

# TEXAS ASSOCIATION *of* COUNTIES

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Information for County Officials

## What's Really Wrong with the Property Tax System and Why Caps Won't Help

*(Excerpted from 2004 Interim Study by the House Committee on Local Government Ways & Means)*

Appraisal caps have been an issue because local property taxes continue to climb. Some observers believe that the vast majority of local governments in Texas are engaged in wasteful spending and are generating revenue through "appraisal creep" and not through open, visible property tax increases. The two fundamental problems with the property tax system in Texas cannot be solved through the imposition of appraisal caps. Those two fundamental problems are:

1. The State of Texas relies very heavily on local governments (school districts, cities, and counties) to generate the revenue needed to pay for public goods and services that citizens want and need.
2. Local governments rely very heavily on property taxes for revenue.

### The State's Dependence on Local Governments

Compared to other states, Texas relies heavily on local governments to raise the revenue necessary for public goods and services. This is especially true of public education, of course, but it is also true in the areas of public safety, transportation, indigent health care, operation of our courts, and much more.

The chart below has figures from 2000. The figures show that almost all the other populous states rely more heavily on state spending than does Texas. If the total per capita spending by the state and local governments in Texas (\$6,179) were to be split according to the national average (45.9 percent local and 54.1 percent state), the Texas state share would increase by \$312 per capita annually: a total of more than \$6.5 billion each year. The need for local spending would be reduced by an equivalent amount.

<u>Ten Most Populous States</u>			
	<u>Per Capita Local Government Expenditures</u>	<u>Per Capita State Government Expenditures</u>	<u>Percent Local</u>
California	\$4,434	\$4,936	47.3 percent
<b>Texas</b>	<b>\$3,148</b>	<b>\$3,031</b>	<b>50.9 percent</b>
New York *	\$5,872	\$5,588	51.2 percent

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Florida	\$3,324	\$3,073	52.0 percent
Illinois	\$3,667	\$3,609	50.4 percent
Pennsylvania	\$3,188	\$4,187	43.2 percent
Ohio	\$3,251	\$4,205	43.6 percent
Michigan	\$3,620	\$4,663	43.7 percent
Georgia	\$3,149	\$3,319	48.7 percent
New Jersey	\$3,398	\$4,428	43.4 percent
U.S. Average	\$3,530	\$4,162	45.9 percent
* New York statistics are skewed by New York City's immense size.			

### Local Government's Dependence on the Property Tax

Local governments in Texas rely very heavily on the property tax to fund their services and facilities. This is especially true of schools, less true of counties, and even less true of cities. The fact is the local governments in Texas don't have diversified revenue sources, largely because the legislature hasn't allowed for more revenue sources, particularly state aid.

### Bottom Line

When we put these two facts together (heavy state reliance on local governments and heavy local reliance on the property tax), it should come as absolutely no surprise to anyone that there is constant, upward pressure on local property taxes.

Unfortunately, appraisal caps don't address either problem: they would simply make it more difficult for local governments to pay for public goods and services that the state doesn't pay for, and they would shift the tax burden in inequitable and unfair ways.

If the legislature ultimately adopts a school finance plan that increases state revenue and reduces local school property taxes, homeowners will feel relief. Why? Because one of the *real* problems discussed above (the state's dependence on local government) will have been addressed. But it won't reduce the state's dependence on cities to provide drinking water, to treat wastewater, to build and maintain streets and bridges, to provide for public safety, and to promote economic growth. Nor will it reduce municipal reliance on the property tax.

The full committee report may be accessed by clicking [here](#).