# ABOLISHING the "Robin Hood" School Property Tax

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## Executive Summary

Texans have long recognized that school taxes comprise a significant portion of the heavy property tax burden they face. School district maintenance and operations (M&O) property taxes, estimated to be $24.77 billion in 2018, make up about one-half of the total tax levy. Yet previous efforts by the Texas Legislature to reduce the property tax burden through increasing state spending on public education or increasing the homestead exemption have not provided significant, long-term relief for Texas taxpayers.

Two problems have hindered the state's efforts to reduce local property taxes. First, because there is a constitutional prohibition on a statewide property tax, the state does not levy the property tax, local governments do. The state can set limits on property tax rates, but it cannot turn the system into a de facto state tax—without a constitutional amendment. The second problem is more straightforward, yet no less challenging; where can the state come up with the $25 billion needed to eliminate the M&O property tax?

In 1997 and again in 2015, the Texas Legislature increased the homestead exemtion, but property taxes continued to increase. In an effort to reduce the tax in 2006, the Legislature increased the state franchise tax by about $4 billion, yet very little of this money found its way into taxpayers' pockets through property tax reduction.

The failure of past efforts to reduce school taxes and restrain the spending growth that keeps driving them upward demonstrates the need to completely eliminate them. One option for this would be to increase sales tax revenue to immediately eliminate the M&O tax. Another, which we recommend here, is for government to exercise fiscal restraint through tax and expenditure limits and reduce the growth of government.

Using the past rate of growth (10.08 percent) of general revenue-related (GRR) state revenue, we have estimated that Texans can eliminate district-level education M&O taxes and cut property taxes almost in half in as little as 11 years. This can be accomplished by restraining state spending growth to 4 percent biennially and using 90 percent of the surplus state revenue this produces to ratchet down local property tax rates. Under this plan, every dollar not spent by the state or school districts will produce a 90-cent property tax cut for Texans. To ensure that counties, cities, and special districts don't rush to fill the space left by the tax cut, local governments would be required to receive permission from voters to increase property taxes by more than 2.5 percent.

Of course, the past rate of GRR growth does not guarantee the same rate in the future. Yet it provides a reasonable basis for projecting the success of this plan. For instance, had this plan been adopted by the Legislature in 2005, it would have generated surpluses for reducing property taxes in five of the last seven biennia—enough to have eliminated the education M&O property tax by now.

### Key Points

- By reducing state and local government spending growth, Texans can eliminate the Robin Hood school property tax and cut overall property taxes almost in half.
- School district maintenance and operations (M&O) property taxes, estimated to be $24.77 billion in 2018, make up about one-half of the total tax levy.
- Previous efforts by the Texas Legislature to reduce the property tax burden through increasing state spending on public education or increasing the homestead exemption have not provided significant, long-term relief for Texas taxpayers.
- If the Texas Legislature implements tax and expenditure limits on state and local spending growth and uses the resulting surplus to reduce our property tax burden, within the foreseeable future Texans will no longer be paying the Robin Hood property tax.
- The property tax replacement scenario is unprecedented. Simply by restraining growth and pledging the generated surpluses to the elimination of a tax, it allows for a variety of possibilities to reduce the size and scope of government.

Exactly how much surplus will be generated in a particular biennium is unknowable. It may be, given current prognostications about revenue for the 2020-21 fiscal biennium, that the surplus from this plan will not match the numbers from the past. Even in such a case, though, the Legislature has options to ensure a property tax reduction; it could further reduce spending growth. Yet whatever the economic situation is for any particular biennium, one thing is clear: if the Texas Legislature adopts this plan and sticks with it, within the foreseeable future Texans will no longer be paying the Robin Hood property tax.

## The Property Tax Burden

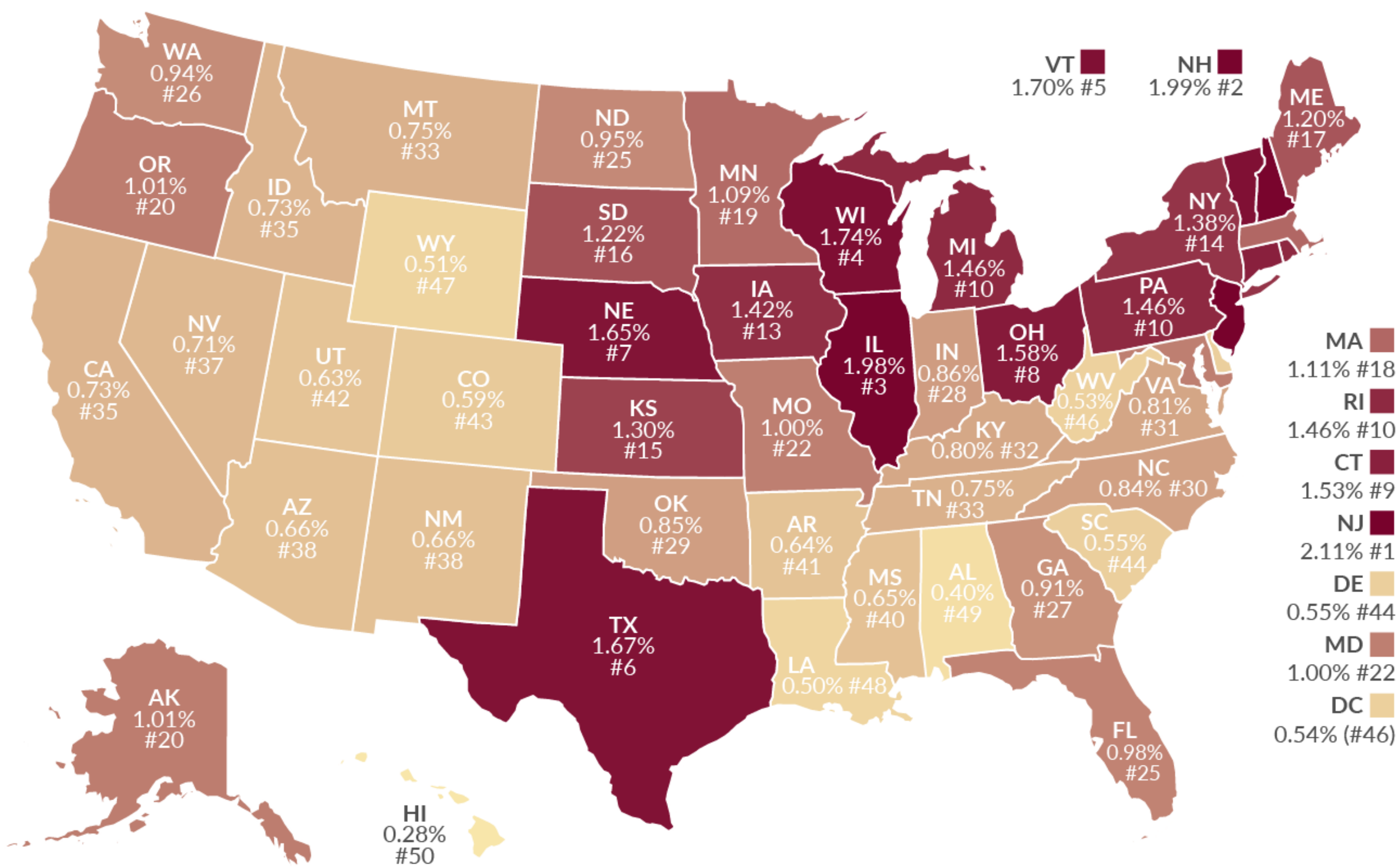
Despite the economic success of the Texas Model of relatively fiscally conservative governance, a rising local property tax burden remains one of the state's most pressing public policy challenges. Data support this as **Figure 1** from the Tax Foundation shows Texas has the nation's sixth highest property tax rate (Walczak).

Property taxes comprise almost half of total state and local taxes collected each year (Hegar, 1). This burdensome system derives from a combination of more than 4,100 local taxing jurisdictions (Hegar, 7). **Table 1** shows local

Figure 1. Texas property tax burden ranks sixth worst

## 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.

Effective Property Tax Rate

Lower Higher

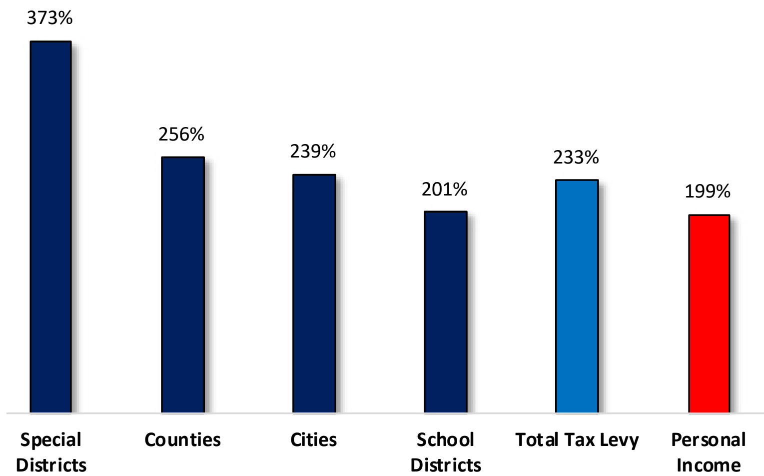
*Source:* Walczak

governments levied more than $56 billion in property taxes in 2016, making it the largest tax imposed in the Lone Star State.

School district taxes accounted for 53 percent of the total property tax burden followed by cities, counties, and special districts. Texas' property tax burden, on average, is more than $2,000 for every man, woman, and child in the state, or more than $8,000 from a family of four.

**Figure 2** illustrates the growth of local government property tax levies from 1996-2016. The overall levy increased by more than 230 percent. Among the different taxing units, special district taxes increased the most, followed by counties, cities, and school districts. In comparison, personal income increased 199 percent. This imbalance is an indication that taxes are growing faster than the means of taxpayers.

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




*Sources:* Hegar and the FRED

**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)*

The consequences of high and fast-growing property taxes are numerous. Taxes can discourage economic growth, distort investment decisions, and depress job creation. The rising burden from property taxes is worse for housing-rich but income-poor elderly homeowners. For example, elderly homeowners must move more often to reduce their property tax burden, which is an additional cost of owning a home for those who can least afford to move (Shan, 3).

Collectively, the rising burden of property taxes has led to several attempts over time to provide relief.

## Historical Attempts to Reduce the Property Tax Burden: 1997, 2006, and 2015

There have been three major legislative efforts to provide property tax relief since the system took its current form in 1979 (Haney). Unfortunately, each of these efforts has proven to be ineffective in permanently reducing the rising property tax burden.

### *1997—Raising the Homestead Exemption by $10,000*

Gov. George W. Bush and the 75th Texas Legislature attempted to reduce the rising property tax burden in the 1990s. Legislators passed a constitutional amendment to this end, and 94 percent of voters approved it (Ballotpedia 2018a). The amendment raised the homestead exemption for school district property from $5,000 to $15,000. It also adjusted the school district tax freeze for homeowners 65 and older so they would benefit from the higher tax exemption (HJR 4). The fiscal note on the enabling legislation, HB 4, noted this increase in the homestead exemption would result in an expected $1 billion property tax reduction. The legislation raised the basic allotment in the school finance formulas by $9 to $2,396, which triggered a higher minimum teacher salary schedule. The state held schools harmless from this increased cost by spending more state dollars and raising the Texas Lottery surcharge. The property tax changes were made retroactive starting January 1, 1997.

This effort may have lowered property taxes for those with a homestead. However, as seen in **Table 1**, the efforts to reduce the overall property tax burden failed. The property tax levy actually increased in 1997, and continued upward thereafter. The total property tax levy is up 218 percent since this failed effort.

### *2006—The Property Tax-Franchise Tax Swap*

In 2005, the Texas Supreme Court ruled the school finance system unconstitutional. The court found that the system violated the constitutional ban on a statewide property tax because school districts had very little discretion to set tax rates below the state's maximum allowable rate, violating the constitutional ban on a statewide property tax. In response, Gov. Rick Perry created the Texas Tax Reform Commission (Sharp) that devised a plan to reduce property tax rates while increasing state funding of education. Consequently, the Texas Legislature held a special session in 2006 to bring the school finance system into compliance. It did this by increasing the Texas franchise tax, the motor vehicle sales tax, and taxes on tobacco products (Haney) and using the revenue to increase state funding for public schools. Combined with changes in the school funding formulas and property tax caps, the Legislature expected its actions to bring the system into constitutional compliance and provide significant property tax relief for taxpayers.

However, this is not what happened. **Table 1** shows that the total property tax levy only declined by a little more than $400 million in 2007 and jumped by almost $5 billion over the next two years, despite the fact that the Legislature sent an additional $14 billion of taxpayer funds to public schools for the 2008-09 school years (LBB 2012, 2). So, instead of meaningful tax relief, the result was an increase in property taxes *and* state taxes in order to increase total public education spending (Ginn and Matthews, 2). Additionally, homeowners and businesses have since watched their property tax burden continue to increase; it is up 58 percent since 2006.

### *2015—Raising the Homestead Exemption by $10,000*

In 2015, lawmakers proposed to reduce the property tax burden by taking a similar approach to the 1997 efforts. The 84th Texas Legislature passed a joint resolution and voters overwhelmingly approved SJR 1 with 86 percent in favor (Ballotpedia, 2018b). This measure increased the homestead exemption from school district taxes by $10,000 to $25,000. By only increasing the homestead exemption for school district taxes as in 1997, this left property owners without a homestead, both individuals and businesses, with a higher tax burden as appraised values and tax rates increased. Though not mandated, the Legislature held harmless school districts by compensating them with state funds for any loss in property tax revenues. **Table 1** shows this provided no tax relief for Texas taxpayers in general. Instead, school property taxes increased by almost $1.7 billion and overall property taxes increased by almost $4 billion. Again, as in 1997, there was a shift in the tax burden from property owners with a homestead exemption to property owners without a homestead.

## Eliminating the School District Maintenance and Operations Property Tax

These data and experiences reinforce what everyone already knows—Texas' property tax system is broken and needs an overhaul before more people lose their homes, businesses, and property. This process can be started by passing effective limits on state and local spending and using the state surplus created by the limit to replace the M&O property tax within the shortest period possible. This proposal would result in a reduction of property taxes by almost one-half.

In order to eliminate the M&O property tax, estimated to raise $51.3 billion during the state's 2018-19 fiscal biennium, Texas will need to restrain spending growth. This would generate a surplus of state revenue to be used to replace property tax revenue and thus decrease the property tax each year. Our plan would limit biennial increases on GRR appropriations growth to 4 percent. Within this limit, the Legislature would be free to appropriate funds for any purposes for which it can legally do so, including for increases in education funding to cover enrollment growth and other purposes.

The appropriations limit would create a surplus of state funds because 4 percent is significantly below the historical state GRR growth averaging 10.08 percent per biennium from 2004-05 through 2016-17 (see **Table 2**). Thus the spending restraint would create a surplus of state funds averaging approximately 60 percent of new GRR funds per biennium. Ninety percent of this surplus will be used to eliminate school property taxes. **Table 3** shows projected surpluses under an average revenue growth scenario for upcoming biennia that could be used to replace local property tax revenue.

At the local level, each year school districts will set their M&O tax rate to reduce property tax revenue by the same amount they received from the state's replacement funding. On average, property taxpayers in districts across the state will see the same percent reduction in their taxes, though that might vary from one district to another—see more on this in the *Questions about Implementation* section. At the end, though, every taxpayer's M&O property tax burden will be identical: zero.

**Table 2.** GRR growth rate

| Biennium | GRR Growth Rate |
|---|---|
| 2006-07 | 19.9% |
| 2008-09 | 13.9% |
| 2010-11 | -11.1% |
| 2012-13 | 19.0% |
| 2014-15 | 14.1% |
| 2016-17 | 4.7% |
| **Average** | **10.08%** |

*Source*: Texas Comptroller and authors' calculations

Under the plan, districts could exceed the replacement rate with the approval of a majority of voters in an election with at least a 20 percent turnout. However, additional funds raised through a voter-approved tax increase would be fully recaptured by the state. So increases in education funding each year under the plan would come from the state.

**Table 3** shows that with average growth in GRR funds the $51.3 billion M&O school property tax can be eliminated in 11 years, with the last replacement payment made in the 12th year. During the eighth biennia of the replacement under the average scenario, spending restraint would generate $61.7 billion in replacement payments. Once the replacement is complete, there would be more than $12 billion on the table annually to deal with contingencies or eliminate or reduce other taxes, such as the margins or sales taxes.

An important component of the replacement plan is limiting the growth of property taxes by other local taxing entities. Counties, cities, and special purpose districts would be able to set their property tax rates to generate no more than a 2.5 percent annual increase, over revenue from the previous year, in property tax revenue. However, similar to the current rollback system, local governments could petition voters to increase total property tax revenue more than 2.5 percent. The approval of the higher rate would require a majority of voters in an election with at least a 20 percent turnout.

**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

The limits on counties, cities, and special purpose districts do not directly affect the buydown of the education M&O property tax. Instead, it keeps these other local governments from taking advantage of the lower school district property taxes by raising their tax rates. This is what they did in 2006, when school property taxes decreased by more than $1 billion, but increases by counties, cities, and special districts wiped out over $600 million of the school property tax cut.

## Questions about Implementation

Questions may arise about how changes in the economy, population growth, and inflation might affect the replacement. Additionally, questions might be raised about the effect of the replacement proposal on school districts generally, as well as districts facing certain circumstances such as "fast growth" districts and "Chapter 41 districts." Here is some information addressing these issues.

***Different Growth Scenarios***

There is no guarantee that the average rates of economic growth we have experienced since 2004-05 will stay the same over the next 10 to 14 years. Economic—and thus revenue—growth could be lower. In any given biennium, state revenue will vary. If its increase is above average, this will provide for a larger replacement payment than shown in **Table 3**. On the other hand, lower than average revenue growth would result in a smaller replacement payment. However, none of this is fatal to the replacement plan to eliminate the school M&O property tax. It simply means that the replacement period might be shorter or longer.

If the revenue available for the buydown is less, there are several different responses available to the Texas Legislature. The first is to simply be patient. Absent a major economic downturn, changes in economic and population growth and inflation are unlikely to extend the replacement scenario beyond 14 years.

Yet the Legislature may believe it necessary to modify the replacement scenario because not only do changes in the economy affect the replacement payments, they affect the amount of GRR funds available to the Legislature for spending. It could be, for instance, that GRR does not grow enough to allow spending to increase to the 4 percent limit. Or it could be that a natural disaster such as a hurricane or forest fire require additional spending. If under these circumstances members of the Legislature decide they want to exceed the appropriations limit and/or reduce the property tax replacement surplus, they could do so by a majority vote of both houses. In the case of lower revenue growth, the Legislature could reduce spending growth. In periods where the Legislature votes to reduce the property tax replacement payments, the period to eliminate half the property tax burden would be extended. But the process would continue.

***Additional State Aid for Tax Reduction (ASATR)***

The ASATR program was a hold-harmless provision for school districts after school finance adjustments in 2006 (Davis et al.). It expired at the end of the 2016-17 school year. During that school year, 265 districts still received some level of ASATR funding (Texas Education Agency 2018b). The 85th Legislature created hardship grants for the 2017-18 and 2018-19 school years available to districts affected by ASATR's expiration; the state appropriated $100 million for grants in 2017-18 and $50 million for grants in 2018-19 (HB 21). Since both ASATR and the hardship grants will have expired by the time any buydown would be implemented, the elimination of the M&O property tax would not have any additional effect on districts eligible for ASATR.

***Fast Growth Districts***

Fast growth districts represent a demographic phenomenon in Texas. As Texas' population continues to grow, student enrollment in Texas public schools has increased by approximately 80,000 students a year. The majority of the increase tends to cluster in a small number of Texas school districts. These districts have the benefits and challenges of a rapidly increasing enrollment level.

Fast growth districts, as they are commonly understood, are an unofficial category within Texas education. The term is generally used to refer to school districts with a high rate of student growth. The Fast Growth School Coalition defines fast growth school districts as those that have had:

1. Enrollment of at least 2,500 students during the previous school year; and
2. Enrollment growth over the last five years of at least 10 percent, or
3. A net increase of 3,500 or more students (Fast Growth School Coalition).

According to the coalition's president, Dr. Jamie Wilson, "Texas public schools enroll an average of 75,000 new students every year. Roughly, 80% of those new students are spread among just 75 of the state's more than 1,200 public school districts statewide" (Fast Growth School Coalition).

Since the 2004-05 school year, the student population has grown, on average, by 1.7 percent, or approximately by 80,000 students, annually. Funding to cover enrollment growth has always been dealt with through the funding formulas and the regular appropriations process. The plan to eliminate the M&O property tax does nothing to change how enrollment growth is dealt with in all school districts. Enrollment growth will still be dealt with through the funding formulas and the appropriations process—though the 4 percent spending growth limit will force the Legislature to wisely choose its priorities for funding.

***Chapter 41 and 42 Districts***

Districts in Texas are treated as "Chapter 41" or "Chapter 42" districts, depending on whether their property wealth level subjects them to Chapter 41 or Chapter 42 of the Texas Education Code.

Chapter 41 districts, which exceed a designated level of property wealth per WADA (weighted average daily attendance), are subject to wealth equalization measures, commonly known as "recapture." These districts have five options to reduce their property wealth. The two most commonly used options are making payments to a neighboring property-poor district and purchasing attendance credits from the state (those funds from attendance credits are then directed to funding property-poor districts) (Davis et al.). Chapter 42 districts fall below those property wealth levels and are not subject to recapture.

During the buydown, Chapter 41 districts would still be subject to recapture, but the amount will be reduced each year. The replacement funding will result in the elimination of recapture as state dollars replace local property tax dollars and district funding is no longer dependent on unequal property wealth levels. The amount of recapture eliminated each biennium will depend on the specific characteristics of each district, subject to two guidelines: spreading out the elimination of recapture over the course of the property tax elimination process and maintaining equal funding for equal tax effort. Eventually, M&O education funding will come only from the state and be allocated to districts through the funding formulas in the Foundation School Program. Thus equalization concepts addressing property wealth inequities such as copper pennies and golden pennies will be removed from state law. In other words, every school district will become a Chapter 42 district—there will be no more Robin Hood.

***Moderated District Spending Growth***

The public education system is plagued by inefficiencies. Yet rather than deal with these inefficiencies, school districts simply demand more dollars from taxpayers each year.

One of the messages districts typically use to push for more funding is the claim of unfunded state mandates. The Texas Association of School Administrators and the Texas Association of School Boards regularly update their list of state mandates. While there is no doubt that many of the requirements in state law do increase the cost of providing education, there is no truth in the concept that these are unfunded mandates.

The first education mandate in Texas law is that the state "establish and make suitable provision for the support and maintenance of an efficient system of public free schools" (Article VII, Texas Constitution). Providing classrooms, desks, instructional materials, and teachers, then, is the first and most expensive education "mandate" in Texas law. And the state provides funding for these from two sources: state and local tax dollars. The same is true for all education requirements in state law; the Legislature decides every two years how much funding from state and local tax dollars are needed to educate Texas school children. Thus all of state requirements, or mandates, are funded. There is no doubt that a number of these requirements increase the inefficiency of the state's education system and should be eliminated. Yet rather than push for their elimination, educators more often tend to use them as fodder in their push for more state funding.

Meanwhile, little attention is being paid to inefficient spending at the school district level. One of the biggest challenges in this area is the fact that too few dollars are going to the classroom. Though the best indicator of a child's ability to learn beyond parental involvement is usually the teacher, we don't value our teachers by putting more dollars in the classroom and spending less on non-teaching staff and amenities.

Texans spent $12,257 per student in the 2015-16 school year (Ginn and Matthews, 4). The cost of educating a standard classroom of 20 students would be roughly $245,000. Yet, with an average annual teacher salary of $51,891 (Texas Education Agency 2017, 19), teachers received only 21 percent of education expenditures. Given that teachers, along with parents, are one of the most important factors in the quality of education, this misdirection of funds away from the classroom is harming Texas students.

An example of how public education's focus on teachers—and children—has diminished is the staffing surge in administrators and other staff compared with teachers. Using data from the National Center for Education Statistics for the period FY 1993 to FY 2015, Scafidi notes that the number of Texas public school students increased by 48 percent while the number of staff increased by 61 percent. Administrators and other staff employment, not including teachers, increased by 66 percent compared with only a 56 percent increase in teachers. If public schools had increased the non-teaching staff at the same rate as its increase in students, Scafidi calculates that Texas could have increased teachers' benefits by an average of $6,318 or saved taxpayers $2.2 billion annually. By spending current education dollars more efficiently in the classroom, Texas could get a more effective education system that is equitable for students instead of the system.

Buying down the property tax will require school districts to refocus on students and teachers and become more efficient in their operations and spending. Funding increases for districts will continue to be subject to the will of the Texas Legislature, as has been the case in the past. Because of the 4 percent overall limit on spending growth, school funding increases may or may not stay at historical levels.

Yet the evidence shows that districts have plenty of room to increase efficiency. Particularly when it comes to prioritizing public schools' *raison d'être*: the education of students. School districts need to make a concerted effort to focus more of their funding in the classroom. Since 2004-05, Texas public schools have focused only 44.6 percent of their expenditures on instruction. If districts on average shifted less than 2 percent of their total spending to instruction, i.e., teacher salaries, online education, tutoring, etc., they would be able to maintain their historic growth in spending—in the classroom, where it should be being spent already.

***Moderated State Spending Growth***

There is no question that the 4 percent limit on spending of GRR funds needed to make the replacement scenario work in approximately 11 years calls for more fiscal responsibility than the Texas Legislature has exercised at times in the past. However, most recently, the Legislature has made significant strides in reducing spending growth.

In 2015, the comptroller forecasted that the Legislature would have billions of dollars of increased revenue available for spending. The forecast of $220.9 billion was much higher than the $203.3 billion in spending from the previous biennium, essentially making the Legislature flush with cash. But instead of spending it all, the Legislature did an amazing thing—it cut taxes and fees by almost $4 billion and kept a sizeable reserve. Overall spending increased only 2.85 percent. In its 2017 regular session, the Legislature showed similar spending restraint—although helped along by lower revenue growth. Spending by the Legislature came in under the Conservative Texas Budget's limit of 4.5 percent growth. So the Legislature has demonstrated the ability to make the 4 percent spending limit associated with the property tax replacement scenario happen.

The question, then, becomes one of priorities. Some spending may grow faster than 4 percent. In that case, the Legislature will have to decide which programs grow slower than 4 percent—or get cut. One common complaint by appropriators is that it is hard to restrain overall spending because of the growth in Medicaid spending—which is primarily controlled by the federal government. But this ignores the fact that there are many innovative ways to control Medicaid spending being explored these days that Texas has not yet sought to implement through Medicaid's waiver process. Likewise, there are many opportunities for innovation that could reduce spending growth in transportation and other areas that could be implemented—given the right incentives. A 4 percent spending limit used to eliminate the Robin Hood property tax might just be the incentive the Legislature has needed to take some of these steps.

## Conclusion

The property tax replacement scenario is unprecedented. Simply by restraining growth and pledging the generated surpluses to the elimination of a tax, it allows for a variety of possibilities to reduce the size and scope of government. Case in point: once the education M&O tax is eliminated, there will be a surplus of approximately $12 billion available to the Legislature. Of course, the pressure from Capitol insiders will be to spend it—on transportation, education, health care, or other projects favored by special interests.

The path forward, however—the path toward liberty, would be to continue the tax replacement scenario at the state level. There are numerous possibilities for a state that generates more than $90 billion in revenue from taxes each biennium. Taxes that could be reduced or eliminated include the sales tax, oil and gas severance taxes, the franchise tax, motor vehicle and fuel taxes, or the state's portion of the hotel occupancy tax. And each tax that is reduced or eliminated means less government spending on regulations, occupational licensing, and excessive criminal laws that burden our economy and reduce our liberty.

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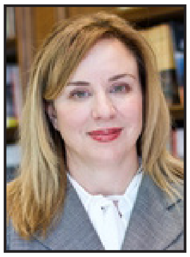
## About the Authors



**Kara Belew, J.D., CPA,** is an attorney and accountant with expertise in public education finance and policy. She served both Gov. Perry and Gov. Abbott in key education and budget positions. She recently served as Gov. Abbott's statewide budget director, focusing on franchise and property tax relief. As the senior education advisor at the Texas Public Policy Foundation's Center for Innovation in Education, Kara is devoted to ensuring that the $114 billion in taxpayer dollars spent on public education each biennium is utilized to improve student outcomes across Texas and not on water parks and expensive administration buildings. In addition, Kara works to ensure that taxpayers, parents, legislators, and educators are informed about Texas' dismal student results. She also focuses on policies that will support every child in Texas having good school options in their neighborhood, because no child should be trapped in a failing Texas school.

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