

TTARA Webinar

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TEXAS PROPERTY TAX REFORM: How and Why



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Preface

- Pre and Post Property Tax Code (1979)
- Texas system now recognized as one of the best in the nation
- Far from the case pre-Code
- Too many poorly equipped and staffed tax offices
- Tax administration neither equitable nor legal

National Picture

- Federal ACIR study (1963)
- Called property tax administration nationwide one of the few “treasured relics of the pioneer days”
- Major findings:
 - Few officials felt any obligation to enforce the property tax laws as written
 - Average assessor was sort of a one-man legislature
 - Failure to tax tangible and intangible personal property
 - Exemptions unequally applied
 - Over reliance (“sham”) of using self-assessment to discover and value property

National Picture cont.

- Lack of professionally qualified assessors
- Fractional assessing and application of different assessment ratios to different types of property
- Lack of any semblance of statewide uniformity of administration
- Texas system no exception – more of a model of how not to administer property taxes

Texas Problems Well Documented

- Commission on State & Local Tax Policy (1959)
- Committee on State & Local Tax Policy (1966)
- Governor's Committee on Public School Education (1967)
- Texas Urban Development Commission (1969)
- Texas Constitutional Revision Commission (1973)
- Texas Constitutional Convention (1974)

Committee on State & Local Tax Policy (1966)

- Texas Research League provided staff
- 24 urban counties had average of 19 separate tax offices – 5 to 6 average in other 230 counties
- Each operated under a different set of rules and regulations
- Vast majority were too small, understaffed and ill-equipped
- Made a mockery of the constitution's guarantee that "taxation shall be equal and uniform"

Governor's Committee on Public School Education (1967)

- Estimate property value in each school district and measure level of school finance equalization
- Inequitable assessment was the rule, not the exception
- Property values not equalized and no semblance of uniformity
- No standard or uniform method for valuing property
- Assessment ratios differed dramatically by property class
- Much the same shown by Census Bureau ratio studies

Essential Elements of Good System

1. Administrable tax base
2. Single appraised value
3. Professional property appraisals
4. State oversight authority
5. Full disclosure
6. Accessible and independent valuation appeal

Texas Had None

- Result of a century of neglect
- Not a single constitutional tax roll
- Too many poorly equipped and staffed tax offices
- Administration neither equitable nor legal
- Little chance of correcting inequitable valuations or affecting tax rate adoption



1. Administrable Tax Base

- Constitution required taxation of all property, real and personal, tangible and intangible
- Universally ignored directive
- Bank stock and motor vehicles only exceptions
- Required uniform levels of appraisal nonexistent
- Widely varying assessment ratios by class of property was common

2. Single Appraised Value

- More than 2,000 tax offices
- Only state with multiple, overlapping appraisals and school districts assessing and collecting taxes
- 4 of every 5 school districts had their own tax office, the rest contracted with a city or county



3. Professional Property Appraisals

- 1967 COPSE study showed 6% of assessors had some professional certification and among tax offices 38% had appraisal records on all properties and 48% had adequate maps
- Many tax offices didn't bother to reappraise, just used rendered values or copied another entity's
- Instead of raising appraised values, assessment ratios were changed to produce needed revenue
- Allowed flat tax rates and rising tax bills
- Value more an "educated guess" or the result of "negotiation"

4. State Oversight Authority

- Did not exist
- State basically took a hands-off approach
- Viewed property tax administration as a job best left to local government officials

5. Full Disclosure

- Essentially game of hide-the-ball
- Goal to let taxpayers know as little as possible
- Difficult for even most sophisticated taxpayers to figure out how values were determined
- Actual assessment ratios seldom as claimed
- Values, actual assessment ratios and tax rates regularly remained unchanged year after year, except new property taxed at current value and claimed ratio
- Tax bill was first wake-up call for most taxpayers
- Little, if any, advance notice before tax rate was adopted, and taxpayer fates were sealed

6. Accessible/Independent Valuation Appeal

- Chance of relief slim to none
- Taxing unit governing bodies either served as or appointed boards of equalization
- No timely recourse from board decision
- No payment under protest
- Tax roll injunction or defense of delinquent tax suit
- Courts required onerous burden of proof and invented legal doctrines to deny relief
- Any remedy narrowly applied

No Legislative Action

- General dislike of the property tax
- Built-in inertia of a long-standing system
- Fear of resulting tax increases on favored taxpayers, especially homeowners and agricultural producers
- Loss of control by local taxing authorities
- 3Cs rule of public policy reform – crisis, consensus and commitment required



School Finance Case Spurred Reform

- *Rodriguez vs San Antonio ISD*
- School finance system violates equal protection guarantee in U.S. Constitution
- Filed in 1968 and 1971 ruling for plaintiff by U.S. District Court in San Antonio
- U.S. Supreme Court 5-4 reversal in 1973
- Basically found not a fundamental right guaranteed by constitution
- Sharply criticized system as unfair
- Said needed systematic reform but that was job for state lawmakers

State Aid Distribution

- 1949 to 1975 used “county economic index” to measure local taxpaying capacity
- Included factors such as: county property values; scholastic population; value added by manufacturing; wholesale, retail and service industry payrolls; gross value of mineral production; cash value of farm products
- Widely criticized as improper measure
- Property values recognized as preferred method and critically important to maintain equity
- Prevented by inequitable tax rolls

Commitment to Change

- Federal court decisions caused much discussion and study about what needed to be done
- Public officials from Gov. Briscoe and Lt. Gov. Hobby on down publicly acknowledged the need to reform school finance/property tax system
- Gov. Briscoe stated his conviction that every child in Texas was “entitled to a quality education that does not depend on the wealth of his parents or that of his school system”

Legislative Chronology

1973

- Rep. Peveto introduced first complete reform bill
 - Went nowhere

1975

- Rep. Peveto & Sen. Jones introduced companion reform bills
 - Passed House – 106 ayes
 - Died in Senate Committee
- Sen. Schwartz introduced TAAO assessor licensing bill
 - Passed Senate, died in House

Legislative Chronology cont.

1975

- School finance bill
 - Local share based on property values determined by 1974 GOER school district market value study
 - GOER formed by Gov. Briscoe after 1973 session

1976

- Property Tax Study Committee
 - Rep. Peveto, Chair & Sen. Jones, Vice Chair
 - Part of Legislative Council Recodification Project
 - Charged to craft complete overhaul of property tax system

Legislative Chronology cont.

1977

- Rep. Peveto & Sen. Jones introduced reform bills based on Study Committee's work
 - Again passed House only to die in Senate
- School finance bill
 - Created School Tax Assessment Practices Board
 - Conduct biennial study to determine school district property values
 - Establish minimum standards for administration of offices appraising property for school district taxation

Legislative Chronology cont.

1978

- Adoption of “Tax Relief Amendment”
 - Constitutional foundation for reformed system
 - Removed intangible and non-business personal property
 - Required truth-in-taxation
 - Provided administration and judicial enforcement of statutory standards and procedures for must originate in county where property located – amended 2009 to “shall be prescribed by general law”
 - Prohibited statewide valuation of real property

Legislative Chronology cont.

1979

- Passage of Property Tax Code (SB 621)
 - Rep. Peveto and Sen. Jones companion bills
 - Commonly called “Peveto Bill”
 - Created State Property Tax Board oversight agency
 - Transferred to Comptroller in 1991

1980

- Constitutional amendment removing provisions that impeded requiring counties to participate in appraisal districts
- Single appraisal and board of equalization per county

All The Bells and Whistles

1. Administrable tax base

- Intangibles and individual personalty out of tax base
- business personalty still problematically present

2. Single appraised value

- Central appraisal districts

3. Professional property valuations

- Licensed appraisers

4. State oversight authority

- Comptroller's Property Tax Assistance Division

All The Bells and Whistles cont.

5. Full disclosure

- Truth-in-taxation requirements
- Taxpayers given advance notice of both proposed property value and tax rate
- Opportunity to publicly express opinion about proposed tax rate and to say no (rollback) if taxes are to increase more than a specified amount

6. Accessible and independent appeal

- ARB, binding arbitration, SOAH, District Court

Work-In-Progress

- Anti-tax fervor not apt to wane anytime soon
- Past is prologue – continuing tradition of hundreds of bills filed each session
- Some make improvements – others not so much
- Furtherance of essential elements best test for separating the good from the bad
- Case in point: Last session's major enhancement of full disclosure by giving taxpayers access to information showing them what their tax bill will be if proposed tax rates are adopted



Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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