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## **SJR 38, THE CONSTITUTIONAL AMENDMENT TO CREATE A STATE PROPERTY TAX, CONTAINS DANGEROUS LIMITATIONS ON REVENUE GROWTH, SCHOOL ENRICHMENT**

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*SJR 38 by Ogden, the constitutional amendment that would create a state property tax, is likely to be voted on in the next day or two by the Senate Finance Committee. A state property tax could provide an equitable and growing source of funding for public education. However, the proposed committee substitute contains several dangerous provisions that would cap revenue growth and require a supermajority vote to expand school enrichment taxes. With these provisions, a state property tax would no longer offer an acceptable source of funding for public education.*

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### **THE ADVANTAGES OF A STATE PROPERTY TAX**

There are two main advantages to relying on a state property tax to provide a large share of funding for public education:

A state property tax is automatically equalizing. Under the current school-finance system, local school districts collect all school property taxes. The recapture provisions of the school-finance system then require the wealthiest districts to share some of their local revenue with less-wealthy districts or write a check to the state, which then uses the money to aid other districts. With a state property tax, the state would collect property taxes statewide and distribute the revenue to local districts according to the school-finance formulas -- just as the state sales tax is spent statewide, without regard to where it is collected, according to the needs of the state. Districts could, with voter approval, raise additional local property taxes to supplement state funding.

Revenue from a state property tax should grow over time, as property values throughout the state increase. This would help provide a growing source of revenue to meet the growing needs of public education.

### **THE PROPOSED COMMITTEE SUBSTITUTE WOULD SEVERELY LIMIT REVENUE GROWTH**

Instead of harnessing the natural growth in property values statewide to support the growing demands on our public education system, the proposed committee substitute for SJR 38 would impose a tight cap on the amount of revenue that the state property tax could generate. The limit would be

similar to -- but much more restrictive than -- the caps on city and county revenue proposed by HB 1006, which recently passed the House only after much debate, or SB 18, which was voted out of Finance by an unusually narrow 9 to 4 vote. This restriction would eliminate one of the main advantages of a state property tax.

The Legislature would, every two years, set a tax rate for the state property tax for the next biennium. The proposed committee substitute would prohibit the Legislature from setting a rate that was more than 5% greater than the effective tax rate for the prior biennium. The effective rate is the rate that would raise the same amount of tax as was raised in the prior biennium, taking into account the increase in property values (but not counting new construction). In other words, revenue from the state property tax could increase by only 5% a biennium, plus whatever revenue is raised by taxing new property.

The major objection to HB 1006 and SB 18 is an annual cap of 5% for local government revenue growth. The proposed committee substitute for SJR 38 would impose a biennial cap of 5% -- half the increase that would be permitted to cities and counties.

Even under these two bills, cities and counties would be able to exceed the annual 5% cap if necessary, subject to the possibility of a rollback election. The state would be constitutionally forbidden to increase state property tax revenue by more than 5% per biennium, not including new property. There would be no provision for an override of the cap in order to meet greater needs by our schools.

Five percent revenue growth over two years would almost definitely be less than the amount needed just to keep up with inflation. In addition, there is no assurance that taxes collected on new construction would be adequate to meet the costs of increased enrollment. Therefore, with these limits, the state property tax would be unable to keep up with the simple growth in revenue needs from inflation and enrollment, to say nothing of actually increasing real (inflation-adjusted) per student spending to meet higher expectations. This would put pressure back on local school district taxes, which led us to the current school-finance dilemma, or on other state taxes, or on other state services that would have to be cut to finance basic public education needs.

## **THE PROPOSED COMMITTEE SUBSTITUTE WOULD SUBJECT LOCAL ENRICHMENT TAXES TO EXTRAORDINARY RESTRICTIONS**

The proposed committee substitute would also insert in the Constitution a 15-cent limit on the tax rate for local enrichment – money used by school districts to provide revenue above the minimum level of state support. This limit could be overridden only by an extraordinary two-thirds vote of the Legislature.

Although the 15-cent limit is currently an acceptable provision of the proposed school-finance bill, it would be improper to enshrine the limit as a constitutional provision. The Legislature must maintain the flexibility to change the school-finance system to meet future needs. Such changes in major state programs are a routine responsibility of the Legislature, and can be expected to occur.

Any current tax can be raised, or lowered, by a simple majority vote in the Legislature. “Supermajority requirements” like a two-thirds vote, are reserved for only for the most important changes, such as constitutional amendments or the appointment of officers, and should not be required for an increase in a tax rate. Singling out this one local tax for inclusion in the Constitution and subjecting it to a supermajority restriction is unduly restrictive and likely to hamstring public education funding in the future.

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