



**“Revisiting a Sound Public Policy
Approach”**
Dedicating Surpluses for Property Tax
Reduction

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Revisiting a Sound Public Policy Approach Dedicating Surpluses for Property Tax Reduction

In “Choosing a New Path”, TCCRI proposed dedicating current and future surpluses to property tax reduction with the end goal of eliminating the Maintenance & Operations (M&O) tax. This approach would provide a much-needed “new path” for public school finance as the Texas Supreme Court has repeatedly urged. However, this is not a new proposal. The proposal rests on the very best philosophical and policy recommendations made by the Office of the Governor, the Senate Education Committee and the House Public Education Committee little more than two years ago.

In an April 8, 2004 press release regarding his school finance plan, **Governor Rick Perry** strongly proposed using surplus tax revenues for property tax reduction:

...[my plan] provides the framework for additional property tax cuts in future years and more money for schools in future years. It does so *by constitutionally dedicating one-third of future state budget surpluses to buying down school property tax rates* until rates eventually reach to 75 cents for homeowners and employers...

“That means in times of economic growth, Texas homeowners and employers will see their school property tax rates go down even further...” Perry said.

Governor Perry renewed his call for dedicating surpluses to property tax buy-down in his testimony before a Senate Select Committee on April 19, 2004:

- In his testimony, Governor Perry explained that his proposal, a key component of which was surplus dedication, “ensures that as our improving yet still fragile economy starts to take off, we will not reverse course because of a risky new tax scheme, or across-the-board rate hikes.”

Following the Governor’s recommendation, key House and Senate leaders filed legislation that included constitutional dedication of surplus revenue:

- **Senator Florence Shapiro**, Chairman of the Senate Education Committee, filed Senate Joint Resolution 1 (78S4) which constitutionally dedicated future surpluses generated by an increase in the sales and use tax (see Sections 4 and 8 of the Resolution).
- **Representative Kent Grusendorf**, Chairman of the House Public Education Committee, filed House Joint Resolution 1 (78S4) which also constitutionally dedicated one-third of all future surpluses to property tax relief (see Section 2 of the Resolution; HJR 1 was approved by the Select Committee on Public School Finance by a vote of 21-7).

- **Representative Corbin Van Arsdale** filed House Joint Resolution 16 (78S4), which also constitutionally dedicated surpluses to property tax relief (see Section 1 of the Resolution).

It must be noted that the Governor’s property tax reduction proposal for the 79th Third Called Special statutorily dedicates \$1.9 billion of the current surplus for property tax reduction. But the arguments made by conservative leaders for constitutionally dedicating future surpluses to property tax buy-down are as true today as they were two years ago. The fact remains that surplus dedication is a sound public policy approach to public school finance for two critical reasons. First, it helps to eliminate the root cause of our recurring constitutional crisis: the school property tax.

Secondly, and perhaps more importantly, is that six of the last seven biennia have seen surplus tax revenues, making them a remarkably regular and predictable aspect of our budget cycle:¹

Biennium	“New Money” (in billions)
2006-07	\$6.4
2004-05	\$-7.4 (deficit)
2002-03	\$5.1
2000-01	\$5.6
1998-99	\$3.6
1996-97	\$4.5
1994-95	\$1.8

The surpluses should mean that the people of Texas are already funding their own property tax relief. In practice, however, that is not happening. Instead, surpluses have been spent on new programs. To continue to spend the tax surplus in any other way besides tax relief, while enacting a new tax, means that taxpayers will be double-funding their court-mandated and long overdue property tax reduction.

Had surplus dedication plans passed in 2004, the 78th Legislature would have short-circuited Judge Dietz’s December 1, 2004 finding of fact that the state school finance system is unconstitutional. Upon approval of the amendment, one-third of the current \$6.4 billion surplus (approximately \$2.1 billion) at the start of 79th Legislature would have been used to buy down the M&O tax rate. That \$2.1 billion, dedicated, is enough to reduce property taxes about 18 cents. Since the average M&O tax rate is about \$1.45, the rate would be reduced to an average of \$1.27 today.

Surplus dedication was one unifying aspect of all proposals (from the leadership, the House, and the Senate) considered in 2004.

¹ Biennial Revenue Estimates, Office of the Texas Comptroller of Public Accounts

The spring of 2006 brings a new set of circumstances and new opportunity. Governor Perry, the House, and the Senate should revive their previous consensus on constitutional dedication of future surpluses to reduce property taxes with the following, simple plan:

1. The Third Called Special Session of the 79th Legislature should focus exclusively on the single issue that was found unconstitutional in *West Orange-Cove*: a system that, in effect, has become a statewide property tax.
2. Property tax reduction should be addressed, for now, by statutorily dedicating *current* surplus revenue to reduce the school M&O tax rate similar to the approach advocated by Governor Perry and legislative leaders. Using the entire current surplus would provide approximately twenty cents of property-tax relief per year over the next two years. [The amount of tax “buy-down” could be higher once the Office of the Comptroller issues its final estimate at the start of the Third Called Session.]
3. To preserve and expand this tax relief, the Legislature should constitutionally dedicate *future* surpluses to property tax reduction and the 80th Legislature should enact budgetary reforms and strict spending restraint measures.

Not only is surplus dedication a sound proposal that had the support of the Governor and House and Senate leaders, but it also is the best path to eliminating the property tax to keep the state out of court, which has been a costly and divisive cycle in which the state has been trapped for the past 25 years.

Conclusion

The only permanent solution to the public school finance challenge is to eliminate the property tax altogether. What is vital at this juncture is to try a new path that not only weans the system of public education from reliance on the property tax but does so in a manner that comports with fundamental principles of fiscal conservatism. While a one-time use of surplus money, as the Governor’s current plan recommends, is a good first step, constitutionally dedicating current and future surpluses is a critical piece of the best long-term approach toward abolition of the property tax.

The contents of this report do not represent an endorsement from any individual member of the Board of Directors of the Texas Conservative Coalition Research Institute or any individual member of the TCCRI State Taxation Task Force. There may be some policy recommendations or statements of philosophy that individual members may be unable to support. We recognize and respect their position and greatly appreciate the work of everyone involved with the Task Force.