
Recapture from the Taxpayer's Perspective

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TEXAS TAXPAYERS
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Shifting Responsibilities in Funding:

Foundation School Program Maintenance and Operations Revenues

| | 2018-19 | 2020-21 | Change |
|--|------------------|------------------|-----------------|
| Local Property Tax (includes amounts recaptured shown below) | \$52.8 bl | \$60.2 bl | \$7.4 bl |
| State General Revenue Funding | \$37.0 bl | \$33.5 bl | (\$3.5 bl) |
| Total School M&O Funding | \$89.8 bl | \$93.7 bl | \$3.9 bl |

Item of Information:

Recaptured Property Tax

\$4.6 bl

\$6.9 bl

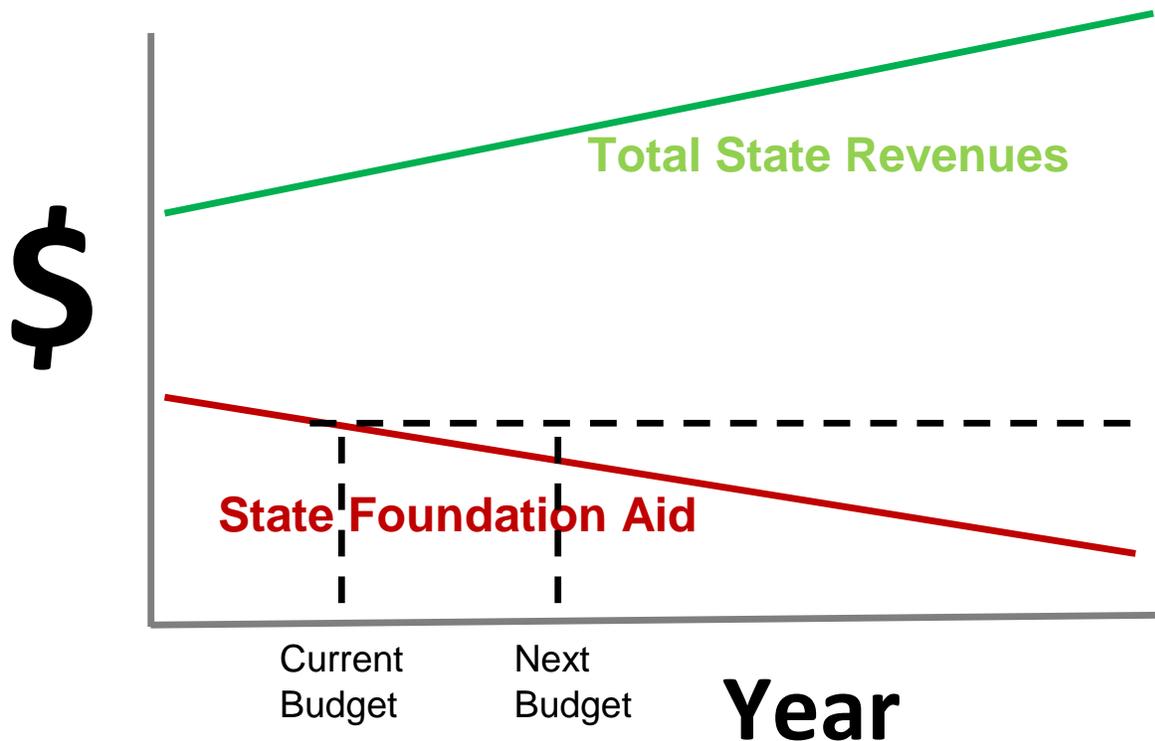
\$2.3 bl

Note: State General Revenue funding for maintenance and operations is from the 2020-21 Budget Request from the Texas Education Agency. Property tax amounts are estimated based on the value growth assumptions stated in the agency's budget request. Tax rates are assumed to be constant. The total shown is not as would be calculated by the Foundation School Program formulas, as the FSP use prior, not current, year's property values. Recapture amounts are as estimated by the agency.

The 2020-21 Budget Request from the Texas Education Agency would fully fund current law requirements for the formulas of the Foundation School Program — including enrollment growth—while spending \$3.5 billion *less* in state general revenue. This reduction in state aid is driven by rising property values, projected to increase at an annual rate of 6.77 percent, and a projected increase in state revenue from recapture of \$2.3 billion.

Public school finance is a shared responsibility of the state and local school districts. Essentially, any period in which property values rise at a rate greater than enrollment growth, the local share (and property taxes) will increase, while the state share will decrease.

Foundation School Funding in the State Budget



Over time, state revenues trend upward as the economy grows (there can, however, be substantial fluctuations across years). As the economy grows, local property values rise, which under the formulas of the Foundation School Program, place a greater burden on local property owners to finance schools through their property taxes, while reducing the demands on state aid.

In effect, in periods of positive economic growth, the school finance system generates substantial savings (and, in the case of recapture, substantial revenue gains) for the state budget.

These savings have allowed the legislature on occasion to increase school funding— sometimes increasing overall funding per student and sometimes reducing property taxes.

The Supreme Court on Taxes and Revenue

*“There must be a direct and close correlation between a district’s tax effort and the educational resources available to it; in other words, districts must have substantially equal access to similar revenues per pupil **at similar levels of tax effort.**”*

Texas Supreme Court, Edgewood I, October 2, 1989

*“To be efficient, a funding system that is so dependent on local ad valorem property taxes must draw revenue from all property **at a substantially similar rate.**”*

Texas Supreme Court, Edgewood II, January 22, 1991

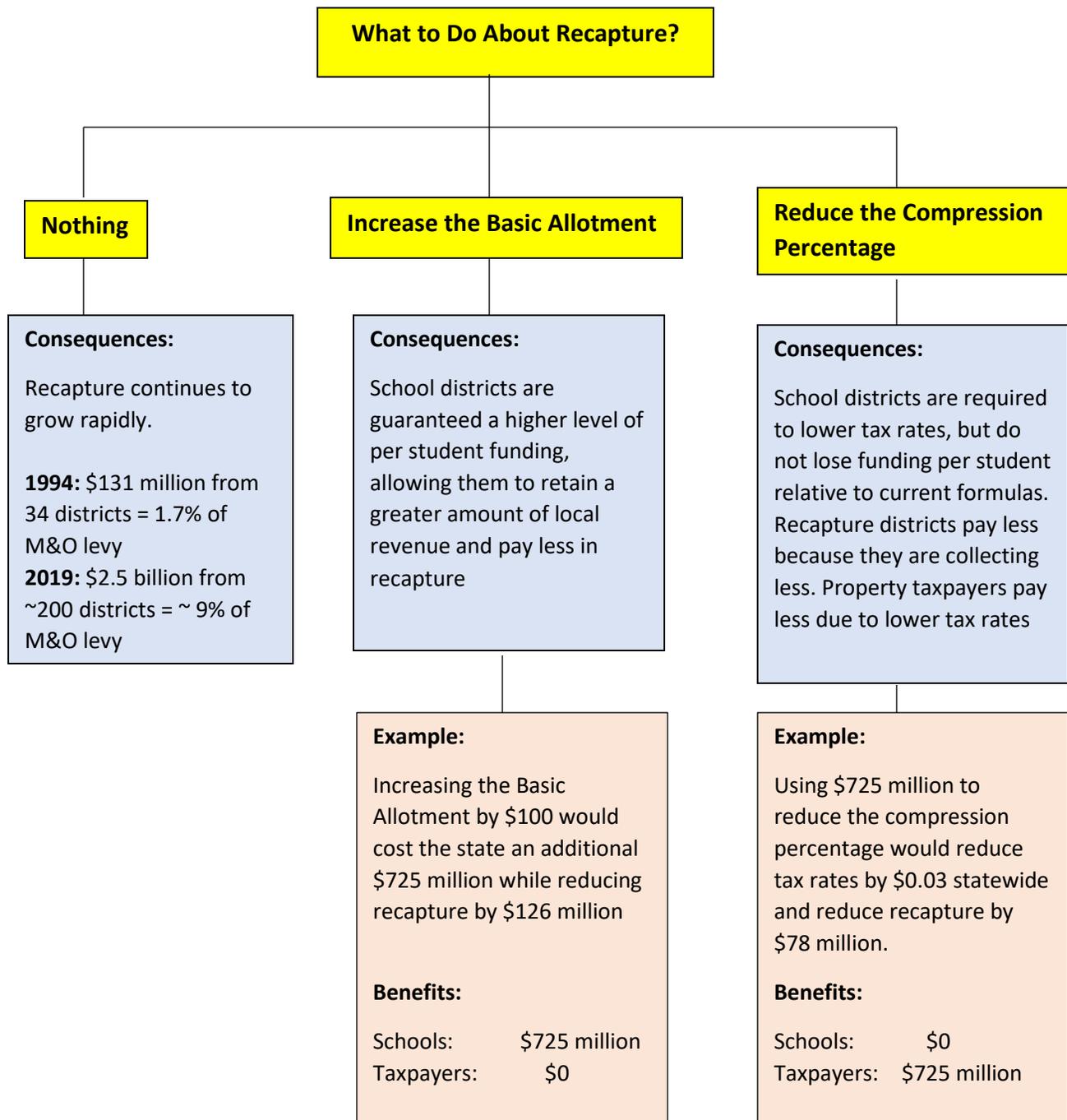
***Our basic framework for deciding this issue has not changed** since Edgewood I, where we held that “districts must have substantially equal access to similar revenues per pupil at similar levels of tax effort.”*

Texas Supreme Court, Morath vs. Texas Taxpayer and Student Fairness Coalition et. al, May 13, 2016

Conclusions Drawn from the Court’s Rulings

- School finance must be equitable—not only access to funding per student, but also the tax rates to generate that level of funding. State law may not give a financial advantage to one district over another, either:
 - By allowing one district to have substantially more revenue than another while both have similar tax rates, or
 - By allowing one district to have the same revenue as another while levying a substantially lower tax rate.
- If the property tax is to be used as a major revenue source to finance public schools, recapture is necessary to equalize access to revenues at similar levels of tax effort due to the widely varying range of property tax bases across school districts.

Recapture Options within a Property Tax-Based System



Conclusions/Recommendations

1. Reducing recapture does not by itself provide property tax relief. You can provide property tax relief depending on HOW you reduce recapture. Increasing the basic allotment reduces recapture, but does nothing to reduce property taxes. Reducing the compression percentage does provide tax relief, although the cost of doing so is substantially greater than the amount of recapture relief.

Changes in values should be used to adjust the compression percentage so that as values per student rise, the compression percentage declines by a corresponding amount. This would:

- essentially preserve the current state/local split,
 - substantially limit the increase in local school property tax bills, providing relief from the impact rising property values currently have on local property tax bills,
 - be conceptually similar to the current system of Truth-in-Taxation that applies to growth in city/county/special district property taxes.
2. Use some or all revenue from recapture to reduce the compression percentage, providing relief against rising property tax bills to all property owners by reducing tax rates uniformly statewide. Potential options:
 - Dedicate any future growth in revenue from recapture to reducing the compression percentage, or
 - Dedicate some percentage of revenue from recapture to reducing the compression percentage.
 3. A rider should be included in the appropriations bill that clearly shows the sources of revenue to the Foundation School Fund separately for both maintenance and operations and facilities/debt service, for the period covered by the bill and the preceding budget period, including:
 - General Revenue Funds
 - Local Property Taxes not Recaptured
 - Recaptured Property Tax (M&O only)