“3.003 Lawmaking: Legislative Update”

Mr. Jim Allison
General Counsel
County Judges and Commissioners Association of Texas
Local Decision-Making and Property Taxes

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Texas relies on property taxes and sales taxes to fund state and local government.

The Majority of Property Taxes Fund Public Schools

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Source: Texas Comptroller of Public Accounts, 2015 property tax levies
Public schools are funded through:
- State General Revenue Fund
- Local Property Taxes
- Federal Funds

Higher school taxes because of property value growth benefit the State's general revenue fund, not school districts.
- School districts are held to a certain amount of funding per pupil. When property tax revenue increases due to rising property values, the State does not increase per-pupil funding. Instead, the State lowers its percentage of total school funding.

Foundation School Program: The State Share is Falling
History 1985-2016 (2017-2019 estimated by LBB)
If the State of Texas doesn’t assume its share, the problem will only get worse.

Had the State increased its share to be a 50/50 partner in funding schools for 2016–2019, local school property taxes could have been reduced by more than $17 billion—an average of 15% each year.

Since 2015, the Texas Legislature increased school funding from local property taxes:

- **$14.35 Billion**
  - while state funding increased
  - **$2.17 Billion**

Source: General Appropriations Act FY ‘18–‘19

Student Enrollment (2015): 4,852,600
Projected Student Enrollment (2019): 5,166,298

Source: General Appropriations Act FY ‘18–‘19

General Appropriations Act FY18-19

The legislature reduced the State’s share of public education funding.

The budget that the legislature passed counts on over 14% increase in local property taxes over the FY ’18-’19 tax years.
More State Investment in Public Education Will Lower Property Taxes

• Surging property taxes are directly linked to the state’s school finance system.

• The state’s dependence on local property taxes is enormous and clear, while school districts costs continue to increase with 60% of students who are economically disadvantaged, and 20% that are English Language Learners.

• Two ways of reducing local property taxes:
  1. Increase state investment; and
  2. Pass legislation so that school districts are not penalized for lowering tax rates.

Unfunded Mandate

An unfunded mandate is a state law or regulation that requires a local government to perform certain actions, with no money provided for fulfilling the requirements.
Unfunded Mandate:
Reverse Intergovernmental Aid

- To shore up the lack of state funding for highways, cities and counties must pay hundreds of millions of dollars each year to TxDOT as “local participation” on state highway projects.
- To fund more than 50% of the state Comptroller’s office, cities pay a hefty 2% fee for administration of local sales tax.

Unfunded Mandates

- Each year, county and city court staff collect and transfer to the state hundreds of millions in state fees. Those fees are not used by the state to fund the state justice system.
- Further, the state demands all of its fees before counties and cities can keep any fines.

County officials rely almost exclusively on property tax revenue to efficiently fund the state’s criminal justice system, critical community health initiatives, and other statewide programs that are passed down to local counties by state officials.
Unfunded Mandate – Indigent Defense

Texas Indigent Defense Expenditures by Fiscal Year in Millions of Dollars

Source: Texas Indigent Defense Commission

Unfunded Mandate:
State Inmates in County Jails

- Convicts ready to be sent to state prison can be left in county jails for up to 45 days without parole.
- In 2017, this increased local property taxes by more than $58.6 million.

- Parolees awaiting hearings for technical violations – more than 2,100 on an average day.
- In 2017, this increased local property taxes by more than $47.5 million.

Unfunded Mandates

- The Texas Legislature since 1984 has not updated the transportation allotment, a major contributing cost factor to a school district’s local taxpayers.
- A recently approved law for teacher retirement requires both teachers and school districts to contribute a higher percentage into the Teacher Retirement System than the percent contributed by the state.
- Mandatory state assessments cost taxpayers millions as teachers’ workloads and demand for additional staff are hired to administer exams.
Cites, counties, and school boards know the needs of their community and are the governments closest to the people. The state created cities, counties, and school boards to permit citizens to make local decisions. The locally elected leaders of cities, counties, and school boards decide how to provide appropriate services for the people who live in their communities.
Preserve Local Decision-Making

• Preserving local decision-making equips Texans and their local government officials with the ability to address the unique challenges of their communities.

• Local governments have been the state’s partner on the ground, doing the work locally to enact the will of the state efficiently and effectively in the ways that best fit their local communities.

One Size Does Not Fit All

The local government revenue controls supported by some state officials threaten to undermine community priorities. Politicians from one part of the state should not dictate priorities for communities in other parts of the state.

Arbitrarily imposing revenue caps circumvents the democratically-elected local governments that are in the best position to determine the right policy decisions for each community.

Arbitrary revenue caps don’t take into account local priorities and the unexpected services demands local governments can experience from things like significant population growth and, of course, disasters.

Solutions

The state should be a 50/50 partner in funding the operation and maintenance of our schools.

The Texas legislature should pass a constitutional amendment to stop unfunded mandates.

The state should reimburse counties for housing state inmates in county jails, and should fully fund indigent defense costs.

Leave local decisions to local communities and their elected officials.