TEXAS PUBLIC POLICY FOUNDATION
Testimony

November 13, 2018
Center for Economic Prosperity

Eliminating School M&O Property Tax in Texas

Testimony before the Texas School Finance Commission's Revenue Working Group

by Vance Ginn, Ph.D.

Chairman Bettencourt and Members of the Committee:

My name is Dr. Vance Ginn, and I am the director of the Center for Economic Prosperity and senior economist at the Texas Public Policy Foundation, a 501(c)(3) non-profit, non-partisan free-market think tank based in Austin. Thank you for inviting me to testify today on eliminating the school maintenance and operations (M&O) property tax in Texas.

Texas' property tax system has turned property owners into renters, where government is their landlord and Texans who struggle to pay annual tax bills face confiscation of their properties. Additionally, the growth of government is harming taxpayers and the economy through higher taxes and more regulation. Texans can cut property taxes in nearly half within about 11 years by eliminating district-level taxes for school M&O. We can do this by restraining state and local spending growth and using the surplus revenue produced by this to eliminate the school M&O property tax. Every dollar not spent by the state will produce a 90-cent property tax cut for Texans.

The Details

- School district M&O property tax collects about $25 billion in 2018 or $51.3 billion in 2018-19, making up nearly one-half of the heavy property tax burden Texans face.
- Historical state general revenue-related revenue (GRR) growth has averaged 10.08 percent every biennium since 2004-05.
- Future state spending increases will be limited to 4 percent per biennium. Ninety percent of the surplus between future GRR growth and the spending growth limit will be used to eliminate the school M&O property tax, with the state increasing state education funding each year to gradually replace the M&O portion of each local school district's property tax revenue.
- School districts will set their tax rate each year to reduce property tax revenue by the amount of the state's replacement funding. Districts can only exceed this rate with the approval of more than 50 percent of voters in an election with at least a 20 percent turnout. Excess revenue raised by the vote will be recaptured by the state.
- Increases in city, county, and special purpose district property tax revenue will be limited to 2.5 percent per year to keep local governments from raising taxes to fill the gap caused by lower school district taxes. The limit can be exceeded with the approval of 50 percent of voters in an election with at least a 20 percent turnout.
- If the historical rate of GRR growth holds, Texas should be able to eliminate the property tax in 11 years. If GRR growth is lower, then it will take longer.

11-Year School M&O Property Tax Replacement Scenario – in thousands of dollars

	2020-21	2022-23	2024-25	2026-27	2028-29	2030-31
GRR Revenue (10.08% increase)	118,146,662	130,055,845	143,165,475	157,596,555	173,482,287	190,969,302
New GRR Available for State Spending (4% increase)	4,293,120	4,464,844	4,643,438	4,829,176	5,022,343	5,223,236
New GRR Property Tax Replacement Payment	5,872,988	7,287,203	8,348,291	9,476,542	10,724,704	12,109,870
Property Tax Replacement %	11.5%	16.1%	21.9%	31.8%	52.6%	100%
School M&O Property Taxes	45,402,951	38,115,747	29,767,455	20,290,913	9,566,208	0

continued

Previous Attempts at Property Tax Relief

1997—Raising the Homestead Exemption by $10,000

Gov. George W. Bush and the 75th Legislature attempted to reduce the rising property tax burden in the 1990s. Legislators passed a constitutional amendment, and 94 percent of voters approved it (Ballotpedia 2018a). The amendment raised the school district homestead exemption from $5,000 to $15,000. It also adjusted the school district tax freeze for homeowners 65 and older so they would benefit from the higher tax exemption (HJR 4). The fiscal note on the enabling legislation HB 4 notes this increase in the homestead exemption could result in an expected $1 billion property tax reduction. The legislation also raised the basic allotment in the school finance formulas by $9 to $2,396. The state held schools harmless from this increased cost by spending more state dollars and raising the Texas Lottery surcharge. The property tax changes were made retroactive starting January 1, 1997. This effort likely lowered property taxes for those with a homestead, but property taxes overall actually increased. The total property tax levy is up 218 percent since this failed effort.

2006—The Property Tax-Franchise Tax Swap

In 2005, the Texas Supreme Court ruled the school finance system unconstitutional. The Texas Legislature responded by increasing the business franchise tax, the motor vehicle sales tax, and taxes on tobacco products (Haney) and by using the revenue to increase state funding for public schools and temporarily reducing property taxes. However, the total property tax levy only declined by a little more than $400 million in 2007 and jumped by almost $5 billion over the next two years, despite the fact that the Legislature sent an additional $14 billion of taxpayer funds to public schools for the 2008-09 school years (LBB 2012, 2). So instead of meaningful tax relief, the result was an increase in property taxes and state taxes in order to increase total public education spending (Ginn and Matthews, 2). The property tax burden has grown by 58 percent since 2006 from higher tax rates and appraisal values.

2015—Raising the Homestead Exemption by $10,000

In 2015, the Texas Legislature passed a joint resolution, and voters overwhelmingly approved SJR 1 to increase the homestead exemption for school districts by $10,000 to $25,000. The Legislature held school districts harmless by compensating them with state funds for any loss in property tax revenues. This provided no tax relief for Texas taxpayers in general. Instead, school property taxes increased by almost $1.7 billion and overall property taxes increased by almost $4 billion.

Tax Year (Thousands of $)	Special Districts	County	City	School Districts	Total Property Tax Levy
1997	$1,759,623	$2,658,308	$2,847,081	$10,394,500	$17,659,513
1998	$1,889,138	$2,828,287	$3,005,996	$11,334,614	$19,058,036
⋮	⋮	⋮	⋮	⋮	⋮
2006	$3,972,186	$5,339,614	$5,322,986	$20,918,122	$35,552,907
2007	$4,513,060	$5,863,990	$5,890,307	$18,874,240	$35,114,597
2008	$4,952,735	$6,342,705	$6,451,012	$21,233,517	$38,979,970
⋮	⋮	⋮	⋮	⋮	⋮
2015	$6,954,137	$8,696,387	$8,380,436	$28,176,466	$52,207,427
2016	$8,031,408	$9,027,418	$9,165,214	$29,856,268	$56,080,308
Average Annual Change (1996-2016)	8.2%	6.6%	6.3%	5.8%	6.3%

Thank you for your time and the work you do, and I look forward to continued discussion on this topic.

Vance Ginn, Ph.D., *is director of the Center for Economic Prosperity and senior economist at the Texas Public Policy Foundation. He is an expert on fiscal, trade, and labor market issues with research to let people prosper in their unique way by removing government barriers in Texas, D.C., and beyond.*