

Texas Property Tax

A Controversial Levy

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Texas has had property taxes as long as it's been, well, Texas. In fact, the Mexican government's elimination of a generous property tax exemption for settlers, as part of anti-immigrant laws put into place in 1830, helped spur the fight for Texas independence.

The property tax has seen many changes over time. And nearly two centuries later, it remains an essential revenue source for local governments in Texas, from cities and counties to mosquito control districts.

The Rise And Fall Of The State Property Tax

For the first century after Texas' independence, the property tax supported not just local governments but the state as well, supplying 50 to 75 percent of all state tax receipts.

While the state relied heavily on property tax revenue, however, the tax itself was notorious for chaotic and disorganized administration, particularly during Reconstruction. This has often been attributed to Texas' uniquely decentralized system, in which local officials were responsible for much of the state tax's administration with little guidance or oversight.

Shortly after the Civil War, nearly a third of Texas' counties didn't even *have* a tax assessor-collector, the official charged with valuing property and collecting the tax for the state. An 1868 Comptroller report found that many local tax assessor-collectors were corrupt or incompetent. Other reports from the period cited widespread underreporting of property values; the 1880 U.S. Census estimated the value of all taxable property in Texas at \$725 million, more than twice the total on the state's tax rolls.

Texas lawmakers began tightening tax policies and improving collections at the end of the 19th century. Much of this progress, however, was undone by the Great Depression. In 1933, more than 20 percent of the state's property tax levy was marked as delinquent. Delinquency rates didn't return to pre-Depression levels of around 6 percent until the mid-1940s.

The problem of property undervaluation would prove to be a lasting one, as it was built into the decentralized structure of the property tax at the time. A 1945 report from the Texas state auditor found that only seven counties were complying with the statutory requirement that property be assessed at 100 percent of its market value. On average, assessed value only accounted for 47 percent of the true value of real property in the state. Uneven assessments sapped a considerable portion of the tax's potential returns.

Throughout the early 20th century, moreover, the Legislature approved numerous laws permitting the remission of portions of the state's general revenue property tax collections to various local governments. At the time, the state levied three property taxes, one dedicated to general revenue, one for the Available School Fund (ASF) and another to pay the pensions of Confederate veterans. Due to large wartime revenue surpluses and restrictions on state spending in the mid-1940s, the state didn't even collect the property tax supporting general revenue in 1946.

Two years later, voters approved a repeal of the general revenue portion of the tax altogether. The notoriously difficult-to-administer property tax, in short, had become more trouble than it was worth, at least so far as the health of the state's General Revenue Fund was concerned. Voters at the time were embracing more fiscally conservative policies, approving the well-known "pay-as-you-go" constitutional spending limit just a few years earlier in 1942.

The school portion of the state's property tax saw a similar development a few decades later. Revenue from other taxes supporting the ASF began to increase, eventually overtaking the state property tax. Texas voters subsequently nixed that tax in 1968.

In the 1950s, Texas voters approved a constitutional amendment allowing the Confederate veterans' portion of the tax to be used to finance the construction of new state buildings, as the number of beneficiaries had fallen significantly. It was finally repealed in 1979.

In 1982, Texas abolished all forms of state property taxation.

Local Property Taxes

Local property taxes have a long history in Texas, and are levied by local governments such as school districts, cities and counties, as well as special-purpose districts providing a wide variety of public services.

In 1979, Texas lawmakers approved some long-needed reforms that did much to standardize the administration of local property taxes. These reforms were largely the project of one particularly persistent legislator, Rep. Wayne Peveto from Orange, who described the problem in the August 1995 issue of *Fiscal Notes*:

Some districts had not reappraised their property since their inception; others had reappraised more recently, and thus appeared richer than they actually were when compared with districts that had not reappraised. There was no uniformity in how appraisals were carried out [or] in the appraisers' qualifications. There was not even uniformity as to what types of property were placed on the tax roll[s]. Some school districts taxed chickens; others taxed cars; others taxed only real property...

The "Peveto bill," passed in 1979 after several failed attempts in previous sessions, essentially formed the basis of the property tax system in place today. First, in an attempt to professionalize and depoliticize the appraisal process, it separated appraisals from tax collection by creating a system of countywide central appraisal districts (CADs). Additionally, property now had to be assessed at full market value and reassessed at least once every three years.

To improve state oversight and provide guidance to local CADs, the legislation created the State Property Tax Board (subsequently eliminated in 1991, with its functions folded into the Comptroller's office) and required counties to establish appraisal review boards to allow taxpayers to contest their appraisals.

These reforms have done much to make the property tax system more consistent across the state. In 1979, most homesteads were being appraised at about 60 percent of their market value.

According to the most recent **Property Value Study** — an annual report from the Comptroller’s office — statewide appraisals of single-family homes were very consistent and near full market value, with an overall statewide residential appraised ratio of 98 percent of market value.

How Texas Local Property Taxes Work

Your property tax bill is determined as follows for each taxing entity that serves your property:
[(Appraised Property Value – Exemptions or Special Appraisals) ÷ 100] × Property Tax Rate

Local taxing entities determine the rate at which the property is taxed. Usually, the property tax rate levied by a local government is made up of two parts: the maintenance and operations (M&O) rate, intended to support operating expenditures such as salaries, and the interest and sinking (I&S rate), which generally supports bond debt incurred for facility construction.

Exemptions reduce the appraised value of property and, as a result, the overall tax bill. The state requires a mandatory school property tax exemption for homeowners, currently \$25,000 from \$15,000 in 2014. Local governments can offer their own exemptions or other value reductions on certain types of property as well. **Exhibit 1** illustrates the maximum rates and homestead exemption amounts Texas local taxing entities are allowed to adopt.

EXHIBIT 1: MAXIMUM RATES AND HOMESTEAD EXEMPTIONS ALLOWED BY THE STATE

Entity	Maximum Rates per \$100 Valuation	Homestead Exemption
School Districts	M&O: \$1.17 I&S: \$0.50	Up to 20%, with a minimum exemption of \$5,000 State mandated: \$25,000
Cities	Cities and towns with population ≤ 5,000: \$1.50 Cities and towns with population > 5,000: \$2.50	Up to 20%, with a minimum exemption of \$5,000
Counties	General Fund: \$0.80 Farm-to-market roads/flood control: \$0.30 Special roads and bridges: \$0.15	Up to 20%, with a minimum exemption of \$5,000
Special Purpose Districts*	Community colleges: \$1.00 w/ no more than \$0.50 applied to debt service Hospital districts: \$0.75	Up to 20%, with a minimum exemption of \$5,000*

*There are many other types of special-purpose districts. Community colleges and hospital districts usually are among those with the highest tax levies.

Note: Maximum rates represent the general restrictions applied to nearly all entities. There may be cases in which some entities can exceed this limit or are subject to a more restrictive tax rate limit.

Source: Texas Legislative Council and Texas Comptroller of Public Accounts

Property *values* are determined by each county’s central appraisal district, which is led by a board appointed by all the taxing entities in the county. The Texas Constitution requires that all property be taxed equally and uniformly, and appraised at no more than its fair market value. Texas is one of only a handful of states that do not require sales price information to be reported to CADs, however, which sometimes makes determining fair market value more difficult.

In Texas, state law recognizes three common methods to value property:

1. Market Data Comparison Approach: Most appropriate for single-family residential properties, this approach compares a home's characteristics with those of similar homes recently sold.

2. Income Approach: Most appropriate for commercial properties, this approach relies on an estimate of what an investor would pay for the property in anticipation of future income that it may generate.

3. Cost Approach: Often used for types of property that are not frequently sold or are under construction, and in cases in which CADs cannot obtain sufficient data on sales and income, this approach relies on an estimate of the cost required to replace the property, as is, with one of equal utility.

A separate appraisal review board settles any disputes between a property owner and the appraisal district regarding the appraised property value.

School Funding and Court Challenges

Peveto's 1979 bill itself was partly the result of a landmark court case, *San Antonio Independent School District v. Rodriguez*, decided in 1973. The U.S. Supreme Court found that Texas' school finance system, heavily dependent on property taxes, resulted in considerable inequities in the distribution of state aid to school districts. It did not, however, declare it in violation of the U.S. Constitution's equal protection clause, as in its view education was not a "fundamental" right granted by the Constitution.

State legislators attempting to address the system's inequality soon became bogged down in the widely varying appraisal practices used across the state. Peveto's reforms were a first step to addressing that issue.

While the Supreme Court stated that the U.S. Constitution does not grant public education as a fundamental right, the Texas Constitution states that Texans are entitled to a system of free public schools to ensure a "general diffusion of knowledge." As a result, efforts to reform the school finance system have turned to state courts since the *Rodriguez* case.

Tax Relief

Property tax relief has been a perennial public policy goal in Texas, and the subject of several blue-ribbon committees and appointed task forces.

Their efforts culminated in a 1997 amendment to the state constitution that increased the homestead exemption from \$5,000 to \$15,000 and authorized the Legislature to limit the amount by which homestead appraisals can increase each year.

Despite this limitation, local property tax levies began rising faster around 2000, reflecting the state's burgeoning growth. From 2000 to 2006, the total levy increased from about \$20 billion to \$35.6 billion. According to the U.S. Census Bureau, Texas' per capita property tax collections as a share of personal income peaked around this time, reaching 4.4 percent in 2005 — the ninth-highest in the country that year.

This increase — along with a Texas Supreme Court finding that the school finance system was unconstitutional — sparked additional reforms in 2006, the most consequential since Peveto's

legislation. Among other things, the 2006 legislation reduced school district maintenance and operations (M&O) tax rates by one-third over two years, and attempted to replace most of the lost revenue with a broader state franchise tax, increased rates for tobacco products and increased motor vehicle sales tax collections.

The success of those reforms, however, continues to be the subject of much public debate. Since 2007, property tax levies have increased by an estimated \$14.1 billion, to \$49.1 billion in fiscal 2014. School districts accounted for about 57 percent of that growth, with cities, counties and special-purpose districts responsible for about 14 percent each.

In response to the continued rise in local property taxes, the 2015 Legislature increased the homestead exemption again, to \$25,000. The increase would cost the state about \$3.2 billion over five years, while providing the average homeowner around \$120 annually in tax relief.

Latest Challenges

Texas' property tax system for public schools currently faces two major legal challenges.

In August 2014, the Travis County District Court ruled (as others before it) that the current school finance system is unconstitutional. Among other issues, the court found that the statewide limit on property tax rates constitutes a *de facto* state tax, as many districts must levy the maximum tax rate to meet the state's educational requirements. The case moved to the Texas Supreme Court, which heard oral arguments on Sept. 1, 2014. While the case primarily concerns the formulas that drive the distribution of state educational dollars, an unconstitutional finding from the court may prompt additional property tax reforms.

Another complaint concerns the property tax appraisal system and the methods by which appraisals may be challenged. A lawsuit by the city of Austin takes aim at these methods, arguing that they disproportionately benefit commercial property owners and, as a result, shift the tax burden to homeowners.

And so it goes with the property tax — frequently under fire, but essential to the functioning of local government.

For more information on Texas' property taxes, visit the Comptroller's website.