

The Case for Surplus-Financed Property Tax Relief

by Byron Schlomach, Ph.D., Chief Economist

The Texas Comptroller has spoken; Texas has an astonishing \$8.2 billion budget surplus. Common sense and sound accounting both tell us that a government with “money in the bank” over and above that needed to fund the current budget does, indeed, have a surplus.

There is a stark choice confronting Texas legislators today. They can either spend this windfall of hard-working taxpayers’ money, or they can return the funds that taxpayers have been overcharged for the current level of spending.

Some say the surplus isn’t real because they would like to have it spent on other “needs” that they have identified. Excluding federal funds, Texas’ inflation-adjusted budgeted spending per person in fiscal year 2006 is just under the record high. In a growing and increasingly affluent economy, it is difficult to believe that needs are even greater now than they were when the standard of living was lower.

Others say we cannot use the surplus to reduce property taxes because it will obligate us to fund the tax cuts in future biennia, and the money is not likely to be there. First, this ignores the fact that Texas has had a surplus in every biennium for 15 years, except at the worst of the recession in 2003. In addition, as the Comptroller has already demonstrated with new spending proposals, if the funds are not used to finance property tax cuts, they will be used for spending on new programs.


Whether for tax cuts or new spending, the money will be used to create a new obligation. One of these will keep the size of state government at just its current historical high. The other will grow state government to further, unprecedented levels.

Even the most pessimistic view of the newly revised \$8.2 billion surplus figure allows the legislature to buy down school property taxes more than enough to meet the requirements of the Texas Supreme Court. Any emergency spending needs could still be met, while satisfying taxpayers that real tax relief has occurred.

A significant property tax cut would boost the Texas economy, and help ensure that future revenues meet future spending priorities. Texas has one of the nation’s strongest economies for a reason—it has historically been a low-tax state. However, a weakness of Texas tax policy has been the investment-devastating level of the school property tax. It has hurt businesses and job opportunities at least as much as it has hurt homeowners.

Lowering the property tax burden and giving Texans a tax cut would make Texas a beacon for business relocation and expansion. Considering that 5.8 percent of the gross state product is lost to state and local business taxes, the seventh-highest burden in the nation, Texas businesses need a tax cut every bit as much as Texas homeowners.

Using the current surplus for property tax relief would send exactly the right message.

With an \$8.2 billion surplus, the legislature can make Texas the premier high-growth, low-tax economy in the United States. It should not fail to take advantage of this opportunity. 

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