Appraisal Limits:
A Wrong Turn on the Road to Property Tax Relief?

A Report to the Texas Association of Property Tax Professionals

March 2004

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Executive Summary

Appraisal Limits: A Wrong Turn on the Road to Property Tax Relief?

Property taxes in Texas have risen dramatically over the last decade, focusing legislative attention on possible methods of slowing the increases in property taxes and lowering the overall property tax burden. One method receiving significant attention is limiting increases in the appraised value of property. The current 10 percent annual limit on the growth of residential homestead values since the most recent appraisal has been in place since 1997. The last legislative session saw six proposals designed to further restrict the growth in appraised values, including one suggestion to expand this limit to include business properties.

Fifteen states currently impose some form of appraisal limits. The most prominent—California's Proposition 13—was enacted in 1978. In examining the experiences of several key states, the evidence is overwhelming that appraisal limits have major shortcomings as vehicles for property tax relief. These shortcomings include the following:

- Appraisal limits undermine the long-standing Texas constitutional standard of "equal and uniform" taxation.
- Massive disparities arise in the property tax burdens of nearly identical properties, which often only differ by the year in which they were acquired.
- A detailed analysis of the impact of the 10 percent residential homestead cap in a major Texas county indicates that the chief beneficiaries of the limit tend to be taxpayers located in more affluent communities, because the property values in poorer residential communities typically do not grow at rapid rates.
- The market value of business properties in Texas indicates that many areas of the state are still suffering the effects of recession. For example, Travis County business values experienced nearly a nine percent decrease in 2003 from the previous year. The adoption of appraisal limits in the current environment will result in an inevitable shift in tax burden from businesses to homeowners as the economy begins to improve and increases in business value above the appraisal limit are shielded from taxation.
- Small and new businesses are the most adversely affected, in that they typically do not maintain a long-standing physical presence in the same location for a number of years.
- The administrative complexity associated with appraisal limits will result in increasing taxpayer confusion once the limits have been in place for a number of years.
- Local governments often end up facing revenue shortages when limits are imposed, with greater reliance placed on state sales and income taxes to fund what are traditionally viewed as local services.
- A greater state cost for programs like public education often results, which include state cost-sharing based on local property wealth.

Property tax relief is a worthy goal in Texas, but more restrictive appraisal limits are almost certain to inject a degree of unfair treatment among similarly-situated taxpayers. Solutions that rely upon enhanced state support for local services such as public education or expanded truth-in-taxation requirements and other tax rate limits are less disruptive to rational economic decision-making on the part of the homeowner and businesses than appraisal limits. The long-term economic future of all Texans will be at risk if the mistakes made in California a quarter century ago in moving away from market-value appraisals of property are repeated in the Lone Star State.

Background on the Preparation of This Report

Reducing local property taxes through the imposition of appraisal limits surfaced as a major issue during the 2003 Regular Session of the Texas Legislature, with six proposals introduced to impose various limits on property appraisals. In late 2003, the Texas Association of Property Tax Professionals (TAPTP) contracted with Moak, Casey & Associates, LLP, to prepare a "white paper" that examines the appraisal limit issue. The report was prepared by Dan Casey and Bob Popinski.

While this report was prepared at the request of TAPTP, the views expressed are our own. The views presented here do not necessarily reflect the positions of TAPTP or other clients of Moak, Casey & Associates, LLP.

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Appraisal Limits: A Wrong Turn on the Road to Property Tax Relief?

The monstrosity of reassessment of property to its current value when it is sold, along side of a similar property being assessed at 1975-76 levels plus only two percent annual increments, will prove economically, socially, and politically intolerable. It may take a few years for this to become clear, but Proposition 13 must be modified in this respect.[1]

Alan Post, legislative analyst for the state of California

Introduction

The property tax remains the major source of funding for local governments in Texas. While most local school districts count on state aid to help fund their budgets and the vast majority of cities also levy a local option sales tax, the property tax continues to play a significant role in funding the public services provided by these units of government, as well as counties, community colleges and a variety of special districts.

The total state and local tax burden remains relatively low in Texas, which ranked 46th among the states in 2000.[2] For the property tax component of state and local taxes, Texas ranked 15th nationally in 2000, collecting on average $950 per capita.[3] The United States per capita average was $885.[4]

In Texas, the property tax carries a substantial burden in funding many local services. It is not uncommon to have combined local property tax rates that range from $2.50 to $3.00 per $100 of taxable value in a number of metropolitan areas of the state. In the case of school districts, state aid now accounts for 36.2 percent of combined state aid and local tax revenue.[5] In the largest school district in the state—Houston ISD—the information from the Academic Excellence Indicator System for 2002-03 indicates that state aid accounts for 21 percent of its combined state aid and local property tax revenue, even though HISD is not classified as a property-wealthy school district.[6]

[1] Arthur O'Sullivan, Terri A. Sexton, and Steven M. Sheffrin. *Property Taxes and Tax Revolts. The Legacy of Proposition 13*. Cambridge: Cambridge University Press, 1995, 10

[2] Tax Foundation. *Comparing the Total Tax Burden in Each State*. April 9, 2003 For a 2003 inter-state comparison on total tax burden see Appendix 1, in which Texas also ranked 46th in overall tax burden.

[3] Texas does not have a state property tax.

[4] Michael Fitzpatrick, *Special Report: State and Local Property Taxes*. Tax Foundation. August 2001. No. 106. Texas does not impose a state property tax. For an inter-state comparison of state and local property tax collections see Appendix 2.

[5] Legislative Budget Board. *Fiscal Size-up 2004-05*. Table 89, 189.

[6] Texas Education Agency, *2002-03 Academic Excellence Indicator System*, Houston ISD District Report. Section II – pg 4. Based on state aid as a percentage of combined local property taxes and state aid.

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While there are currently a number of restrictions placed on the local property tax—these range from truth-in-taxation requirements governing the adoption of local tax rates to tax rate limits imposed on local school districts—recent legislative attention has focused on limiting increases in the appraisal value of properties taxed locally. The current ten percent annual limit on the growth of residential homestead values since the most recent appraisal has been in place since 1997, but the last legislative session saw six bills designed to further restrict the growth in appraised values, including one suggestion to expand this limit to include business properties in addition to homesteads.

This issue will continue to receive legislative attention. The Senate Finance Committee interim charges announced on January 21, 2004, included the following:

> **Public School Finance.** Provide support for the Joint Select Committee on the revenue and property tax relief portion of public school finance. Also, examine ad valorem taxation in Texas, focusing *on the establishment of growth caps and the impact of caps on local government finances* [emphasis added].[7]

This report begins by providing background information on the Texas property tax system. A framework is established for analyzing state and local efforts to limit property taxes. Property tax limits in other states are identified, followed by a detailed look at three states which have had property tax limits in place for a number of years: California, Massachusetts, and Colorado. Finally, a summary of recent legislative action in Texas is offered, followed by an examination of the impact and possible consequences of further restrictions on property appraisals in Texas.

Background

The property tax remains the largest single revenue source of funding for state and local governments in Texas. Property tax collections by all local governments exceeded state sales tax collections by more than $10 billion last year.[8] Property taxes fund the majority of the state and local costs associated with the operation of local school districts in the state, as well as meeting the need for school buildings (with additional support provided by the state).

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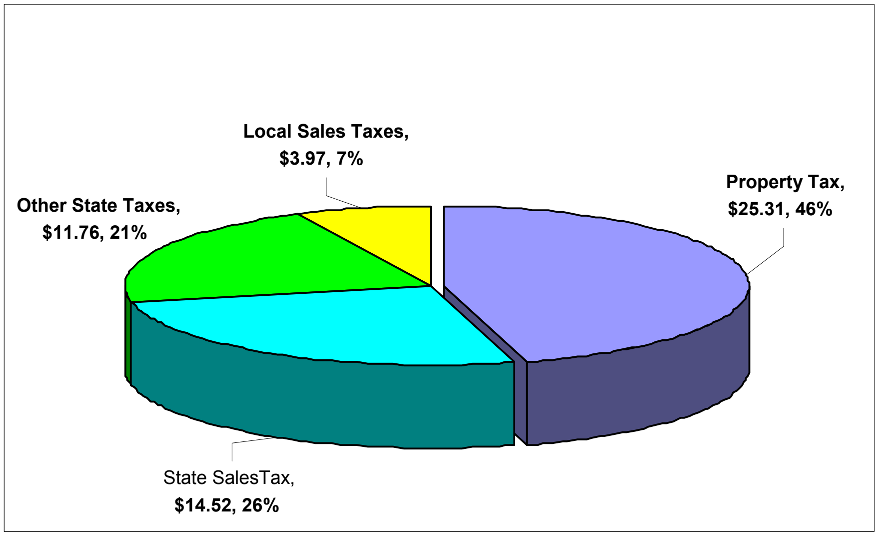
[7] Texas Lieutenant Governor's Office, *Interim Committee Charges to Senate Standing Committees and Subcommittees,* January 21, 2004.
[8] State Comptroller of Public Accounts. *Annual Property Tax Report Tax Year 2002.* Part I, 3.

Figure 1: State and Local Sales Property Tax as Percentage of Total Major Taxes, FY 2001 (Dollar Amounts in Billions)



Source: Texas Comptroller of Public Account, Annual *Property Tax Report Tax Year 2002*

Property Taxes in Texas

Property tax levies by Texas local governments totaled $27.3 billion for the 2002 tax year. School districts levied $16.4 billion of this amount, followed by cities ($4.2 billion), counties ($3.8 billion), and special districts ($2.9 billion). One tax policy concern is the growth in property tax collections over the last decade. The total property tax levy nearly doubled between 1992 and 2002, increasing from $14.0 billion to $27.3 billion.[9] During the same period, state tax collections grew from $17.0 billion to the $26.1 billion.[10]

In the case of public schools, the decade was marked by a significant shift from 46.1 percent of state aid as a percentage of state and local school support in the 1993 state fiscal year to 39.7 percent in 2003. The state-share projections for 2004 and 2005 fall to 36.2 percent and 36.3 percent, respectively.[11] This follows a 50-year period where the state share ranged consistently from 45 to 55 percent of state aid and local property taxes.[12]

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[9] See Appendix 3: Growth of the Property Tax by Unit Type, 1985 to 2002

[10] State Comptroller of Public Accounts. *Annual Property Tax Report Tax Year 2002.* Part I, 3.

[11] Legislative Budget Board. *Fiscal Size-Up 2004-05*. Table 89, p. 189.

[12] Moak, Casey & Associates, LLP. Based on a data series originally maintained by the Texas Research League, which merged with the Texas Taxpayers and Research Association several years ago.

The Texas property tax system underwent a major transformation in the late 1970s and early 1980s. The current system of county appraisal districts was established, with the purpose of creating a single appraised value for each parcel of property in the state (the earlier practice had each taxing unit arriving at its own assessment of value). Notice and hearing requirements governing the imposition of property taxes by local governments were established in the Texas Constitution. These changes are consistent with the long-standing constitutional centerpiece of state and local taxation in Texas: "equality and uniformity" for all taxpayers.[13]

The irony is that the same time California was enacting property tax limits under Proposition 13, Texas legislators charted a course to ensure full market value appraisals of all taxable property in the state. In 1997, voters approved a constitutional amendment and the Legislature adopted the necessary statutory changes to limit the increase in appraisals on homesteads to ten percent annually from the time of the most recent appraisal.

In addition to these measures, a tax rate ceiling exists for public schools—the maximum tax rate for operations is $1.50 per $100 of taxable value for most school districts. These rate limits were the basis for the required voter authorization that permitted school districts to levy taxes.[14] Many of these authorization elections occurred in the 1950s. While the school debt that is approved by voters is almost entirely in the form of unlimited tax bonds, a school district is required to provide information to the Attorney General's Office that indicates the district can retire any new bond issue (including remaining debt issued since 1992) with a maximum debt service tax rate of $0.50 per $100 of valuation. This calculation also includes state aid intended to reduce debt service taxes.[15]

Types of Tax Limitations

States and localities across the United States have employed a number of methods to limit the growth of property taxes. These range from disclosure and truth-in-taxation provisions to assessment or appraisal limits. Table 1 provides a summary of the different types of limitations, along with comments about the features of each approach.

While Table 1 provides a relatively simple framework for evaluating the different types of tax limitations, it can be used to illustrate some of the current practices in Texas. All local governments

[13] Texas Constitution, Art. 8, Section 1(a).
[14] Texas Education Code, Section 45.003(d).

are required to comply with the various truth-in-taxation requirements, including the public notice and rollback calculations.[16] As a general rule, the truth-in-taxation requirements begin with a calculation of the tax rate needed to raise the prior-year level of revenue. While these provisions do provide mechanisms that require voter approval of tax rate increases that exceed a particular threshold, local governments rarely consider tax rates that trigger elections. For example, in the 2002 tax year, only eight of the 3,655 local taxing units held rollback elections, of which five were successful.[17] Texas has established a ten percent annual limit on increases in appraised value for residential homesteads from the time of the most recent appraisal, as noted previously.[18] In addition, school districts have the $1.50 maintenance and operations tax rate limit noted above, which would be classified as a specific property tax limit.[19] Raising this rate would require both legislative approval and a vote by the school district's electorate to increase its tax authorization.

States with Property Assessment Limits

Given the variety in appraisal practices and other facets of property tax administration across the United States, it is often difficult to compare states in terms of the impact that these limitations have on the administration of the property tax system. For example, although Texas is one of the few states that does not require the disclosure of sales prices in real estate transactions, it has a program requiring appraisals of property at full market value on a regular basis, while many states do not. To cite another example, fractional assessments are not used in Texas, but they do appear in reviews of the practices of other states. Despite these differences, it is useful to examine the different types of limits that states have enacted to limit the growth of property taxes.

[15] Texas Education Code, Section 45.0031.

[16] Texas Tax Code, Chapter 26 includes the provisions affecting the various local governments.

Taxing units in Texas are allowed an 8 percent increase in operating taxes when calculating the roll-back rate (school districts are allowed an additional 6 cents on their tax rate). Local voters in a taxing unit must present a petition to roll-back an adopted tax rate that exceeds the calculated and published rollback rate (a school district that adopts a tax rate above its rollback tax rate automatically holds an election to ratify its adopted tax rate).

[17] State Comptroller of Public Accounts. *Annual Property Tax Report Tax Year 2002.* Part I, 5.

[18] Texas Tax Code, Section 23.23.

[19] For the 2003-04 school year, 494 of the 1,031 school districts are at or above the $1.50 M&O tax rate. There are 691 school districts within five cents of $1.50. The average M&O tax rate is $1.446.

Table 1: Types of Tax and Expenditure Limitations

Full Disclosure
• Increases taxpayers awareness of rate proposals • Provides opportunity for taxpayer participation
Truth-in-Taxation/Roll-Back Elections
• Requires local governments to comply with advertising and hearing requirements • Rollback rate yields same amount of revenue as prior year (excluding allowable new growth) • If a taxing unit adopts a rate that exceeds the rollback rate, voters may petition for an election to limit the rate to the rollback rate • Elections required in some cases
General Revenue or General Expenditure Increase Limit
• Caps total revenue that can be collected and attempts to constrain spending • Is often indexed to the rate of inflation
Property Tax Levy Limit
• Constrains total revenue that can be raised from the property tax, independent of the rate • Is often enacted as an allowable annual percentage increase in the levy
Specific Property Tax Rate Limit
• Is the most common form of tax and expenditure limitation • Sets a ceiling that cannot be exceeded without a popular vote • Applies to specific types of local jurisdictions (e.g. school districts, counties)
Overall Property Tax Rate Limit
• Sets a ceiling that cannot be exceeded without a popular vote • Applies to the aggregate tax rate of all local governments
Assessment Increase Limit
• Controls ability of local governments to raise revenue by reassessment of property or through natural or administrative escalation of property value
Adapted from: Advisory Commission on Intergovernmental Relations. *Tax and Expenditure Limits on Local Governments*. Center for Urban Policy and the Environment Indiana University, March 1995.

Fifteen states currently impose limits on property value appraisals or assessments for tax purposes (all but Texas, Florida, and Washington impose a state personal income tax). These provisions are summarized in Appendix 4. It should be noted that a number of these limitations were adopted through state initiative-and-referendum campaigns, a practice which is currently prohibited in Texas. California voters launched the most recent wave of U.S. "property tax revolts" in 1978 by enacting one of the most restrictive measures regarding tax and expenditure limitations, widely referred to as Proposition 13. After its passage, voter support across the country for fiscal constraints on government drastically increased the number of states that imposed tax and expenditure limitations. The reforms in Texas in the late 1970s and early 1980s were, to a large degree, a response to the perceptions of voters that reform of the property tax system was needed. From the passage of Proposition 2½ in Massachusetts (mentioned separately below, since it is a limit on the tax levy rather than assessment) to the limits approved in California and Colorado, 58 separate ballot measures appeared throughout the country between 1978 and the mid-1990s. The adoption dates indicate that intense public debate and discussion over tax and expenditure limits has continued for a quarter century.

The common traits that can be observed among these assessment limits are as follows: (1) the primary focus is residential property, with all fifteen states imposing limits on residential property, and eight states having varying degrees of assessment limits on commercial property; (2) the limit is structured as a mandated percentage or tied to an index for inflation; (3) and the value is generally re-established at some measure of market value when the property is acquired. In addition, new construction and improvements are generally excluded from the assessment limit.

The alternative property tax limits listed in Table 1 are arranged according to the severity of their impact on economic decision-making on the part of individuals and businesses. While these limits certainly have an impact on the revenues of local governments, they typically do not have a significant impact on an individual's decision to purchase a home or to move or expand the operation of a business.

The same cannot be said for limits on assessments, based on data that have become available from the quarter-century experience of California under Proposition 13, which are detailed in a later section of this report. These problems are summarized in a tax policy statement issued several years ago by the International Association of Assessing Officers (IAAO), a well-regarded professional association that includes professional appraisers and tax assessors among its membership. Their view of appraisal limits was detailed in a 1997 report entitled, *Standard on Property Tax Policy:*

> *Limits that constrain changes in assessed or appraised value of property may appear to provide control, but actually distort the distribution of the property tax, destroying property tax equity and increasing public confusion and administrative complexity. Owners whose properties are increasing in value more rapidly than the permitted rate of increase (say, 5 percent) receive a windfall at the expense of those whose properties are decreasing in value or are increasing at lower rates. In effect, valuation increase limits result in lower effective property tax rates for owners of desirable property and higher effective tax rates for owners of undesirable property. Legislators and the public should be made aware of these inequities and be actively discouraged from pursuing such limitations. Any other control is preferable.*[20]

Appraisal Limits and the Business Cycle

In analyzing the impact of appraisal limits, careful attention must be paid to the impact of business conditions on non-residential properties. The timing of the imposition of an appraisal limit is critical, especially when business properties have hit bottom. While some stability can generally be anticipated in the case of residential properties—especially single-family homes—business properties are likely to follow a much different pattern that depends on overall business activity and profitability.

Figure 2 shows the annual percent change for business properties in Texas from 1998 to 2003. These percentages are shown for the state and for Dallas, Travis and Collin Counties. As the graph indicates, double-digit increases were the norm through the 2001 tax year. (These calculations include new properties added to the tax roll, as well as reappraisals.)

The 2002 and 2003 tax years tell a different story, with actual decreases in the value of business properties for the counties listed. (Business property decreased in value by nearly nine percent in

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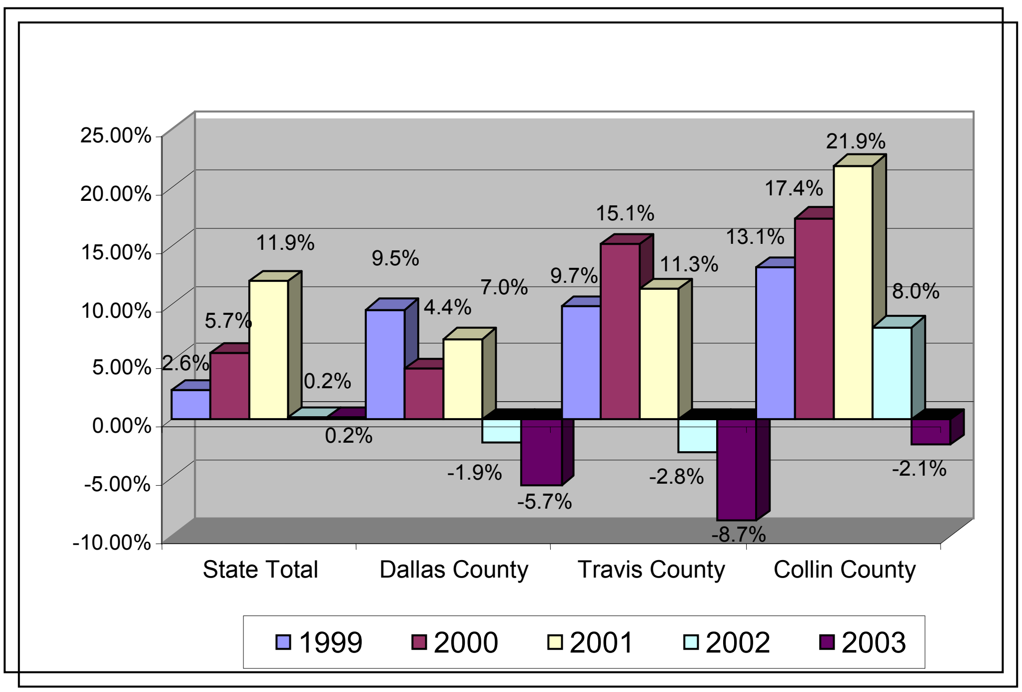
Travis County in 2003.) The impact of imposing appraisal limits during a struggling economy is clear: more of the tax burden will be shifted to homeowners to finance local services. Business owners who maintain their original property will be the major beneficiaries, since any increases in market value above the appraisal limit will be shielded from taxation. It would also take a number of years for local government finances to recover as the economy improves, which could adversely affect public services that are necessary for economic development.

Figure 2: Annual Percent Change in Business Property, State and Selected Counties, 1999-2003



[20] International Association of Assessing Officers, *Standard on Property Tax Policy.* August 1997. http://www.iaao.org.

Other States
This next section explores three of the most publicized voter-initiated limitations on tax and expenditures: California's Proposition 13, Colorado's Gallagher Amendment, and Massachusetts' Proposition 2 ½.

California's Proposition 13: A Closer Look at the Effects of Tax Rate and Assessment Limitations
Proposition 13 was enacted by California voters in June of 1978, with 65 percent of the voters favoring the proposed tax-limitation measures. Proposition 13 not only set the maximum allowable property tax rate at one percent, but upon passage it rolled back all property values (residential and commercial) to the 1975-76 values. Proposition 13 allows the yearly property value assessment to increase with market value, but by no more than two percent. When the property is sold, however, it must be reassessed at its full market value, also known as the *acquisition value*. The measure, however, prohibits the state and local governments from imposing any other property taxes, sales taxes, or transactions on real property. Local governments can levy new development fees, real estate transfer fees, business license fees, utility user fees, sewer charges and park and recreation fees. Tax increment financing is also an allowable method of raising additional revenue for local governments. By adopting Proposition 13, the voters of California reduced local property tax revenue from $10.3 billion to $5.6 billion in 1978, a 45 percent decrease. [21]

Given that 25 years have passed since its adoption, the Proposition 13 experience clearly demonstrates that assessment limits can profoundly change the nature of property taxation in a state. Converting a traditional ad valorem property tax based on market value appraisals into an acquisition-based property tax with strict limits on value increases can create significant disparities in property tax bills among owners of comparable residential or business property.[22]

One of the core principles of fairness in taxation is the concept of "horizontal equity." A standard textbook definition is, "People in equal positions should be treated equally."[23] A simple example illustrates the extent to which this principle is violated with properties that are subject to the limit versus those that are appraised at acquisition value after a recent purchase. As seen in Table 2, if two identical homes purchased in 1978 at $150,000 remained off the market with no additions or

[21] *Proposition 13: Its Impact on California and Implications for State and Local Finances*, California Budget Project, April 1997.
[22] Arthur O'Sullivan, Terri A. Sexton, and Steven M. Sheffrin. *Property Taxes and Tax Revolts. The Legacy of Proposition 13*. Cambridge: Cambridge University Press, 1995, 4

renovations to the property, the value for tax purposes in 2003 would be an estimated $246,100 assuming the two percent annual limit on assessment.

In the case of two identical homes being purchased (one in 1978 and one in 2003), however, there is tremendous disparity in the annual property tax that is levied. The 2003 buyer would pay taxes on the market value, or acquisition value, of the home ($507,953, assuming a 5 percent annual increase in value), and the long-time owner would pay taxes on the value of the home with the two percent annual assessment limitation ($246,100). The owner who purchased the house in 2003 would have an assessment value 2.1 times greater (also known as a disparity ratio) than the owner who purchased the home in 1978.

Table 2: Assessment Value with 2 percent Limit Compared with Acquisition Value assuming 5 percent inflation rate

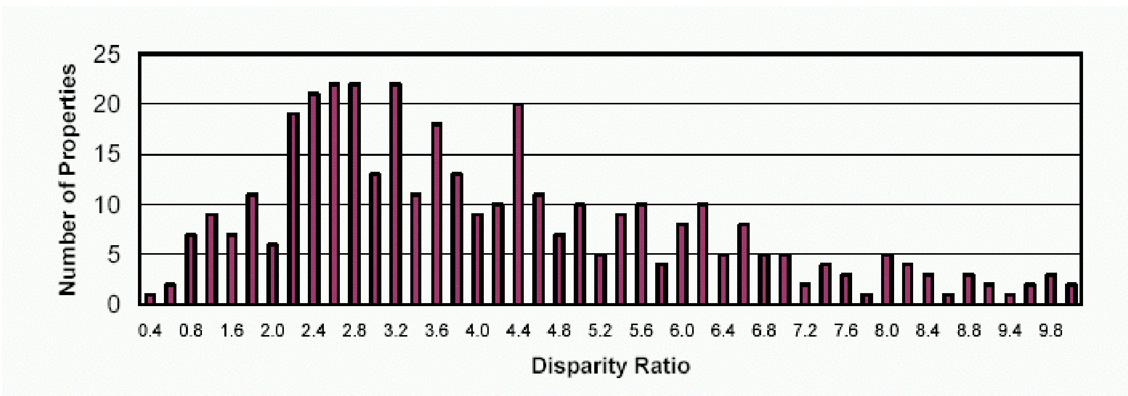
	Assessment Value (assuming 2 percent assessment limit)	Acquisition Value (assuming 5 annual increase in value)
Year 0 (1978)	$150,000	$150,000
Year 25 (2003)	$246,100	$507,953
disparity ratio: 2.1		

Disparities such as these have become prevalent in California—most notably among commercial property. Commercial property owners such as Disneyland and Capitol Records, which were well-established businesses prior to the passage of Proposition 13, currently pay drastically different amounts in property taxes per square foot than those businesses that have recently established themselves in California. New commercial property owners, such as the owners of the Wells Fargo Center and the Sun America Center pay a $1.77 and $5.00 per square foot, respectively, in property taxes. Disneyland pays property taxes of only a nickel per square foot ($0.05/sq.ft), on its original property and the famous Capitol Records building, in close proximity to the Wells Fargo Center, pays property taxes of only ten cents per square foot ($0.10 sq/ft).[24]

[23] Harvey S. Rosen. *Public Finance*. 5th Edition, 1999, p. 323.
[24] Dan Morain, " Firm's Prop. 13 Savings Are Coveted," *Los Angeles Times*. June 30, 2003.

According to a 2003 study, the median disparity ratio for a sample of non-modified commercial/industrial properties in Los Angeles County is 4:1, meaning that the actual market value of non-modified commercial property is approximately four times higher than their assessed value for tax purposes.[25] The range of the disparity ratios highlighted in Figure 3 reach nearly as high as 10:1 in some cases.

Figure 3: Disparity Ratios for Non-Modified Commercial and Industrial Properties with 1975 Base Years: Los Angeles County 2002



Source: Sexton, Terri and Steven M. Sheffrin. *The Market Value of Commercial Real Property in Los Angeles County in 2002*. February 2003.

Warren Buffet, the much-heralded billionaire investor and financial adviser to Arnold Schwarzenegger during his successful campaign for Governor of California, also recently noted the property tax disparity in California. In a November 3, 2003 *Wall Street Journal* article, Buffet pointed out that "residential property taxes in California are widely capricious, tied as they are to date of purchase rather than value of property or financial circumstances of the owner." Referencing a home he purchased in Laguna Beach in the early 1970s with a current market value of $4 million and a home he purchased near by in the mid-1990s with a current market value of $2 million, Buffet explained that he paid only $2,264 in 2003 property taxes for the home purchased in the 1970s and over $12,000 in 2003 property taxes for the home purchased during the mid-1990s. Buffet stated that in the same neighborhood, with the same owner, and same ability to pay, the tax rate on the most recent house purchased is 10 times the rate of the house purchased thirty

[25] Terri Sexton and Steven M. Sheffrin. *The Market Value of Commercial Real Property in Los Angeles County in 2002*, February 2003.

years ago. Buffet wrote his sympathies are with the "non-billionaire" families that recently purchased a $300,000 home. Buffet stated that because of Proposition 13, it is families like these that have been selected to subsidize him. [26]

In an attempt to raise additional revenue for education by increasing commercial property taxes by 55 percent, a Hollywood movie producer and the California Teachers Association (CTA) filed a ballot measure to that effect with the California Attorney General on November 14, 2003.[27] One estimate by the California Tax Association is that the increase to a 1.55 percent tax rate for commercial property would cost taxpayers not excluded around $8 billion a year in additional taxes. The Legislative Analyst's Office and the Department of Finance in California, however, estimate the increase in taxes to be $6 billion.[28]

The executive director from the California Businesses Properties Association commented that the new initiative would not just be a "job killer" because of higher property taxes for businesses, but an "economy killer." He stated, "The initiative will cripple California's economy, dramatically increasing taxes on businesses just as the economy is starting to improve. The proposal would hit small businesses especially hard, amounting to a more than 50% increase in property taxes, coming at the same time small businesses are trying to contend with skyrocketing workers' compensation costs, rising health care costs, unemployment insurance fund increases, and a host of other increases that raise cost of doing business in California."

While tax and expenditure limitations have successfully reduced the overall property tax burden for both residential and commercial property owners in California, they have not controlled the overall tax burdens placed on taxpayers.

With the passage of Proposition 13, the relative importance of the property tax significantly changed the fiscal structure of state and local government.[29] California has increased the general sales tax rate, as well as tax rates on gasoline, cigarettes, beer and wine in order to develop

[26] *Warren Buffet Response to the Journal.* Wall Street Journal Online. November 3, 2003
[27] For commercial real property other than commercial residential property, an additional ad valorem property tax at the rate of .55 percent of the full cash value of the property. For commercial residential property, an additional ad valorem property tax rate not greater than .55 percent of the full cash value.
[28] Cal Tax Online (a service of the California's Tax Association) http://www.caltax.org
[29] Terri Sexton. 106

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alternative sources of revenue.[30] Proposition 13, however, also transformed the property tax from a local tax into a statewide tax. This transformation requires the state to apportion the revenue collected by the property tax through a set of complex rules that essentially allocates the property tax revenue as follows: 53 percent is allocated to school districts; 18 percent to counties; 18 percent to special districts; and 11 percent to cities.[31]

Proposition 13 has altered the financing of numerous entities, including California's Community College System. During the early 1970s, local property taxes accounted for approximately 65 percent of the total revenue for California's Community College System. Upon passage of Proposition 13, the local property tax quickly accounted for less than 20 percent of all revenues. This left many community colleges without funding to maintain their current service levels without additional support from the state. Although economic growth slowly increased the share local property taxes contributed to the system, its still less than 40 percent. The system now depends heavily on the state's general fund, as well as the state lottery and enrollment fees to finance a majority of their services.[32]

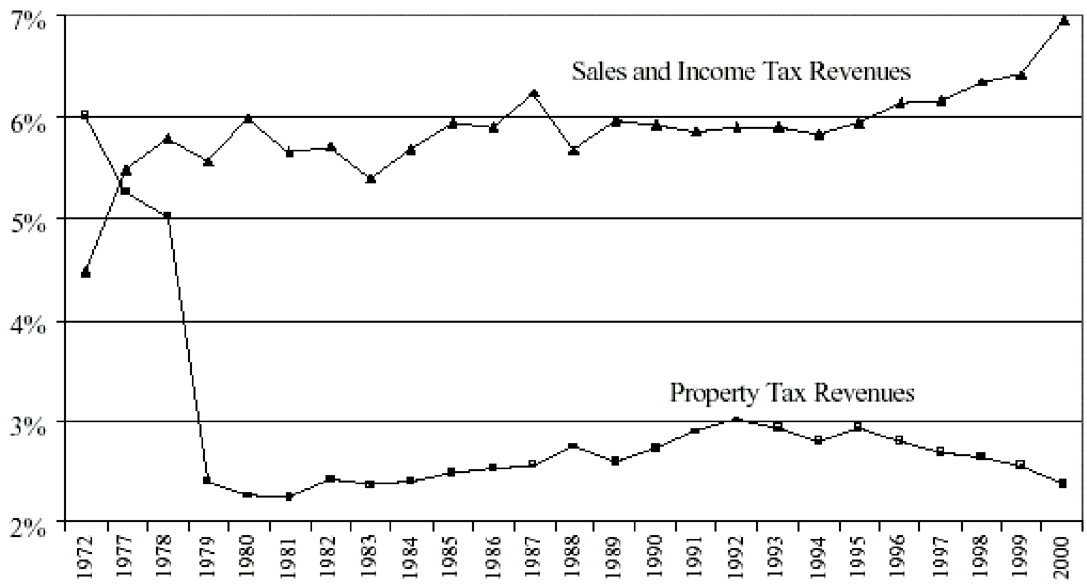
As detailed in Figure 4, the property tax has not exceeded three percent of state personal income in California since the passage of Proposition 13. Sales and income taxes, however, have seen fairly sharp increases during the 1980s and 1990s, while personal income grew at an average annual rate of 7.3 percent between 1979 and 2000.

[30] Michael J. New. *Limiting Government through Direct Democracy: The Case of State Tax and Expenditure Limitations*. Cato Institute Policy Analysis: December 13, 2001.
[31] Terri A. Sexton, et al. *Proposition* "13: Unintended Effects and Feasible Reforms," *National Tax Journal*. Vol. 52 no. 1, March 1999. (March 1999) pp. 99-112.
[32] Murphy, Patrick J. *Financing California's Community Colleges*. Public Policy Institute of California: 2004, pp 12-3.

The California Public School System

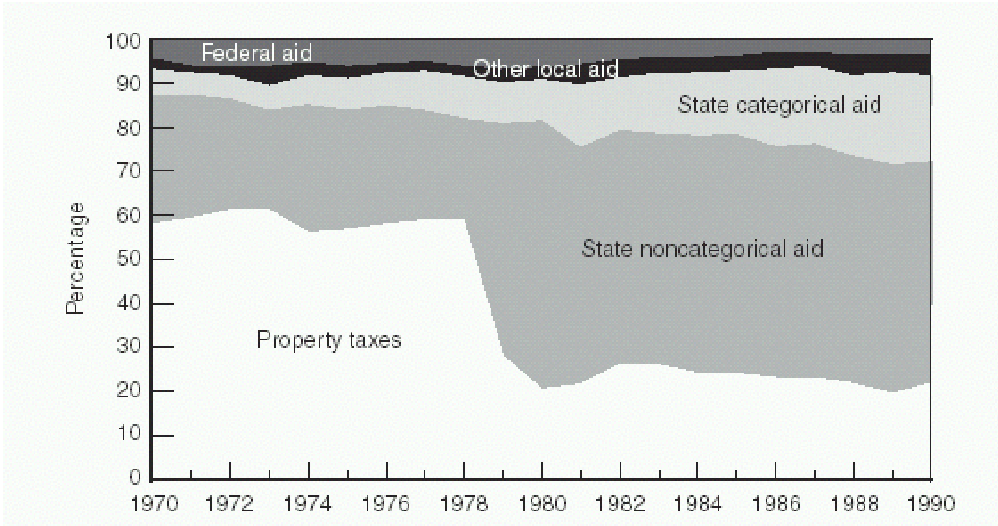
After the passage of Proposition 13, school districts lost 50 percent of their property tax revenue. The state, in order to soften this significant loss, used a $5 billion surplus and several other "bailout" measures to fund schools. School revenues, however, decreased by up to 15 percent in wealthy districts and by nine percent in lower-income districts. Figure 5 shows the shift in the sources of public school revenues.

Figure 4: California Property Taxes vs. Sales and Income Taxes (as a percentage of state personal income)



Source: Michael New. *Proposition 13 and State Budget Expenditures: Past Success and Future Options*. June 19, 2003. p. 4. Author's calculations based on U.S. Bureau of the Census data. Data for 1973-76 not available. Includes taxes levied by both state and local government.

Figure 5: Composition of School California School District Revenue, 1970-90



Source: Sonstelie, Eric. *For Better or For Worse? School Finance Reform in California.* Public Policy Institute of California: 2000.

As James Guthrie, a national school finance expert, stated recently, "The detrimental consequence of Proposition 13 isn't so much money, as how it changed the governance structure of California's education system. Proposition 13 centralized decision-making. It changed California from a local system of local schools, to a state system." [33]

Colorado: The Gallagher Amendment

In 1982, Colorado voters approved a constitutional amendment known as the Gallagher Amendment that requires commercial property owners to pay 55 percent of all property taxes, with residential property owners paying the remaining 45 percent. All commercial value in Colorado is assessed at 29 percent of market value. Residential property, however, has a fluctuating assessment ratio in order to keep the 55/45 property tax levy ratio constant. While the Gallagher Amendment is not a traditional limit on increases in appraised values, it illustrates the problems associated with treating residential and business properties differently for taxation purposes.

While the flexible residential assessment ratio remained a constant 21 percent from the passage of the amendment in 1982 to 1986, it began to decline drastically beginning in 1987, from an 18 percent assessment ratio to a 9.15 percent in 2002. This decline in residential assessments led to effective tax rates that were drastically different for commercial and residential property. As seen

[33] "The Special Challenge of Proposition 13." *The Merrow Report*, PBS. http://www.pbs.org/merrow/tv/ftw/prop13.html

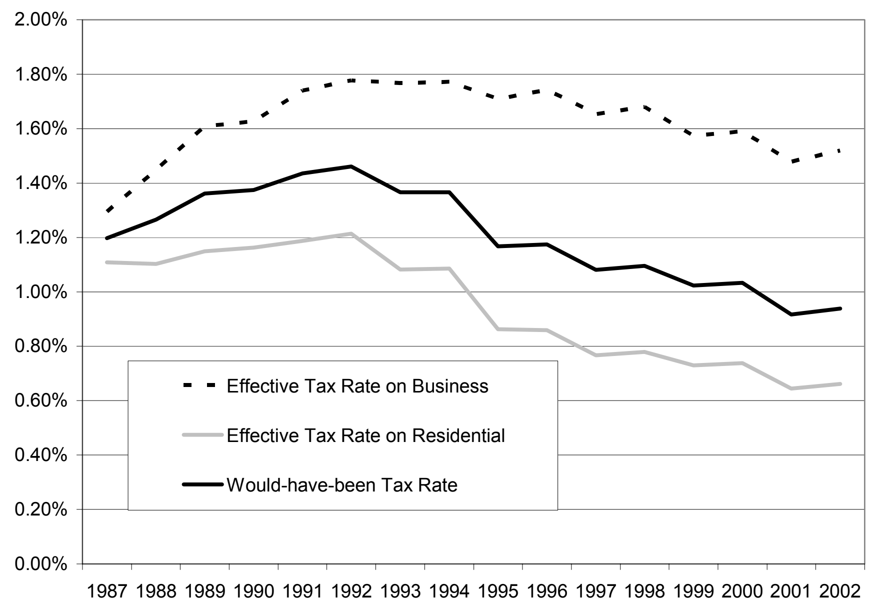
in Figure 6, if the Gallagher Amendment had not been approved in 1982 the tax rate for commercial and residential would have seen some fluctuation in rates with a high of 1.46 percent in 1992 and a low of 0.92 percent in 2001. With the constitutional amendment in place, however, the differences in effective tax rates for commercial and residential property are striking.

Commercial property owners had an effective tax rate of 1.78 percent of assessed value in 1992 and 1.48 percent in 2001. Residential effective tax rates, conversely, were 1.21 percent in 1992 (0.57 percent lower than commercial) and only 0.64 percent in 2001 (0.27 percent lower than commercial). The largest gap between the effective tax rates for commercial and residential property occurred in 1998 when there was a 0.90 percent difference, a 1.68 percent effective tax rate for commercial and a 0.78 percent effective tax for residential property owners.[34] This drastic decline in residential rates has saved homeowners nearly $7 billion since 1987, while businesses have not seen a reduction. Even if there was a legislative effort to reduce property taxes for businesses, the 55/45 percent ratio required by the constitution would automatically decrease the residential assessments as well. The failure to reduce commercial property rates has caused great concern that businesses, especially manufacturing firms, are no longer locating in Colorado due to the high commercial property taxes.

The Gallagher Amendment also interacts with the 1992 constitutional Taxpayer's Bill of Rights (TABOR) amendment. This voter-approved amendment imposes revenue and spending limits on all levels of government and prevents taxes from increasing without voter approval. The interaction between the two amendments has initiated a possible shift in reliance from taxes to fees to support local government. The greater concern, however, is that there has been a shift from local taxes to the state's coffers in order to fund current services. Since the passage of Gallagher, and the subsequent passage of TABOR, the state's share of education funding has increased by approximately 40 percent—an annual amount that is an estimated $400 million greater than it would be otherwise without Gallagher and TABOR.[35]

[34] Calculations provided by the Texas Taxpayers and Research Association.
[35] Mike Coffman, Colorado State Treasurer. *Treasure-E-Notes: The Budget and the Constitution*. February 26, 2003.

Figure 6: Effective Tax Rates on Business and Residential Property in Colorado since the Adoption of the Gallagher Amendment in 1982



Source: Calculations provided by the Texas Taxpayers and Research Association.

Massachusetts: Proposition 2 ½

While Massachusetts' Proposition 2 ½ is also a variation from a typical limit on appraised values, it is one of the most highly publicized property tax reduction efforts, probably second only to Proposition 13 in California over the last 25 years. For several decades—the 1960s to the 1980s—per capita property taxes in Massachusetts were well above national average, and as many states began enacting tax and expenditure limits in the late 1970s, per capita property taxes in Massachusetts ranked as the highest in the nation.[36] In 1980, however, the voters of Massachusetts enacted Proposition 2½, which placed two limitations on the amount of property taxes a city or town can raise:

1. The property tax levy ceiling (the amount raised) can never exceed 2 .5 percent of the full cash value of all taxable property in the city or town.
2. The property tax levy cannot increase from year to year by more than 2 .5 percent, with certain exceptions for new growth, or through overrides and exclusions as adopted by the voters.

[36]David M. Cutler, *Restraining the Leviathan: Property Tax Limitation in Massachusetts.* p. 314.

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Of the 351 cities and towns, 191, or 54 percent, had effective tax rates higher than the allowable 2.5 percent. To reduce these tax rates in order to comply, the cities or towns had to reduce their tax levies and raise the estimated market value of local properties to it full-market value. Prior to Proposition 2½, most communities in Massachusetts did not assess property at its full-market value, but the new law required full-market-value assessments.[37] Those communities that still had to tax above the limit were forced to reduce their tax burden by 15 percent annually until the limit was reached.

The initial impact of these reductions was to decrease property tax revenue by 18 percent in the affected communities (those already taxing at or below the 2.5 percent were not affected). The reductions in revenue did affect approximately 42 percent of all communities, encompassing three-quarters of the state's population. Due to an economic boom and new growth, these cities and towns saw their tax revenues increase by approximately nine percent per year from 1984 to 1989, but by 1990 the economic prosperity had ended and new revenues only increased by an estimated one percent per year during the early 1990s.

Recent Legislative Action on Assessment Limits in Texas

Recent legislative efforts in Texas have focused on limiting the growth in the appraised value of residential homesteads. As noted above, a constitutional amendment approved by the voters in 1997 limited residential homestead appraised-value increases to ten percent annually from the time of the latest appraisal.

The 78th Legislative Session revealed continued interest in limiting the annual increases in value for residential homesteads, especially on the part of legislators from Harris County. With only one other bill introduced during the two legislative sessions subsequent to the passage of Senate Bill 841 by former Senator David Cain in 1997[38], the 78th Legislative Session had six legislative members introduce bills proposing limitations on residential homestead assessments. In addition, a floor amendment to SJR 1 offered by Senator Janek removed the current ten percent limitation from the Constitution, permitting the Legislature to enact any percentage limitation that it desired by statute. The Texas House failed to act on SJR 1 during the 2003 Regular Session. None of the

[37] Katherine L. Bradbury, Christopher Mayer, and Karl E. Case. "Property Tax Limits, Local Fiscal Behavior: Evidence From Massachusetts under Proposition 2 ½." *Journal of Public Economics*. Vol. 80, 2001, p.290.

[38] SB 587 by Sen. Drew Nixon in 1999 proposed lowering the ten percent increase limit to a five percent.

limitation bills that were introduced were enacted and sent to the voters for approval as a constitutional amendment.

Table 3: Proposed Bills and Resolutions during the 78th Legislative Session on Assessment Limits

House/Senate Bill Number	Representative/Senator	Proposed Assessment Limit
House Bill 474/HJR 32	Rep. Wong	Five percent on residential homesteads
House Bill 846/HJR 9	Rep. Howard	Two percent on residential homesteads
House Bill 1787/HJR 69	Rep. Hegar	Zero percent on residential homesteads
House Bill 3223/HJR 4	Rep. Bohac	Five percent on residential homesteads and business properties
Senate Bill 180/SJR 10	Sen. Janek	One percent on residential homesteads
Senate Joint Resolution 1	Sen. Shapiro	Eliminate current 10 percent limit with no restriction on percentage

Financial Impact of Assessment Limits in Texas

Value Loss Due to 10 Percent Cap

The value lost—or at least deferred—as a result of the ten percent cap on residential homesteads is shown for the tax years 1998 to 2003 in Table 4 and Figure 7. As the data indicate, the amount of value lost as a result of the ten percent cap increased from $1.9 billion for the 1998 tax year to $14.1 billion in 2001. The value loss remained at the $14.1 billion level for tax year 2002, but decreased to $10.9 billion in 2003.

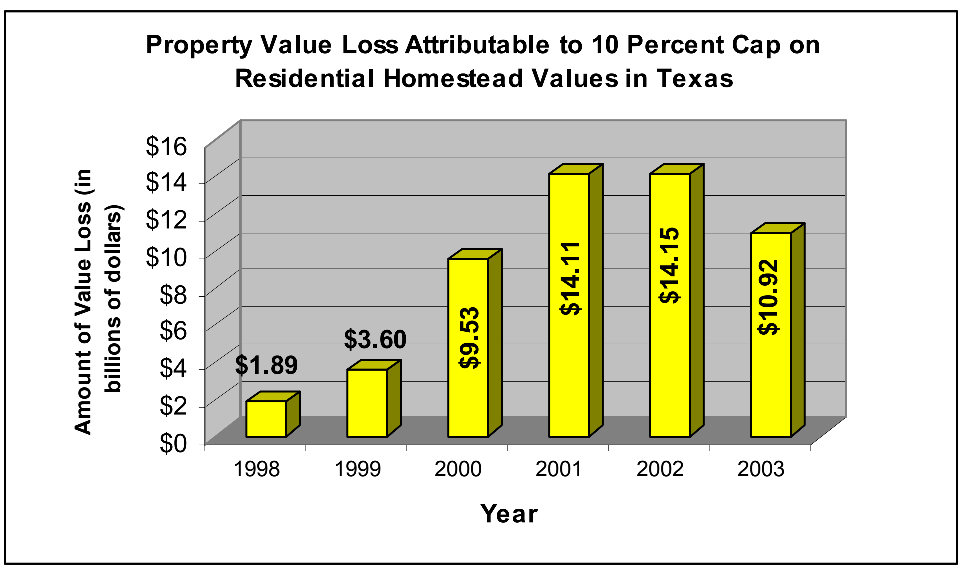
In terms of revenue impact, if the 2003-04 school district total tax rates are applied to the lost or deferred value as a result of the ten percent residential homestead cap, an additional $181 million in tax revenue would have been collected by school districts that year. (It is expected that some of the affected school districts would also have earned additional state aid in response to increased local tax collections, although this amount has not been estimated here.) Assuming the same proportion of city, county and special district tax collections to school district taxes, as in the previous year, these other units of local government would have generated an additional $120 million in the 2003-04 fiscal year, if this additional value had been available for taxation. The combined local revenue would have totaled $301 million under the reduced 2003 cap value.

Table 4: Value Loss Attributable to 10 Percent Cap on Residential Homestead Values

Tax Year	Amount of Value Lost	Percent Increase/Decrease
1998	$1,891,363,716	-
1999	$3,603,192,626	90.51%
2000	$9,526,363,654	164.39%
2001	$14,113,980,926	48.16%
2002	$14,152,209,212	0.27%
2003	$10,921,798,352	-29.6%

Source: Comptroller of Public Accounts, Annual Property Tax Report and Self-Report files, various years.

Figure 7: Value Loss Attributable to 10 Percent Cap on Residential Homestead Values in Texas, 1998-2003



Source: Comptroller of Public Accounts, Annual Property Tax Report and Self-Report files, various years.

Impact on Bond Ratings

Credit research firms, such as Moody's and Standard and Poor's, review several criteria in determining the bond rating of a local government. Municipal debt, financial performance, local economy and tax base and municipal management all play key roles in determining the rating. A small upgrade of a municipal bond from an "A" to "AA" could save the local government and its taxpayers significant payments of interest costs. Although tax base growth is not the sole reason a local government can receive a higher bond rating, tax base growth does play an important role in the overall determination, according to a Moody's analyst.

A full-value assessment is not a distinct rating indicator for Moody's or Standard and Poor's, one way to achieve sound management and upgrade a bond rating according to a New York property assessor, is to use a "well defined method of raising revenue to fund the budget—taxes based on assessment. The assessor believes that this sound management includes involving community stakeholders. To do this, he states, properties have to be assessed in an understandable manner: market–value."

In 1983, Texas passed a constitutional amendment that allows the Permanent School Fund to guarantee qualified school district bonds (giving a program rating of "AAA" with an outlook of 'stable'). Other taxing units in Texas do not receive this same backing.

Revenue Effects of Slower Value Growth

One of the major concerns associated with stringent limits on appraised value increases is a gradual erosion of the property tax base. In order to illustrate this point, a school district revenue model was prepared for the 2002-03 school year that assumed a one percent decrease in appraisal district values and a one percent decrease in state property values for the previous year, as determined by the state Comptroller numbers that are used in the calculation of state aid. The impact of this change is reflected in Table 5.

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Table 5: Impact of a One Percent Decrease in Taxable Values for Texas Local Governments, 2002-03 Fiscal Year

Category	Amount
School District M&O Collections	-$152.87 million
Increased State Aid for Schools	$98.58 million
Reduced Recapture	-$32.95 million
Debt Taxes for Schools	-$8.76 million
Estimate Tax Collections for Other Local Governments	-$101.49 million

Source: Moak, Casey & Associates, LLP: State Model Run for 2002-03

From the results shown above, a one percent decrease in local taxable and comptroller values for school districts results in reduced maintenance and operations tax for school districts of $152.9 million. State aid increases of $98.5 million partially offset this reduction in revenue, as did a $33 million reduction in recapture costs. Debt service taxes are reduced by $8.8 million. In addition, assuming that the tax collections by cities, counties and other local governments remain at the same relative proportion to school district taxes (60.1 percent in school taxes to 39.9 percent for other local governments), an additional $101.5 million reduction in tax collections for these local governments would have resulted.

One concern is that the one percent example might substantially understate the impact of appraisal limits. This is particularly true for many business properties that are currently on the downside of the business cycle. Appraisal limits might very well serve to limit potential revenue sources for Texas local governments as the business cycle improves, keeping the value of these properties well below market values. There is also the question of how business personal properties and minerals would be treated under a strict value limit.

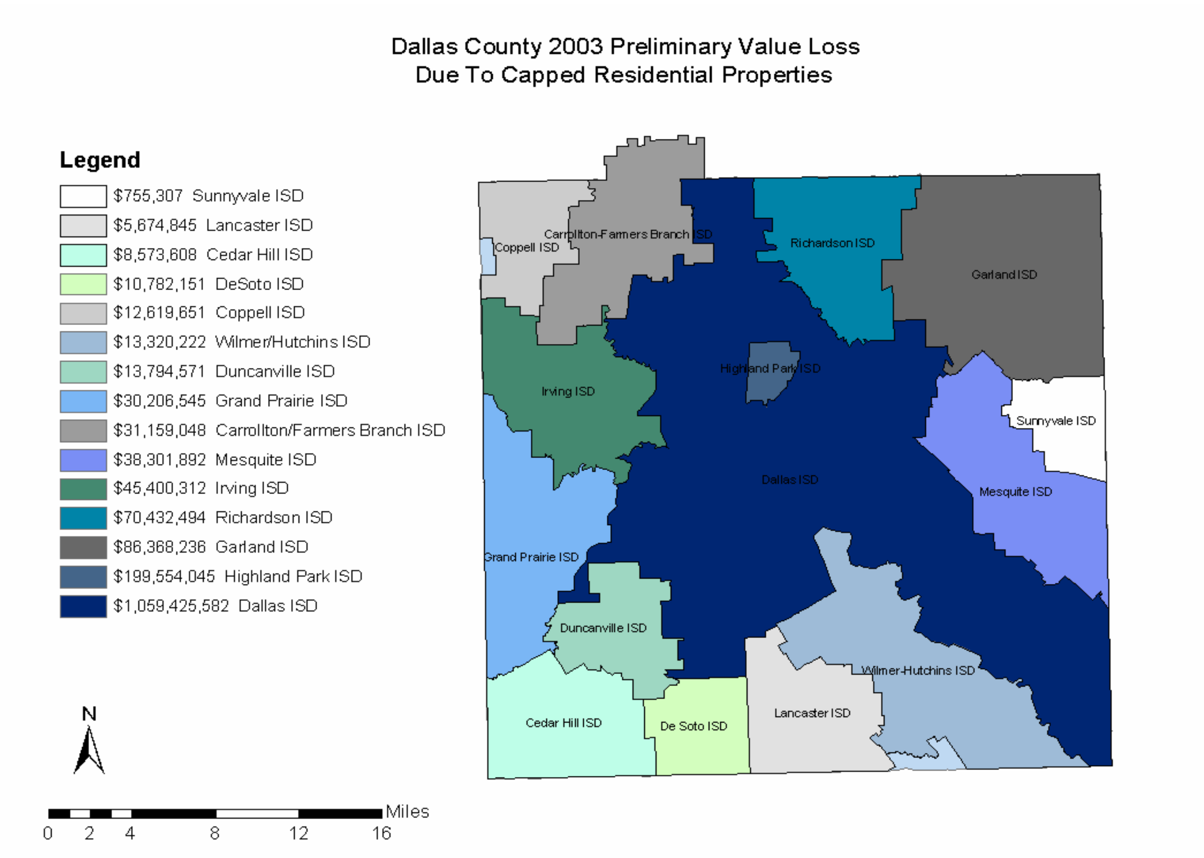
Impact of Current 10 Percent Assessment Cap in Texas

The Dallas Central Appraisal District (DCAD), in a report prepared in July 2003, raised concerns regarding value loss under assessment limitations in an extremely insightful analysis of the impact of the ten percent cap on residential homesteads in Dallas County. Under the current ten percent assessment limit, according to DCAD, residential value loss in Dallas County alone was an estimated a $1.642 billion for 2003, with the Dallas Independent School District's residential value loss at approximately $1.06 billion, accounting for 9.7 percent of the $10.9 billion overall state value loss.

Wealthy versus Poor: DCAD calculates that most of the neighborhoods experiencing the greatest advantage in capped assessment values are also the wealthiest (DCAD uses locations north and south of IH-30 to illustrate these disparities).

Majority versus Minority: Using the same data, DCAD states that the largest portion of minorities (typically living south of IH-30) receive little or no benefit from the assessment limit, while the majority (typically living north of IH-30) receive the most benefit.

Figure 8: Dallas County Preliminary Value Loss Due to 10 Percent Cap, 2003



Source: Dallas Central Appraisal District. *Placing Caps on the Valuation of Property: Do They Achieve the Goal of Limiting Local Tax Growth?* July 8, 2003.

Commercial/Retail Property versus Residential: Commercial/retail values are much more volatile than residential property. If a cap is placed on commercial and/or retail property the property value will lag well behind its actual market value during economic upturns. Table 6 details 1994-02 market values less construction for commercial and residential property.

Table 6: History for Dallas County: Market Value Less Construction, 1994-2002

Year	Commercial (percent change from prior year)	Residential (percent change from prior year)
2002	-0.09%	11.96%
2001	6.22%	11.01%
2000	7.63%	8.91%
1999	10.36%	9.11%
1998	14.40%	6.17%
1997	13.93%	4.29%
1996	5.89%	3.54%
1995	4.10%	3.91%
1994	-0.56%	3.39%

Source: Dallas Central Appraisal District. *Placing Caps on the Valuation of Property: Do They Achieve the Goal of Limiting Local Tax Growth?* July 8, 2003.

Community versus Community: DCAD also claims that many communities never see the benefit of having an assessment limit because property values rarely appreciate above the mandated limit. This results in different communities paying taxes on a greater percentage of their actual market value.

Sold Properties versus Unsold Properties: DCAD states that properties being sold will face a higher tax burden than competing properties that are not sold. This is caused because the state assessment limit requires the reappraisal of the property value at the time of sale. This causes competition between the sold and unsold properties, possibly resulting in selling the property for less that it may be worth.

Conclusion

Equal-and-uniform taxation is a central tenet of tax policy in Texas. The Texas property tax system underwent a major overhaul in the late 1970s and early 1980s to ensure market value appraisals, at the same time that major property tax reduction efforts were underway in states like California and Massachusetts. In 1997, Texas voters approved a constitutional amendment to limit the increase in the value of residential homesteads to ten percent annually from the time of the most recent appraisal. Recent legislative actions have focused on lowering the percentage limit applied to residential homesteads and, in one case, expanding the limits to include business properties as well. While these efforts were not successful in 2003, they are expected to re-emerge in 2005 and growth limits have already been identified as an interim study issue for the Senate Finance Committee.

Twenty-five years of experience under Proposition 13 in California and more than 20 years under a Colorado provision clearly illustrate that appraisal limits introduce massive disparities in the property tax burdens imposed on nearly identical properties, which only differ in the year in which they were acquired. The area of commercial properties has been identified in California as one of the major sources of disparities. Established businesses like Disney and Capitol Records pay extremely low levels of property taxes in their established theme park and headquarters' facilities.

At the same time, new businesses face a major competitive disadvantage when faced with acquisition-value appraisals. Small businesses would appear to be the ones most likely to be disadvantaged as they become established and expand their operations, compared with more established firms. A sample of Los Angeles businesses showed that on average, the market value of commercial properties exceeded those of properties subject to the cap by a 4:1 ratio. Some of the properties studied had disparity ratios of this nature as high as 10:1. The Colorado experience indicates that protecting residential property taxpayers can result in a dramatic relative shift in tax burden to business taxpayers in a relatively short number of years.

A detailed analysis of the impact of the ten percent residential homestead cap in Texas indicated that the major beneficiaries of the limit tend to be taxpayers located in more affluent communities, because the property values in a poorer residential community typically do not grow at rapid rates.

All of the analyses referenced in this report indicate that varying from market value appraisal methods simply injects a great deal of inequity in the amount of taxes paid. The cost of limits on the growth of appraisals is significant in that it shifts the burden for local public services to other taxpayers. Appraisal limits imposes on businesses during a business downturn lead to an inevitable shift in tax burden to homeowners and shield business properties from taxation when the economy begins to improve. It also modifies the state and local fiscal relationships to the extent that states like California have become much more dependent on state sales and income taxes to a degree that eliminates any significant local voice in fiscal matters.

Based on the California experience and that in other states, limits on appraisals have a serious adverse impact on the revenue-raising capacities of local governments. The reduction in property taxes in California made the state and local governments heavily dependent upon sales and income taxes, revenue sources that are the most susceptible to changes in the economy. While this may be beneficial when the economy is growing, the difficulty in a downturn is that vital public services like education, health care and public safety are adversely affected.

After an examination of the problems that unequal taxation of property has caused in other states, a strong case can be made that Texans have been well-served by a system of property tax administration that attempts to treat all types of property and all classes of taxpayers the same. The anecdotal evidence from California and other states would suggest that unequal taxation skews decision-making by homeowners and businesses and creates a level of cynicism about what is a long-standing source of revenue for many important public services.

While it was not specifically addressed in the report, one advantage of property taxes is that they remain deductible for federal income tax purposes. Sales taxes are not deductible, yet they remain one of the only viable options for raising additional revenue in states like Texas that do not impose a personal income tax and are unlikely to do so in the immediate future.

Property tax relief is a worthy goal in Texas, given the increase in local tax levies experienced over the last decade. At the same time, care must be exercised to prevent crippling the ability of local school districts and other local governments to have sufficient resources to provide an array of valuable public services. An equally critical impact is that expanded appraisal limits are almost certain to inject a degree of unfair treatment of similarly-situated taxpayers, with major disparities resulting over time, based on the California and Colorado examples. Solutions that rely upon enhanced state aid or reduced recapture as mechanisms for reducing school taxes are vastly superior to those that would undermine the administration of the property tax in Texas as we have known it for nearly two decades now.

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Appendices

Appendix 1: Overall Tax Burden by State in 2003 (Measuring Taxes as a Percentage of Income)

Effective State and Local Tax Burden by State and Rank, 2003		
	Tax Burden	Rank
Maine	12.2%	1
New York	12.0%	2
Minnesota	11.0%	3
Rhode Island	11.0%	4
Connecticut	10.9%	5
Hawaii	10.7%	6
Wisconsin	10.7%	7
California	10.6%	8
Utah	10.6%	9
Ohio	10.3%	10
Idaho	10.2%	11
Vermont	10.1%	12
Massachusetts	9.9%	13
Arizona	9.9%	14
Georgia	9.9%	15
Nebraska	9.8%	16
North Dakota	9.8%	17
Washington	9.8%	18
New Jersey	9.8%	19
Kansas	9.8%	20
New Mexico	9.7%	21
Indiana	9.7%	22
West Virginia	9.7%	23
Mississippi	9.6%	24
North Carolina	9.5%	25
Iowa	9.5%	26
Maryland	9.5%	27
Louisiana	9.5%	28
Michigan	9.4%	29
Illinois	9.4%	30
Kentucky	9.4%	31
Colorado	9.3%	32
Arkansas	9.2%	33
Missouri	9.2%	34
Oklahoma	9.1%	35
Pennsylvania	9.1%	36
Montana	9.1%	37
South Carolina	9.0%	38
Oregon	9.0%	39
Virginia	8.9%	40
Nevada	8.9%	41
South Dakota	8.5%	42
Wyoming	8.5%	43
Florida	8.4%	44
Alabama	8.4%	45
Texas	**8.3%**	**46**
Tennessee	7.7%	47
Delaware	7.3%	48
New Hampshire	6.6%	49
Alaska	5.5%	50
District of Columbia	12.9%	-

Source: Tax Foundation. *Comparing the Total Tax Burden in Each State*. April 9, 2003

Appendix 2: State and Local Property Tax Collections Per Capita (United States), Fiscal Year 1999 and 2000

Per Capita Local Property Tax Collections Fiscal Years 1999-2000				
	1999		2000	
State	Amount	Rank	Amount	Rank
New Jersey	$1,761	1	$1,717	1
New Hampshire	1,677	2	1,641	2
Connecticut	1,577	3	1,588	3
New York	1,361	4	1,328	4
Rhode Island	1,297	5	1,297	5
Vermont	1,289	6	1,284	6
Maine	1,235	7	1,254	7
Alaska	1,174	9	1,214	8
Massachusetts	1,182	8	1,204	9
Illinois	1,163	10	1,168	10
Wisconsin	1,052	12	1,061	11
Wyoming	1,089	11	1,038	12
Montana	1,009	13	1,007	13
Michigan	893	19	956	14
Texas	938	16	950	15
Washington	1,001	14	932	16
Minnesota	934	17	928	17
Indiana	871	21	913	18
Maryland	801	27	908	19
Nebraska	941	15	905	20
Iowa	883	20	888	21
Florida	920	18	882	22
Colorado	842	23	856	23
Virginia	838	24	846	24
Ohio	829	25	841	25
South Dakota	842	22	838	26
North Dakota	784	29	821	27
Pennsylvania	805	26	820	28
Oregon	771	30	815	29
Kansas	797	28	809	30
California	767	31	775	31
Arizona	750	32	761	32
Georgia	696	34	725	33
Nevada	697	33	719	34
Idaho	651	35	670	35
South Carolina	637	36	668	36
Missouri	604	37	609	37
Utah	559	39	584	38
North Carolina	569	38	572	39
Mississippi	502	41	514	40
Tennessee	489	43	507	41
Hawaii	502	42	497	42
Delaware	462	44	488	43
West Virginia	449	45	473	44
Kentucky	421	46	426	45
Louisiana	371	47	390	46
Oklahoma	369	48	377	47
Arkansas	550	40	361	48
New Mexico	338	49	341	49
Alabama	273	50	301	50
U.S. Average	**$881**		**$885**	

Source: U.S. Department of Commerce, Bureau of the Census

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Appendix 3: Growth of Property Tax By Taxing Unit in Texas, 1985 to 2002

Tax Year	Special District Levy	County Levy	City Levy	School Levy	Total Property Tax Levy
1985	$1,056,802,000	$1,427,755,000	$1,820,345,000	$ 4,663,892,000	$ 8,968,794,000
1986	$1,141,652,000	$1,482,295,000	$1,966,674,000	$ 5,026,592,000	$ 9,617,213,000
1987	$1,176,667,000	$1,539,953,000	$2,028,743,000	$ 5,218,820,000	$ 9,964,183,000
1988	$1,232,415,000	$1,595,183,000	$2,145,726,000	$ 5,575,843,000	$10,549,167,000
1989	$1,284,165,144	$1,715,691,860	$2,200,415,156	$ 6,072,227,279	$11,272,499,439
1990	$1,354,607,273	$1,743,176,612	$2,218,971,749	$ 6,605,433,619	$11,922,189,253
1991*	$1,459,643,501	$1,894,013,461	$2,303,609,801	$ 7,566,042,099*	$13,223,308,862
1992*	$1,492,043,534	$1,996,116,460	$2,311,630,199	$ 8,181,309,478*	$13,981,099,671
1993	$1,535,769,813	$2,176,974,573	$2,362,404,482	$ 8,681,859,148	$14,757,008,016
1994	$1,620,504,796	$2,311,389,149	$2,493,554,910	$ 9,024,885,601	$15,450,334,456
1995	$1,628,217,607	$2,391,961,283	$2,596,742,540	$ 9,340,994,056	$15,957,915,486
1996	$1,698,557,436	$2,537,183,937	$2,701,214,386	$ 9,910,195,171	$16,847,150,930
1997	$1,759,622,591	$2,658,308,076	$2,847,081,480	$10,394,500,372	$17,659,512,519
1998	$1,889,138,306	$2,828,286,927	$3,005,996,060	$11,334,614,289	$19,058,035,582
1999	$2,041,041,011	$2,979,279,400	$3,247,964,177	$12,009,923,498	$20,278,208,086
2000	$2,389,110,312	$3,200,919,731	$3,530,863,516	$13,392,336,012	$22,513,229,571
2001	$2,703,512,059	$3,566,857,130	$3,884,829,249	$15,155,217,587	$25,310,416,025
2002	$2,864,454,984	$3,849,728,346	$4,186,795,363	$16,418,788,831	$27,319,767,524

*1991 and 1992 include County Education Districts.
Source: Carole Keeton Strayhorn, Texas Comptroller of Public Accounts.

Appendix 4: States with Assessment Increase Limitations

State	Year	Assessment Increase Limit Description
California	1978	A two percent tax assessment limitation on all types of property. Contains acquisition value assessment provision, which sets the assessment at market value at the time of purchase.
Iowa	1978	Limits the growth of total assessed value in the state to four percent per year. New construction and improvement are excluded; and utility property is limited to eight percent annual growth.
Arizona	1980	Each parcel of property has two separate values, a fair market value (FMV) and a Limited Property Value (LPV). The statutory annual growth limit for the LPV is the greater of 10 percent, and 25 percent of the difference between last year's LPV and this year's FMV. Business property owners pay taxes based on 25 percent of the land's value. For homeowners, taxes are based on 10 percent of the value
Colorado	1982	Gallagher amendment requires commercial property to pay 55 percent of all property taxes, with residential property paying the remaining 45 percent. The commercial tax rate is fixed at 29 percent of assessed value, while the residential varies to keep 55/45 ratio. As of 2002 the residential assessment rate is 9.15 percent.
New York	1986	State law limits assessment increases on residential properties with ten or fewer units. Assessments for Class 1 properties: Class 1 (includes most residential property of up to three units, vacant land that is zoned for residential use, and most condominiums that are not more than three stories). may not increase more than 6 percent over one year and 20 percent over five years. Assessments for Class 2 (all other property that is primarily residential) with ten or fewer units are limited to 8 percent increases over one year and 30 percent over 5 years. Class 2 and 4 properties are subject to transitional assessments that phase in over 5 years.
Maryland	1991	Limitations vary depending upon type of government. Assessments for state government property tax are limited to 10 percent. County and municipal are allowed to set a limit between zero and 10 percent. School districts do not have a limitation on assessment increases.

State	Year	Assessment Increase Limit Description
Minnesota	1993	Capped the assessed value of homes at 8.5 percent per year, or 15 percent of market value increases, whichever is greater.
Michigan	1994	Limits the growth in taxable value to five percent a year or less. The lid comes off when a parcel is sold. In the year after the sale, taxable value kicks up to the State Equalized Value (SEV), but just for that year. Then the limit applies to future increases, until there is another sale. A parcel's taxable value is printed on the annual tax bill.
Florida	1995	Restricts increases in homestead assessments to the lower of three percent and the change in the Consumer Price Index.
Washington	1997 (2000)	A passed referendum limits assessed value increases to 15 percent on all classes of property. In 2000, a second initiative exempted from taxation any increase in assessed value that exceeds the lesser of inflation or two percent. This would not apply to increases due to new construction. For newly constructed property, the initiative exempts from taxation any increment in assessed value over the value of a comparable property in 1999 increased by the lesser of inflation or two percent per year.
Texas	1997	The appraised value of a residence homestead for a tax year is limited to the lesser of either its market value or the sum of the market value of any new improvements and 110 percent of the appraised value of the preceding year. The 10 percent increase is cumulative – over the number of years since the property was last appraised. Reappraisals are required at least every three years.
Oregon	1997	Measure rolled 1997 assessed values back to 90 percent of the 1995 value, established permanent rate limits for each tax district; allowed voter to approve local option levies outside these rates; established a method for taxing new property at a ratio of market value to the Maximum Assessed Value (giving similar tax savings to the new property); and limited the growth of Maximum Assessed Value for existing property to a maximum of three percent each year.
New Mexico	2001	The valuation of a residence that did not change hands in the prior year may not increase by more than three percent annually (excluding any increase due to physical changes to the property). This covers rental properties as well as owner-occupied residences.
Arkansas	2001	Real homestead properties are limited to a five percent increase per year, but the value will continue to increase each year until market value basis is reached. All other real property has a ten percent per year growth limitation.

Adapted from: Mikhailov, Nikolai and Jason Kolman. *Types of Property Tax and Assessment Limitations and Tax Relief Programs.* Lincoln Institute of Land Policy, September 1998. Other information adapted from state tax/revenue departments.