CENTER for PUBLIC POLICY PRIORITIES

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Know Before You Vote:

November Ballot Propositions 1 and 7

Dick Lavine, lavine@cppp.org
Eva DeLuna Castro, deluna.castro@cppp.org

Early voting begins October 19 for the upcoming statewide elections, where Texans will vote on seven proposed constitutional amendments.

CPPP encourages all Texans to learn about the implications these proposed amendments have for the future prosperity of our state. Here we explain the impact of Proposition 1, which would increase the homestead exemption amount for school property taxes; and Proposition 7, which would dedicate some tax revenue to the State Highway Fund. Dedicating tax revenue to the Highway Fund means the revenue can no longer be invested in education, health care and public safety.

Why focus on Propositions 1 and 7? Because together with recent Legislative corporate tax cuts these two propositions affect Texas leaders' future ability to invest in the most pressing needs of the state.

In the last legislative session, Texas lawmakers passed a budget that threatens our future by failing to provide adequate support for public schools, colleges and universities, and health care. In fact, the budget failed to even bring funding levels back to what they were before the painful 2011 budget cuts. Instead, lawmakers approved a $2.6 billion corporate franchise tax cut and asked voters to approve diverting at least $5 billion in existing revenue to roads. Lawmakers' actions continue the troubling trend of underinvestment in programs and services that every Texan needs.

Proposition 1:

Proposition 1 would amend the Texas Constitution to change the homestead exemption amount for school district property taxes from $15,000 to $25,000.

Homestead exemptions reduce the taxable value of a home, and so reduce property tax bills. Proposition 1 would provide every homeowner in a school district with the same reduction in tax liability—about $125 per year, depending on the local tax rate.

Homeowners with a disability or age 65 and older currently receive additional school homestead exemption benefits, and Proposition 1 would also change those benefits to reflect the increased exemption. The additional benefits include an extra $10,000 school-tax exemption for these homeowners, and a “tax freeze” that places a maximum on their school tax bills.

In addition, some cities, counties, and other entities that levy property taxes currently grant homestead exemptions based on a percentage of the home’s value. (For example, Harris County provides a 20 percent local homestead exemption from county property taxes.) Under Proposition 1, those non-school-district taxing units would be prohibited from reducing or eliminating their optional exemptions before 2020.

Proposition 1 would also prohibit the enactment of a tax on real estate sales.

Cost:

School property tax revenues directly fund local public schools. If Proposition 1 passes, school districts would lose about $1.2 billion every two years in school property tax revenue.

To keep schools funded at the same level, the state would replace the lost property tax revenue with General Revenue, money that otherwise could have been spent on the full range of state services.

Analysis and Impact:

CPPP strongly believes that the Legislature should not have prioritized cutting taxes over investing in the state's critical needs, especially when necessary programs and services have yet to recover from massive cuts in past sessions. During the legislative session, CPPP advocated strongly against the House and Senate's tax cut plans although we did testify in favor of increasing the school property tax homestead exemption.

All tax cuts damage the state's ability to sufficiently invest in education, health care, and other services that make Texas a strong state. Fixed-dollar homestead exemptions such as this one are the least unfair type of tax cut considered by the Legislature. Low-income homeowners would benefit more from the exemption, since the proposed $10,000 increase would account for a greater percentage of the value of a less expensive home. A higher exemption would slightly reduce the cost of owning a home, and could potentially reduce rents by lowering demand for rental properties.

The $1.2 billion in General Revenue that the state has to swap in for the loss in property tax revenue *does not increase* the actual amount of money school districts receive. Although it may appear to be new spending on public schools, that General Revenue simply *replaces* funds that would be lost if Proposition 1 passes.

Proposition 1 also prohibits the state from enacting a real estate transfer tax, which means owners would not be subject to a tax simply for selling their homes or commercial property. Texas is currently one of the few states that does not require property sales-price disclosure, which makes it difficult for appraisal districts to estimate the market value of a property for tax purposes, and thus reduces the amount of tax revenue available to invest in important public services. By removing the possibility of a real estate transfer tax, Proposition 1 would eliminate one of the main objections to mandating reporting of real estate sales prices to appraisal districts.

Proposition 7

Proposition 7 would amend the Texas Constitution to permanently dedicate a large portion of taxes to highways. Specifically, Proposition 7 includes a formula for dedicating a portion of general sales tax and motor-vehicle tax revenue to the State Highway Fund each year.

General and motor-vehicle sales taxes currently generate 60 percent of state General Revenue and support the full range of state services—primarily public schools, higher education, health care and other social services. Currently, state General Revenue typically does *not* fund highways (which are largely funded through state and federal gasoline taxes and bonds), though legislators can always choose to use General Revenue for highways when they write the two-year budget.

Proposition 7 would begin diverting taxes to the State Highway Fund in 2018, and would end the practice in 2032 unless the Legislature extended the practice in 10-year increments by a majority vote of each chamber. Tax revenues deposited in the Highway Fund because of Proposition 7 can only be spent on non-tolled highways or roads, or to repay state highway bonds.

Cost:

Proposition 7 would reduce the amount of General Revenue available to invest in public schools, higher education, health care, and other non-highway parts of the 2018-19 budget by $5 billion. In the future, because the formula in Proposition 7 increases the amount dedicated to highways over time, the Legislature will face even greater reductions in revenue available to fund other services.

Analysis:

Proposition 7 would reduce the ability of future legislators to budget according to the most pressing needs of our state. Texas highways are clearly suffering from deferred maintenance, but other important public services – public schools, colleges, and health and human services – are also suffering from persistent underinvestment.

By giving long-term priority to highway funding over all other services, Proposition 7 would make it more likely that education and health and human services would bear the brunt of budget cuts in any future revenue shortfall. With each budget cycle, lawmakers would face further reductions in the amount of General Revenue they can appropriate. Taking away what little flexibility lawmakers have to budget according to the state's changing and growing needs is irresponsible and shortsighted.

Proposition 7 is only "robbing Peter to pay Paul." It does not increase the revenue available to ensure a Texas where everyone is healthy, well-educated, and financially secure.

For more information, please contact Oliver Bernstein at bernstein@cppp.org or 512.823.2875.

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