



Center for Public Policy Priorities

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Statement Regarding the Pauken Commission Report

Overview

In August, the Governor appointed the Texas Task Force on Appraisal Reform, chaired by Tom Pauken, to address complaints about the property tax appraisal system. (For information, see http://www.governor.state.tx.us/priorities/appraisal_reform/.) The Pauken Commission has now released its final report, but it is not really about the appraisal system. In fact, the report offers no evidence that the appraisal system is overvaluing property. Instead, the report is about two things: 1) keeping taxes unrealistically low, leaving local officials unable to meet local needs; and 2) shifting those taxes that we do pay off those with higher incomes and onto those with lower-incomes.

5% Roll Back Rate

The commission proposes a new cap on local tax revenue that would leave localities unable to meet critical needs and ignores such elementary factors as population growth. An area with 10% growth in population – not uncommon when a new subdivision opens in a town on the urban fringe – would be forced to cut per capita spending at precisely the time the need for police, fire, EMS, and transportation services is increasing.

Raising the Sales Tax to Lower the Appraisal Cap — A Bad Trade

The commission's proposal to raise sales taxes by another half cent in order to pay for property tax reductions would increase the tax burden on the majority of Texas families. The sales tax is extremely regressive, taking a much larger percentage of the income of a lower-income family than of a higher-income family, while the benefit of appraisal caps is concentrated on fast-appreciating, high-value homes. The Pauken Commission's proposal to increase the county homestead exemption by \$3,000 would save typical homeowners less than \$10 a year, doing little to offset the sales tax increase.

Sales Price Disclosure

Fair property taxation depends on appraisal of all property at true market value. Owners of high-end homes and certain business properties have long benefited from below-market appraisals because of the lack of accurate sales price information for these properties. The typical home, however, is easy to appraise at market value. As a result, many homeowners are paying more than their fair share. Thirty-five states mandate disclosure of the sales prices of all property, so that appraisal districts have the best information available from which to estimate market value. Instead, the commission would require actual disclosure only if the buyer failed to report his or her own "estimate" of value.

Rolling Averages Have Serious Flaws

Valuing property on a five-year rolling average would suppress valuations when prices were rising, but force property owners to pay on higher-than-market values when prices are falling. And, like appraisal caps, use

of a rolling average could result in similar properties being taxed on different values, since new buyers would start at full market value while their neighbors might be paying on a lower rolling average.

Property Value Study

Strengthening the ability of the comptroller's office to carry out a rigorous property value study, using sales-price information, could also improve the fairness of the appraisal system. Bringing undervalued properties up to true market value would allow local governments to maintain their revenue at a lower tax rate, easing pressure on the vast majority of homeowners. Focusing on process, rather than testing a district's actual valuations, and doubling the permissible margin of error – as recommended by the Commission – would be a step away from ensuring that all properties are fairly valued.

The Real Unfunded Mandate

Texas relies heavily on local governments to meet public needs, and local governments must rely heavily on the property tax. Focusing on explicit mandates, as does the Commission, ignores the real source of fiscal pressures on cities and counties. When the state fails to meet its responsibility to provide for Texas families, local governments must step into the breach. Local governments, elected by the people, should have control over their own taxes and budgets to meet those needs.

The Attorney General Veto

Giving the attorney general the authority essentially to veto a law by calling it an unfunded mandate is a major power shift from the legislative branch to the executive branch. So fundamentally altering our form of government without strong reason is unwise and would undoubtedly have unknown and unintended consequences.

Binding Arbitration on Legal Issues

The requirement of binding arbitration for any “claim that the appraisal district is not following property tax law” would mean that arbitration panels across the state could arbitrarily decide claims with no reference to each other and without judicial review. The uniform administration of our tax system would be severely undermined.

Better Choices

The Pauken Commission says that it is concerned that property taxes in some cases have risen faster than the ability of homeowners to pay them. The answer is a tax that is based on the ability to pay – a personal income tax. With a modest Texas-style personal income tax, property taxes could be cut significantly and most Texas families would see a net tax decrease. To learn more, go to <http://www.cppp.org/research.php?aid=591>. Circuit breakers, which most states use to reduce property taxes that exceed a certain percentage of family income, are another proven way to protect homeowners from taxes rising faster than wages. For more information, see <http://www.itepnet.org/pb10cb.pdf>.