

Economist M. Ray Perryman Criticizes Revenue Caps

Economist Dr. Ray Perryman has completed an economic study on the effects of appraisal and revenue caps upon local governments and the state's economy. The study shows that revenue and appraisal caps:

- Restrict the flexibility of local governments to respond to changing needs, emergency situations and state and federal mandates;
- Bear no relation to the legitimate demand for costs of public services provided by local governments, such as demographic shifts and industrial development;
- Particularly constrain the capacity of high-growth areas to meet service and infrastructure needs;
- Adversely impact bond ratings, thus limiting governments' ability to meet vital infrastructure needs while increasing costs for such services;
- Create a ratcheting down of revenue generating capacity in times of weak economic growth; and
- Depress property values.

The Perryman study found that revenue caps create further difficulties, including:

- The Consumer Price Index (CPI) – being touted as the index to use for revenue caps – is not a reliable indicator of the cost of government services because it measures such goods as food, clothing and items purchased typical individual and family consumers; and
- Revenue caps typically result in substantial increases in state funding of local services, and this is not contemplated by state leaders pushing for revenue caps.

In the most recent edition of Dr. Perryman's well-established column that runs in numerous Texas newspapers, the prize-winning economist discussed his study and wrote: "Texas cities and counties vary markedly in their characteristics, their needs and their capacity to generate tax revenue under various structures. Another problem is that property values are particularly prone to cycles, both in the general economy and in the real estate market. When revenue or appraised values drop, the newer lower level becomes the base from which future expansion is calculated. A tax structure that resets the base at the trough of every cycle will inevitably fail to adequately provide for local needs over an extended time horizon."

Perryman's 87-page report summarizes:

"Appraisal caps and other limits have created substantial problems in providing adequate revenues in states where they have been implemented, resulting in major disparities among taxpayers, increases in other taxes, and significant increases in state transfers to local governments. They also have distorted economic behavior and limited growth potential..."

"...Artificial limits on the flexibility of local governments to provide for the legitimate and expanding requirements of their citizens are contrary to basic principles of optimality, can generate substantial inequities, and needlessly reduce the capacity of local governments to function effectively and efficiently."

The full study is available by clicking [here](#).

(Prepared for county officials by the Texas Association of Counties)