TEXAS TAXPAYERS
TTARA
AND RESEARCH ASSOCIATION

A long-standing legacy in shaping Texas fiscal policy

House/Senate Compromise Could be a Win-Win for Taxpayers

By Dale Craymer
President, Texas Taxpayers and Research Association

Texas legislators will soon roll up their sleeves in special session to tackle property tax reform, just as local taxing districts across the state begin the budget work that will determine how much Texans will pay in property taxes for the coming year.

Ironically, while the Legislature imposes a number of taxes — sales, franchise, severance, etc. — the property tax isn't one of them. The multitude of local governments that levy the property tax include school districts, cities, counties and a plethora of special districts such as junior colleges, hospitals, roads and water and wastewater districts. However, the Legislature can have a tremendous impact on your tax bill because it writes the laws that control how local entities set their property taxes.

While the House and Senate failed to agree during the regular session on how to best improve the property tax system, both offered very thoughtful plans that would have given taxpayers more tools to combat rising tax bills. Texans will — once again — be hoping during the special session for some type of help.

Here's how the current property tax system works. Each spring, a county's appraisal district prepares an estimate of each property's value. Along with that appraisal, taxpayers get a meaningless estimate of their upcoming property tax bill. That estimate is wrong on two counts. First, it's based on a preliminary value. Property owners can protest their appraisals, and the resulting value to which tax rates will apply may be lower. Second, the rates used to calculate the tax estimate are the prior year's rates, not those proposed for the current year. The tax-rate decisions that determine final tax bills don't come until well into summer, long after most people have forgotten what their tax notices said.

Property tax rates aren't permanent — they are set each year. Taxing units start their budget process by calculating an "effective" tax rate — one that would basically raise the same amount of revenue as the previous year. If local property values are rising, the effective tax rate automatically adjusts downward.

Rising values don't drive up your tax bill — city and county officials do, when they decide to raise more revenue by setting tax rates higher than the effective rate.

And they can increase those taxes up to 8 percent before voters may petition for a tax rollback election. That growth rate was set in 1981, when inflation was in double digits. At the time, it was a meaningful constraint on local budgets. Now, with inflation at a trickle, an 8 percent tax increase is huge. And if voters want to challenge an increase, the petition requirements to spark a tax election are daunting, allowing just 90 days to gather signatures from 7 percent to 10 percent of a jurisdiction's registered voters.

The Senate-passed bill would have lowered the rollback rate to 5 percent and replaced the petition requirements with an automatic ratification election. Most local governments are fiscally prudent, and the 5 percent may not be a continual constraint for them; however, for some jurisdictions it will encourage greater frugality. More importantly, it would give taxpayers a valuable say in those years when jurisdictions may want to pursue extraordinary increases. It forces governments to make their case to the people who have to pay the bills, and then gives people the opportunity to vote.

The House-passed bill did not address the rollback limits, but instead provided a valuable new tool for those citizens who choose to be involved. The House proposed a new tax notice based on a property's final value and on the actual tax rates jurisdictions propose to adopt. For the first time, taxpayers could directly see how much their tax bills are affected by each jurisdiction's budget choices. Armed with that information, they could then contact their local officials directly or attend tax rate hearings and voice their opinions.

The truth is neither the Senate nor the House plan — had they passed — would have cut your property taxes. And neither would have addressed school finance, the biggest driver of rising property tax bills. But that wasn't the ultimate goal. The goal was to protect against future tax increases, but that involves you, the taxpayer, playing a role. In combination, the House and Senate approaches would have given taxpayers valuable new tools to use to get involved in the process in an informed way.

Now is the time for you to act on two fronts to determine how the size of the property tax checks you'll be writing in the years to come. First, encourage your legislators during special session to come to an agreement on these meaningful property tax reforms. And second, actively participate in the coming weeks as local governments set their tax rates for the coming year.

Both could have a big impact on your wallet.

Dale Craymer is president of the Texas Taxpayers and Research Association (www.ttara.org), a non-profit, membership-supported organization of businesses and individuals interested in the state and local fiscal policies in Texas and the way those policies impact the economy.

- ## -