

## What Kinds of Caps Are We Talking About?

There are three basic types of caps that have been or currently are under consideration in Texas. They are appraisal caps, revenue caps and a special type of revenue cap modeled after Colorado's Taxpayer's Bill of Rights (TABOR).

**Appraisal caps** limit the annual increase in value of real property growth of appraisals in areas experiencing high growth in real estate values. An example is the current limit where homestead appraisals can go up by no more than 10 percent between appraisals in Texas regardless of the actual increase in value. This cap obviously benefits homeowners more than other property owners such as businesses. It also provides no relief to homeowners in areas where the property is not increasing in value or where the value is only increasing very slowly. It penalizes new homeowners, whose property taxes are based on actual market value instead of an arbitrarily lowered value.

**Local option appraisal caps** convey the authority to impose lower appraisal caps upon local taxing entities without solving the problems of inequality inherent in any artificial caps on property value. State enactment of local option appraisal caps is simply shifting bad public policy to the local level.

**Revenue caps** come in a number of different packages. Some revenue caps, such as TABOR, limit the increase in total revenue, while other revenue caps only provide limits on specific revenue sources while leaving the growth of other revenue streams unchecked. Texas counties currently have a limited revenue cap in place that restricts the growth of property tax levies. Property tax rates are restricted to no more than an 8 percent increase. If a county attempts to collect more than 8% more property taxes than they collected in the previous year (on properties that existed in both years) then a petition may be circulated and, once enough signatures are gathered, the county must hold a rollback election. If successful, the tax rate is rolled back and the county must find alternative revenues or start cutting the budget.

**The Colorado Taxpayer's Bill of Rights (TABOR)** is a particularly restrictive form of revenue cap on both the state and local governments. Its primary feature is that it places a hard limit on the total revenue instead of just property taxes. If the taxing

## What Kind of Caps?

Page 2

entity collects too much total revenue, the excess money must be returned to the taxpayer. If the taxing entity desires to keep the excess money, there must be an election (paid for by the taxpayers). No petition is required; the election is automatic. Depending on the outcome of the vote, the excess revenue is either retained by the taxing entity or returned to the taxpayer.

What Kind of Caps?  
Page 3