXX,XXX</u></i>
<i>Total, Foundation School Program</i>	<i>\$XXX,XXX</i>

# Recommendations

1. Retain the current Tax Ratification Election requirement. It is an effective tool that allows communities to make their own tax decisions.
2. Compress Tier 1 school tax rates:
  - Use statewide value growth to compress the Tier 1 tax rate (i.e. the “compressed tax rate, typically \$1.00 per \$100 of value) rather than to reduce the state share; or
  - Use a portion of recapture to further compress Tier 1 tax rates.
3. Improve tax and fiscal transparency by expanding an informational rider in the budget for the Texas Education Agency on Foundation School Program funding that includes the property tax estimates on which the appropriations are based.