

Institutions Matter: Eliminating Property Taxes

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Institutions Matter

Social, Economic, Political

Why Do People Prosper?

➤ Smith, Hayek, Buchanan, North, Friedman

➤ Acemoglu and Robinson

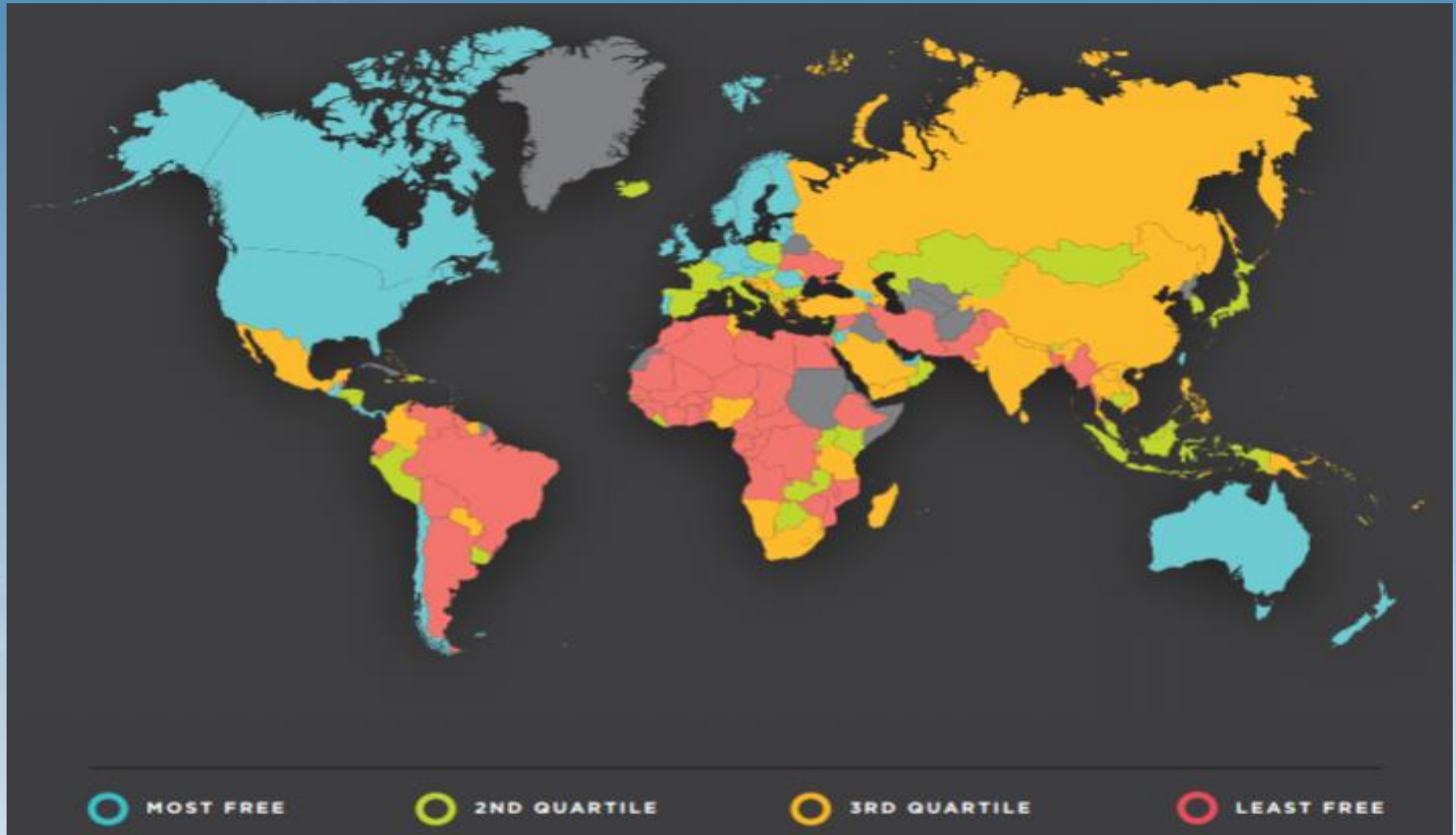
Extractive institutions



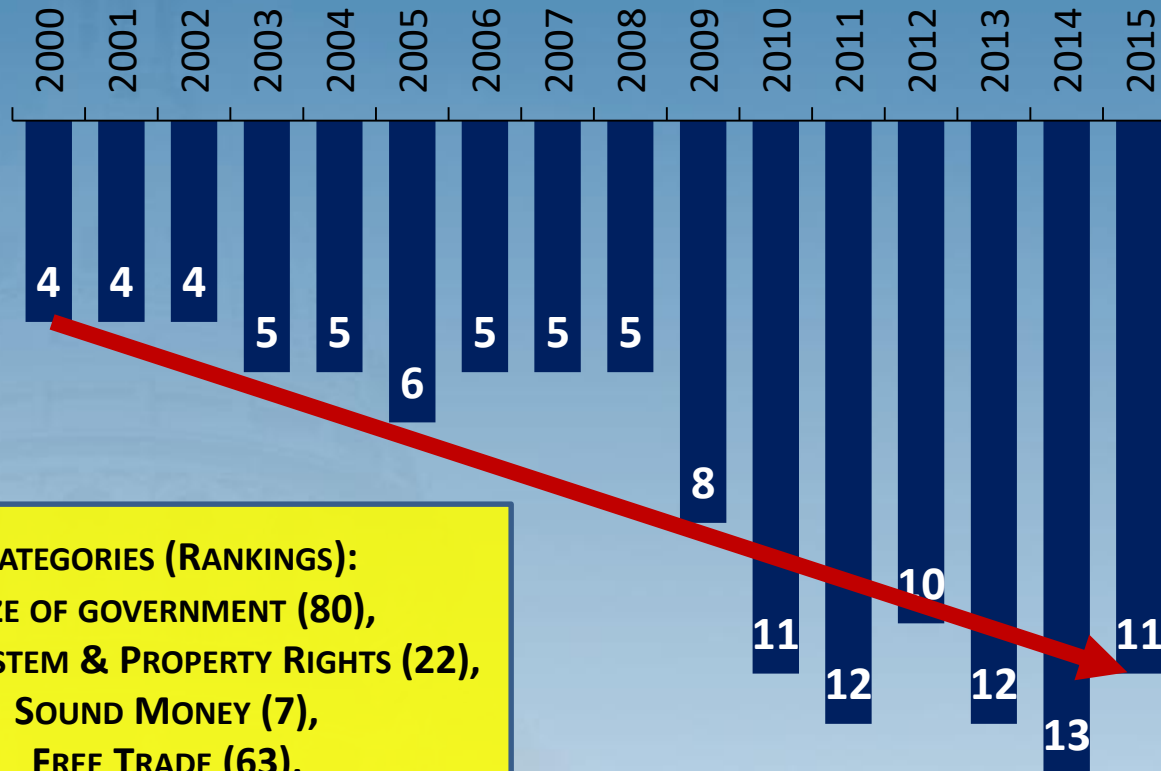
Inclusive Institutions



Economic Freedom of the World



Economic Freedom Ranking in the U.S.



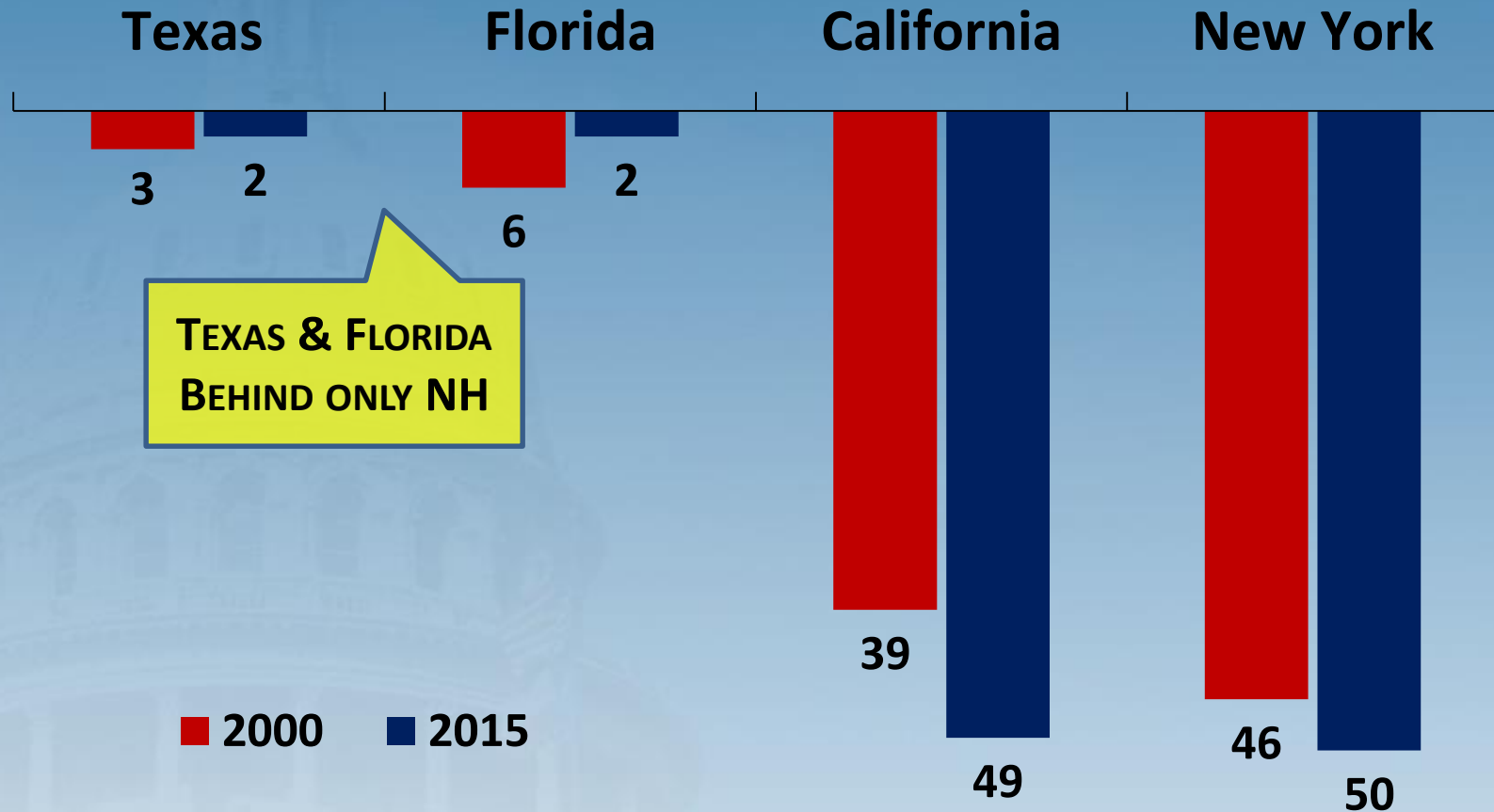
CATEGORIES (RANKINGS):
SIZE OF GOVERNMENT (80),
LEGAL SYSTEM & PROPERTY RIGHTS (22),
SOUND MONEY (7),
FREE TRADE (63),
REGULATION (5)

Source: Fraser Institute, [*Economic Freedom of the World 2017*](#),
157 countries

Results of Federal Institutions

- Slowest recovery since WWII, but improving
- Standards of living from 2007 to 2017
 - Population: +8% to 325 million
 - Food stamp recipients: +62% to 42.7 million
 - Poverty level: +14% to 43 million
 - SSDI recipients: +24% to 8.8 million
- Mulligan: Implicit marginal tax rates

Institutions Matter: Try New Model



Source: Fraser Institute, [*Economic Freedom of North America 2017*](#)

Institutions Matter: Texas Model Works

Measure	U.S.	Texas	Florida	California	New York
Economic Freedom of North America	11 th (World)	2 nd	2 nd	49 th	50 th
State Business Tax Climate Index	--	13 th	4 th	48 th	49 th
State-Local Spending Burden	--	37 th	48 th	6 th	3 rd
State-Local Tax Burden	--	46 th	34 th	6 th	1 st
U-6 Underutilization Rate (2003-17)	11.6%	10.5%	12.0%	14.3%	11.1%
Labor Force Participation Rate (2000-17)	65.0%	66.1%	61.7%	64.6%	62.1%
Emp-Pop 25-54 year old Ratio (2000-17)	77.6%	77.3%	77.5%	75.2%	76.1%
Civilian Emp (12/07-12/17), exclude TX	+5,723,000	+2,024,000	+979,000	+1,564,000	+132,000
Top 10% Income Shares (2000-15)	47.8%	47.0%	55.0%	50.2%	57.1%
Supplemental Poverty Measure (2014-16)	14.7%	14.7%	18.7%	20.4%	16.0%

Source: TPDF, [*A Labor Market Comparison: Why the Texas Model Supports Prosperity*](#) (updated)

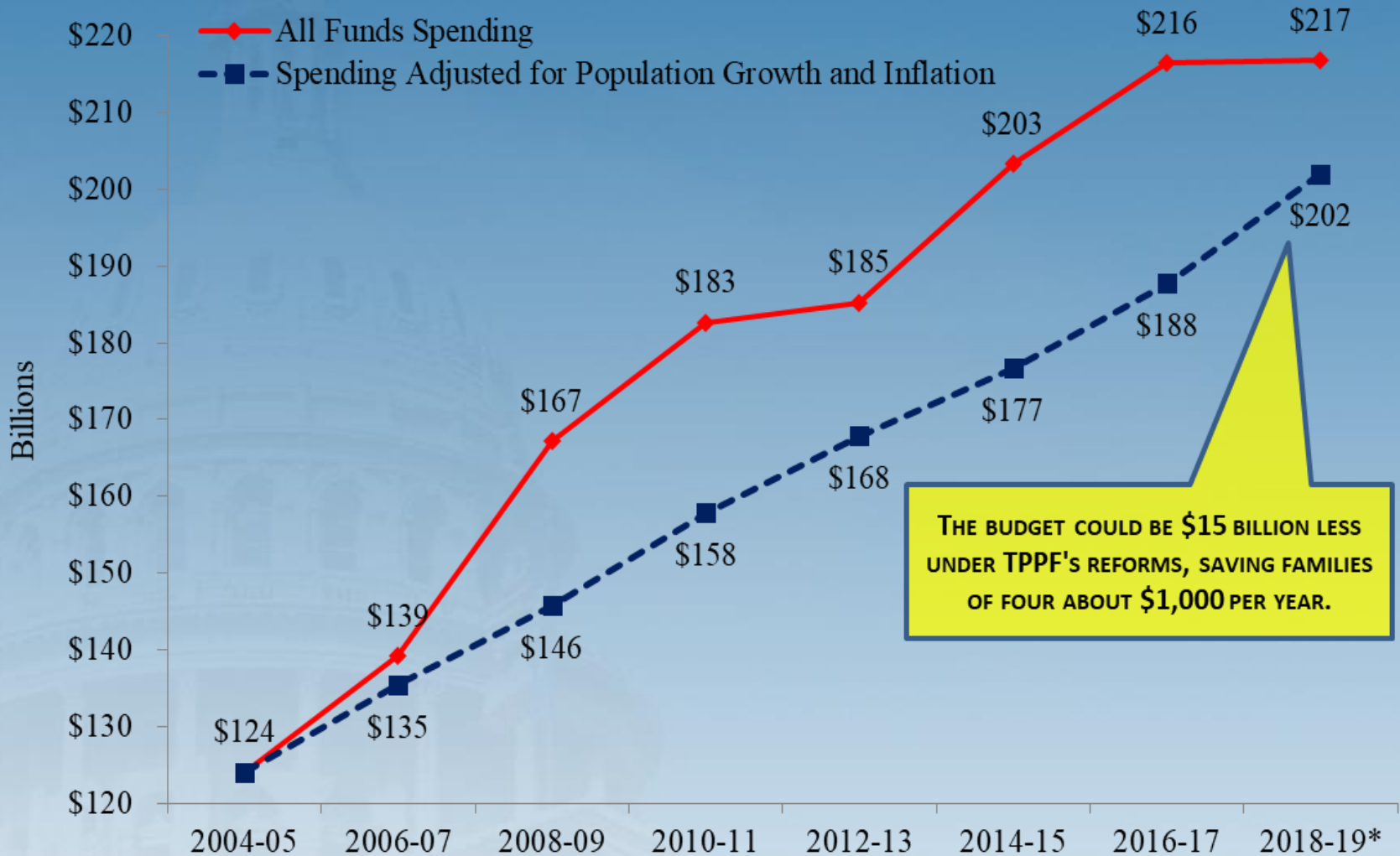
American Dream is not dead – it has simply moved to the **Lone Star State.**



BUT...Texas has Challenges

- TPPF's Texas Prosperity Promise
- Fiscal: Spending, Taxes, Corporate Welfare
- Education: Funding, Choice, TRS, Teacher Pay
- Regulation: Occupational Licensing, Local Zoning
- Energy: Oil & Gas, Resilient but Not Immune
- Federal: Debt, Regulation, Trade

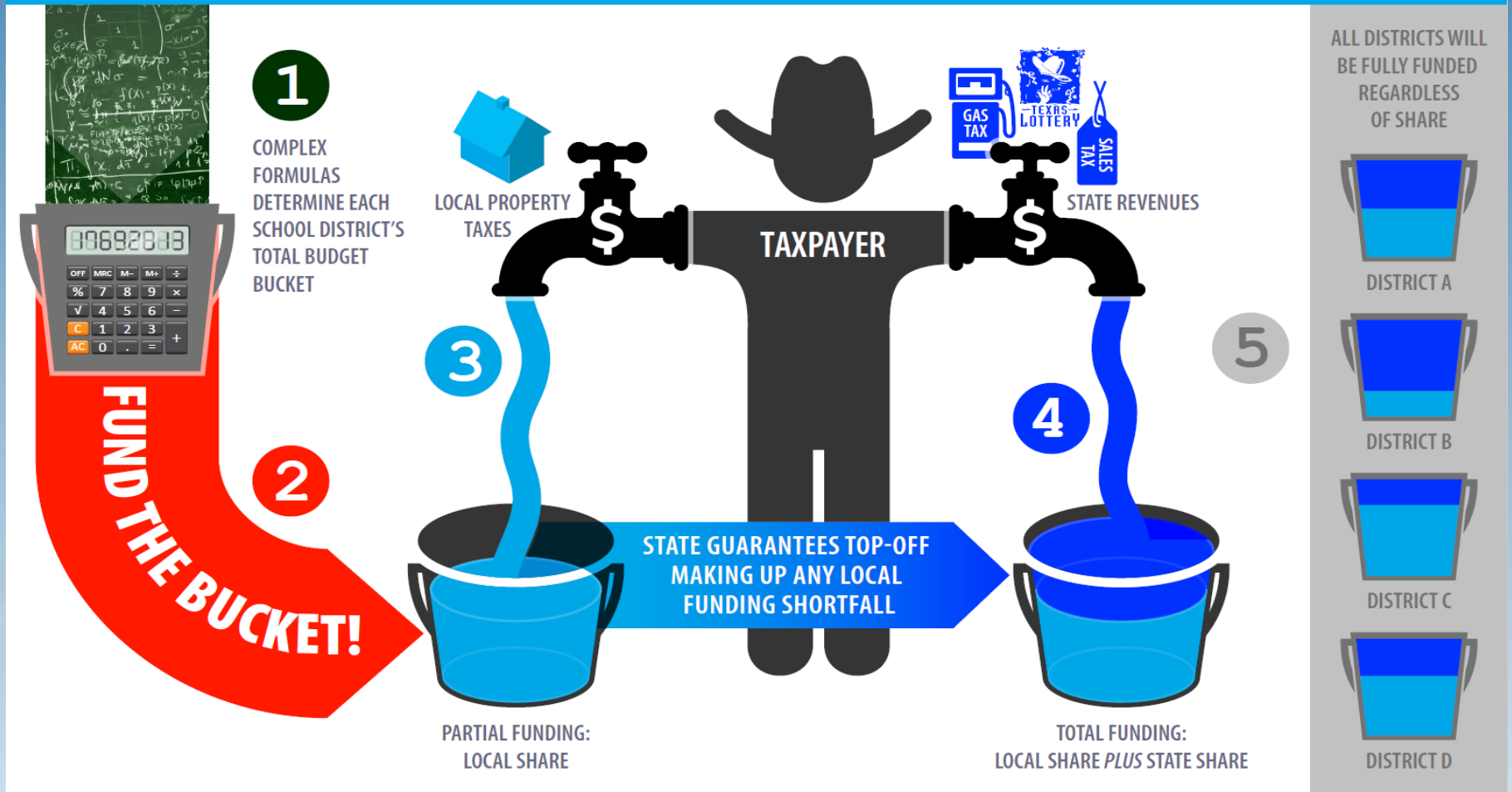
State Spending Problem



Source: Legislative Budget Board's *Fiscal Size-Up* and authors' calculations. *indicates estimate.

How Education Funding Works

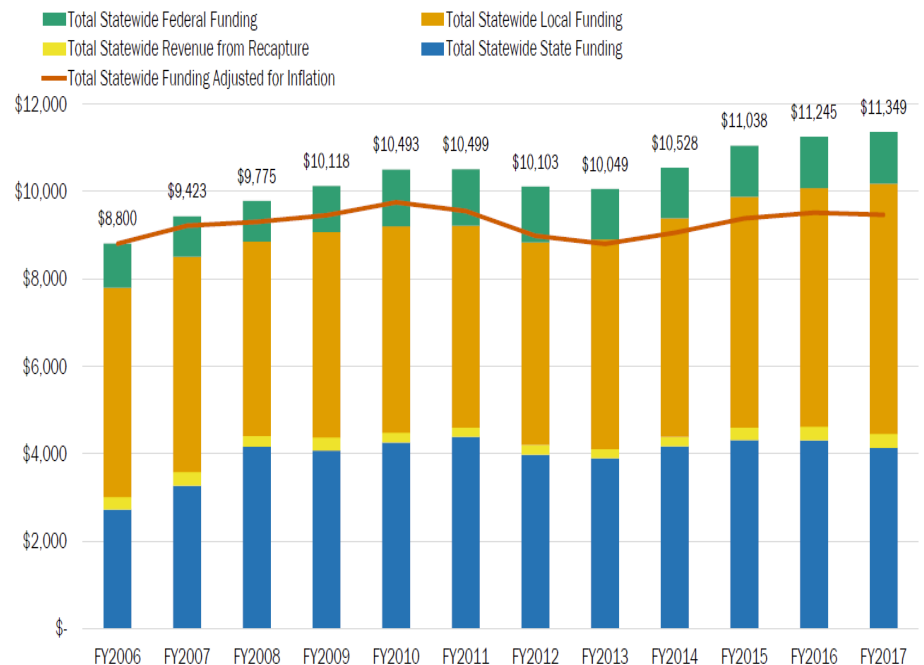
LOCAL COMES FIRST: HOW A LOCAL DISTRICT'S EDUCATION FUNDING SHARE DICTATES THE STATE'S FUNDING SHARE



No Education Spending Problem

School Year	Total Public Education Spending	Per Student Spending
2004-05	\$49,936,608,405	\$11,391
2005-06	\$51,650,485,537	\$11,464
2006-07	\$53,835,495,970	\$11,762
2007-08	\$57,170,178,834	\$12,291
2008-09	\$61,167,094,728	\$12,937
2009-10	\$61,264,507,075	\$12,698
2010-11	\$58,405,027,811	\$11,889
2011-12	\$54,934,861,074	\$11,035
2012-13	\$54,973,548,649	\$10,867
2013-14	\$57,120,781,370	\$11,122
2014-15	\$61,754,759,068	\$11,841
2015-16	\$64,767,380,510	\$12,257
Real % Change (2004-16)	29.7%	7.6%

Total funding per enrolled student has increased
29% (from \$8,800 in FY2006 to \$11,349 in FY2017)



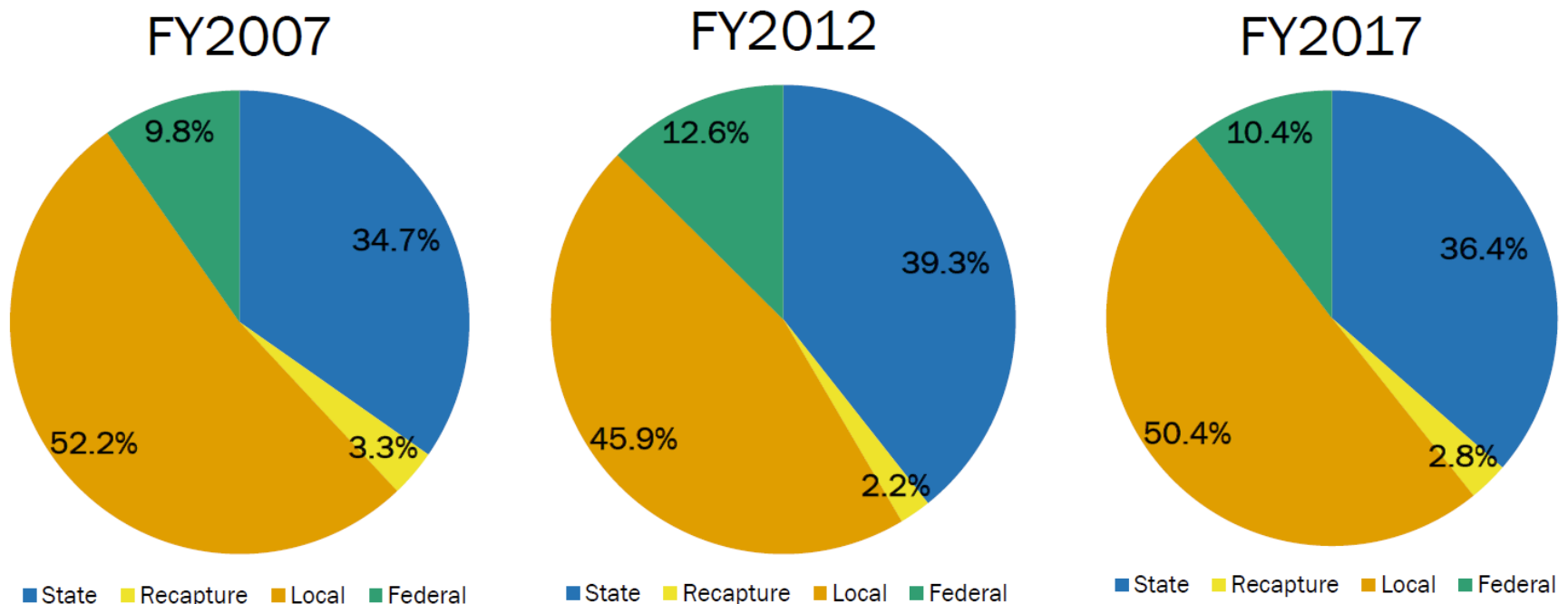
Data sources: TEA PEIMS Financial Data, TEA Payment Report, and the General Appropriations Act

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Source: TPPF, [Texans Need More Education for Their Money](#) & TEA

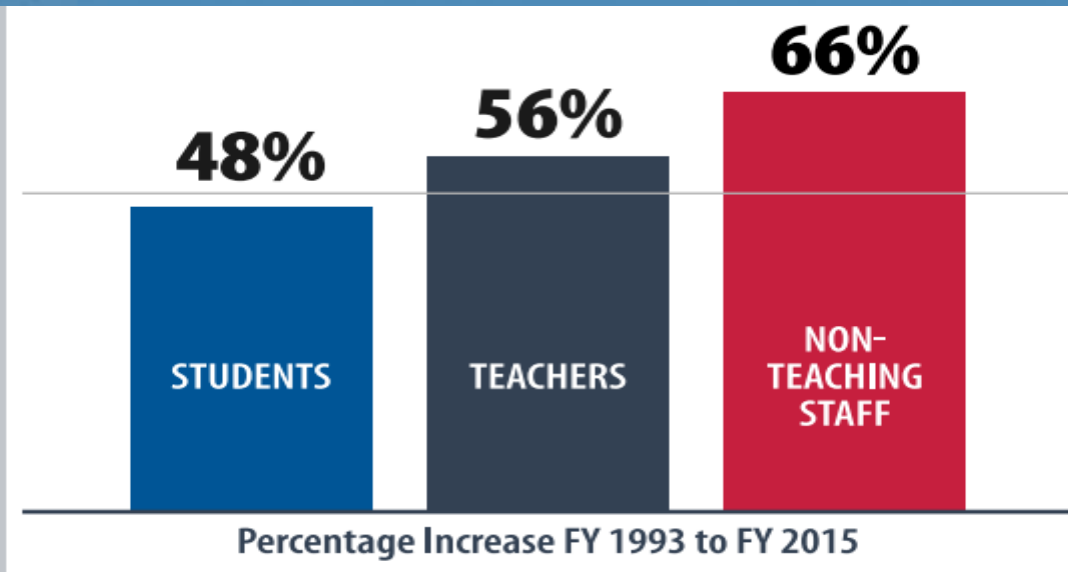
State Share Up Over Time

Comparison of the percentage breakdown of funding sources between FY2007 and FY2017

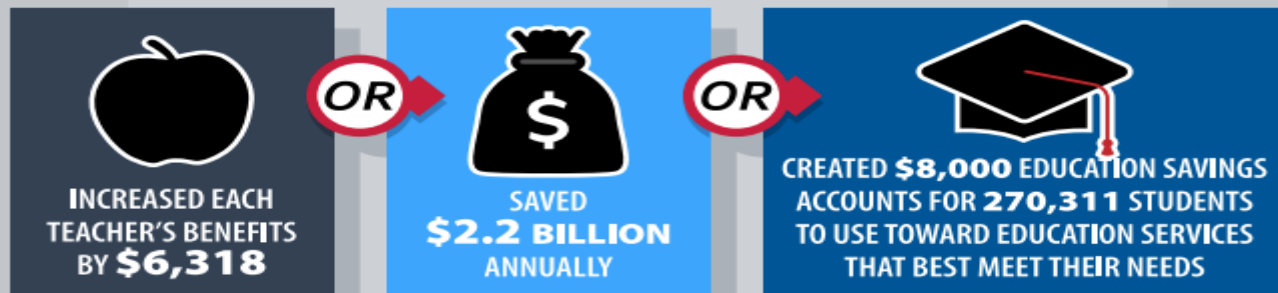


Data sources: TEA PEIMS Financial Data, TEA Payment Report, and the General Appropriations Act

Texas Should Spend More Wisely



If public schools had limited the increase in non-teaching staff *to the same rate as the increase in students*, public schools COULD have done one of the following...



Source: TPPF, [Texans Need More Education for Their Money](#)

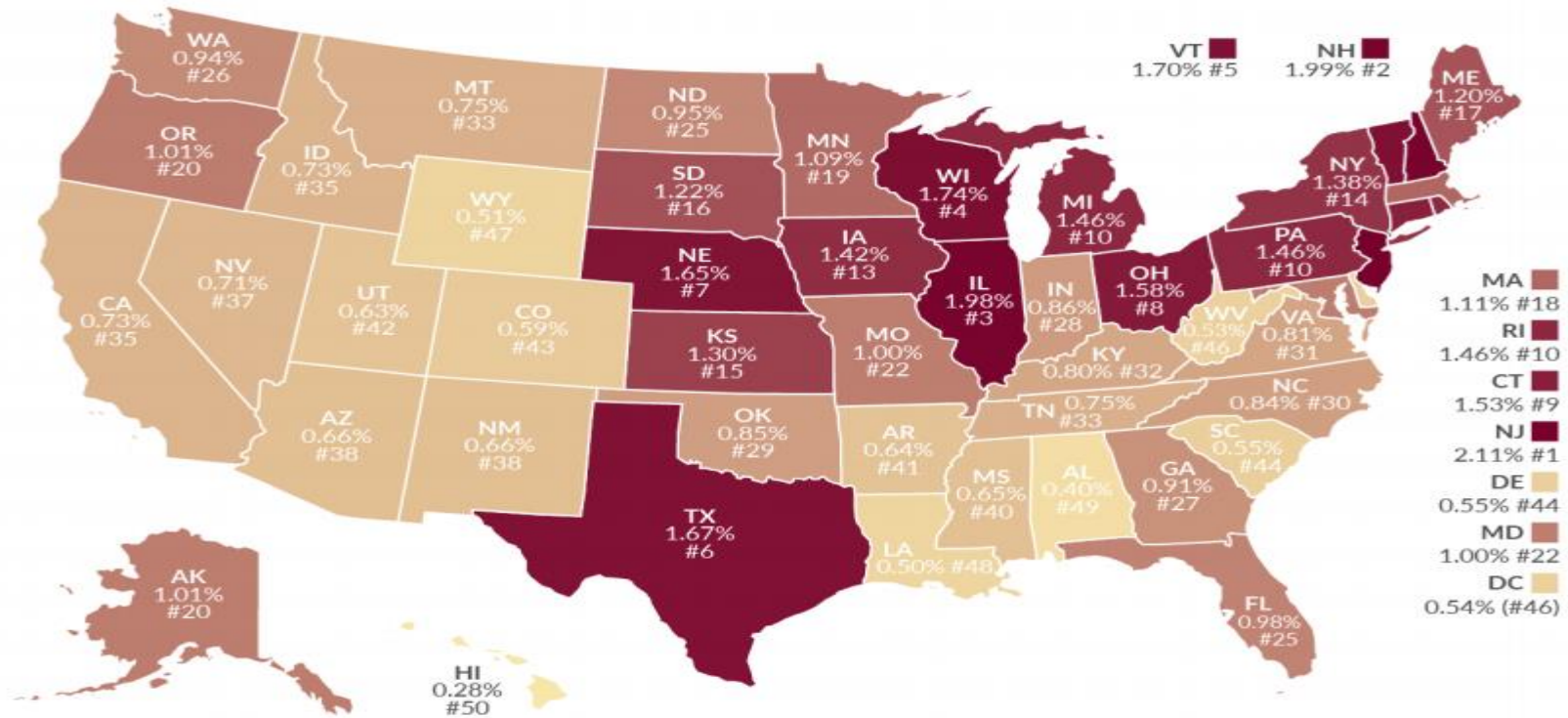
Too Many Abuses of Funds Across State



Texas Property Taxes are Too High

How High Are Property Taxes in Your State?

Mean Effective Property Tax Rates on Owner-Occupied Housing, Calendar Year 2014



Note: The figures in this map are mean effective property tax rates on owner-occupied housing (total real taxes paid/total home value). As a result, the data exclude property taxes paid by businesses, renters, and others. D.C.'s rank does not affect states' ranks, but the figure in parentheses indicates where it would rank if included.

Source: 2014 American Community Survey, available from the Census Bureau; Tax Foundation calculations.

Source: [Wolfe](#)



Source: Tax Foundation, [State-Local Tax Burden Rankings](#)

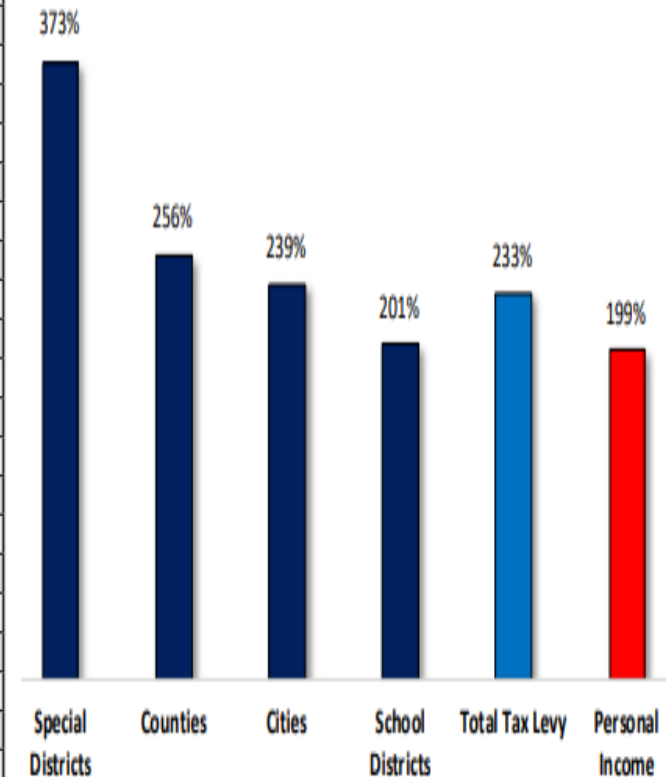
Past Failed Property Tax Relief Attempts: Need at least 2.5% auto rollback election

Table 1. Property tax levy growth by local taxing unit, 1996-2016 (thousands of \$)

Tax Year	Special Districts	County	City	School Districts	Total
1996	\$1,698,557	\$2,537,184	\$2,701,214	\$9,910,195	\$16,847,151
1997	\$1,759,623	\$2,658,308	\$2,847,081	\$10,394,500	\$17,659,513
1998	\$1,889,138	\$2,828,287	\$3,005,996	\$11,334,614	\$19,058,036
1999	\$2,041,041	\$2,979,279	\$3,247,964	\$12,009,923	\$20,278,208
2000	\$2,389,110	\$3,200,920	\$3,530,864	\$13,392,336	\$22,513,230
2001	\$2,703,512	\$3,566,857	\$3,884,829	\$15,155,218	\$25,310,416
2002	\$2,864,455	\$3,849,728	\$4,186,795	\$16,418,789	\$27,319,768
2003	\$3,092,285	\$4,121,759	\$4,415,213	\$17,264,154	\$28,893,411
2004	\$3,369,069	\$4,462,844	\$4,607,758	\$18,533,965	\$30,973,635
2005	\$3,609,630	\$4,772,652	\$4,901,792	\$20,194,916	\$33,478,989
2006	\$3,972,186	\$5,339,614	\$5,322,986	\$20,918,122	\$35,552,907
2007	\$4,513,060	\$5,836,990	\$5,890,307	\$18,874,240	\$35,114,597
2008	\$4,952,735	\$6,342,705	\$6,451,012	\$21,233,517	\$38,979,970
2009	\$5,133,821	\$6,526,724	\$6,593,755	\$21,780,056	\$40,034,356
2010	\$5,392,512	\$6,567,070	\$6,755,401	\$21,558,289	\$40,273,272
2011	\$4,926,074	\$6,742,913	\$6,810,049	\$22,001,561	\$40,480,597
2012	\$5,543,422	\$7,064,659	\$7,054,990	\$23,072,782	\$42,735,853
2013	\$5,529,434	\$7,537,750	\$7,324,431	\$24,854,671	\$45,246,286
2014	\$6,370,470	\$8,114,998	\$7,828,572	\$26,792,677	\$49,106,717
2015	\$6,954,137	\$8,696,387	\$8,380,436	\$28,176,466	\$52,207,427
2016	\$8,031,408	\$9,027,418	\$9,165,214	\$29,856,268	\$56,080,308
Average Annual Change	8.2%	6.6%	6.3%	5.8%	6.3%

Sources: Hegar (9) and latest available data for 2016 from [Texas Comptroller](#) (2018)

Figure 2. Texas' local property taxes and personal income growth, 1996-2016



Sources: [Hegar](#) and the [FRED](#)

Source: TPPF, [Abolishing the "Robin Hood" School Property Tax](#)

Eliminate Property Taxes

- 1) Limit Spending: State 4% biennial & Local 2.5% annual
- 2) Buydown School M&O Property Taxes

Table 3. 11-Year school property tax replacement scenario (thousands of \$)

	2020-21	2022-23	2024-25	2026-27	2028-29	2030-31
GRR Revenue (10.08% increase)	118,146,662	130,055,845	143,165,475	157,596,555	173,482,287	190,969,302
New GRR Available for State Spending (4% increase)	4,293,120	4,464,844	4,643,438	4,829,176	5,022,343	5,223,236
New GRR Property Tax Replacement Payment	5,872,988	7,287,203	8,348,291	9,476,542	10,724,704	12,109,870
Property Tax Replacement %	11.5%	16.1%	21.9%	31.8%	52.6%	100%
School M&O Property Taxes	45,402,951	38,115,747	29,767,455	20,290,913	9,566,208	0

Source: Authors' calculations

Source: TPPF, [*Abolishing the “Robin Hood” School Property Tax*](#)

Eliminate Property Taxes

- 1) Limit Spending: State 4% biennial & Local 2.5% annual
- 2) Swap School M&O Property Taxes

Revenue Source (Millions of \$)	2017
School M&O Property Taxes	\$24,774
Local Sales Tax Collections	~\$8,200
State Sales Tax Collections	\$28,900
School M&O + Sales Taxes	\$61,874

Swap Sales Tax Base (Millions of \$)	GDP (2017:Q3)	State Tax Rate	Local Tax Rate	Total Tax Rate
A. Total Private Industries	\$1,524,249	3.52%	0.54%	4.06%
B. A-Real Estate-Construction	\$1,264,658	4.24%	0.65%	4.89%
C. B-Health Care-Manufacturing	\$936,633	5.73%	0.88%	6.61%
D. C-Management-Mining-Wholesale	\$637,098	8.42%	1.29%	9.71%
E. GDP Necessary for No Change in Rate	\$749,988	6.25%	2.00%	8.25%

Source: U.S. Bureau of Economic Analysis, Author Calculations

Prosperity in 2019 Texas Session

- Pass Another Conservative Budget
- Strengthen State Spending Limit
- Eliminate Property Taxes—School M&O Tax
- Eliminate Business Margins Tax
- Create the Sales Tax Relief (STaR) Fund
- Increase Budget Transparency
- Review & Eliminate Occupational Licenses

Government spending is ultimately paid for by taxation, so we must control spending for Texans to prosper.

Takeaways

- Reduce the Size and Scope of Government
- Key: Limit government spending
- Institutions Matter

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