Property Taxes and School Finance

Dale Craymer
Texas Taxpayers and Research Association
dcraymer@ttara.org
(512) 472-8838
State and Local Tax Comparisons
Texas and the US Average on a per capita basis

General & Selective Sales: $1,698 (US Average), $2,085 (Texas)
Property: $1,521 (US Average), $1,734 (Texas)
Income Based: $1,325 (US Average), $170 (Texas)
Other: $340 (US Average), $308 (Texas)
# Texas State & Local Taxes

<table>
<thead>
<tr>
<th>Item</th>
<th>Business</th>
<th>Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of State and Local Taxes Paid, Texas</td>
<td>61.5 %</td>
<td>38.5 %</td>
</tr>
<tr>
<td>Percent of State and Local Taxes Paid, Average State</td>
<td>43.9 %</td>
<td>56.1 %</td>
</tr>
<tr>
<td>Burden Rank Among the States</td>
<td>20\textsuperscript{th} Highest</td>
<td>47th Highest</td>
</tr>
<tr>
<td>Net Tax Burden Relative to Average State</td>
<td>4 % Higher</td>
<td>42 % Lower</td>
</tr>
</tbody>
</table>
Property Taxes on a $1 Billion Plant
(25 year lifespan)

Texas: $632 million

50 State Average = $394 million
Texas Property Tax Levy

Total 2016 Property Taxes: $56.1 billion

- **School M&O**, $23.7 billion
- **School Debt**, $6.2 billion
- **City**, $9.2 billion
- **County**, $9.0 billion
- **Special District**, $8.0 billion

Texas Taxpayers and Research Association (TTARA)
Property Tax Growth Relative to Median Family Income, 1994-2016

Total Property Tax on a Median Home: 152 percent
Texas Property Taxes, 1994-2016

- Homestead Exemption increased from $5,000 to $15,000
- School M&O Taxes reduced by 1/3 over 2 years
- State aid increased for an intended 6 cent rate reduction
- Homestead Exemption increased from $15,000 to $25,000
Increase in School M&O Tax Bill, 2011-2017

- Austin (recapture district): Median Value Up 54%
- Dallas (recapture district): Median Value Up 86%
- Houston (recapture district): Median Value Up 52%
- El Paso: Median Value Up 14%
- San Antonio: Median Value Up 38%
- Fort Worth: Median Value Up 65%
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:
  o New capital investment and
  o 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)

<table>
<thead>
<tr>
<th>Property Value Per Student (WADA)</th>
<th>Value = $300,000/student</th>
<th>Value = $350,000/student</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000</td>
<td>$3,000 Property Tax</td>
<td>$3,500 Property Tax</td>
</tr>
<tr>
<td>$100,000</td>
<td>$2,140 State Aid</td>
<td>$1,640 State Aid</td>
</tr>
<tr>
<td>$150,000</td>
<td>$5,140 Guaranteed</td>
<td>$5,140 Guaranteed</td>
</tr>
<tr>
<td>$200,000</td>
<td>Basic Alotment = $5,140</td>
<td></td>
</tr>
<tr>
<td>$250,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$300,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$350,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$400,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$450,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$500,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$550,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$600,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$650,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$700,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$750,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$800,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$850,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

State Aid

Unrecaptured Property Tax

Recaptured Property Tax
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 Rate Per $100 of Value

2017: With Recapture
Average Rate = $1.09/$100

High Rate Districts
1990: San Diego $1.52
2017: Trinity $1.29

1990: Pre-Recapture
Average Rate = $0.90/$100

Low Tax Rate Districts
1990: Crockett $0.11
2017: Canadian $0.67

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

$ Billions of School M&O Taxes

Percentages are the percent of school M&O taxes recaptured

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>6.3%</td>
<td>5.9%</td>
<td>7.7%</td>
<td>7.8%</td>
<td>5.2%</td>
<td>4.5%</td>
<td>5.7%</td>
<td>5.7%</td>
<td>7.9%</td>
<td>8.7%</td>
<td>8.5%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

The chart above shows the billions of school M&O taxes and the percentages recaptured from 2008 to 2019.
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:

- Available School Fund No. 002, estimated: $XXX,XXX
- Foundation School Fund No 193, estimated: $XXX,XXX
- Lottery Proceeds, estimated: $XXX,XXX
- Property Tax Relief Fund, estimated: $XXX,XXX
- Local Property Tax Revenues Redistributed through Recapture, estimated: $XXX,XXX
- Local Property Tax Revenues Not Redistributed, estimated: $XXX,XXX
- Total, Foundation School Program: $XXX,XXX
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.