

City Property Taxes: Tremendous Bang for the Buck

Texas cities depend heavily on property tax revenue. Property taxes help fund many of the services that residents demand: police, fire, streets, parks, and so on. But as Chart 1 shows, city property taxes constitute only a small portion of a typical homeowner's property tax bill.

How do Texas cities provide so many services with such a small share of a typical property tax bill? Is it with financial help from the state? Hardly.

Unlike other states, Texas provides no general purpose state aid to cities to help pay for streets, public safety, or any other city service. The state forces cities to generate their own revenue. That's why (as Chart 2 shows) per capita local tax revenue is comparatively high in Texas.

But Chart 2 focuses on "local governments" (cities, counties, schools, and districts). What about cities only? For this information, we turn to a publication of the National League of Cities (NLC), *Cities and State Fiscal Structure*.

One section of this report tabulates, for each state, a statistic the authors refer to as "own-source capacity." This is a measurement of the extent to which decisions made by city officials actually determine the city's fiscal direction. Since it has long been known that Texas cities take care of themselves without intergovernmental aid, it comes as no surprise that Texas leads the nation in municipal own-source capacity.

The flip side of that coin, however,

is the report's measure of state aid to cities. Here again, the NLC report replicates previous research: Texas trails only the State of West Virginia in state aid—the share of municipal revenue that comes from state government sources.

These two findings of the NLC report once again establish these facts: **(1) the State of Texas relies very heavily on Texas cities to generate the revenue necessary for municipal facilities and services; (2) the state gives cities the capacity to generate that revenue; but (3) the state gives cities virtually no state financial aid.**

In addition to forcing local governments to generate comparatively large amounts of tax revenue, **the State of Texas also forces those local governments to rely too heavily on the property tax.** It does this by denying them other revenue sources. This is especially true for public schools, which rely almost exclusively on the property tax. But it is true for cities and counties, as well. In fact, of the local government tax revenue collected by local governments in Texas in 2006, a whopping 82 percent came from property tax.

Chart 1
Distribution of Property Tax Collections

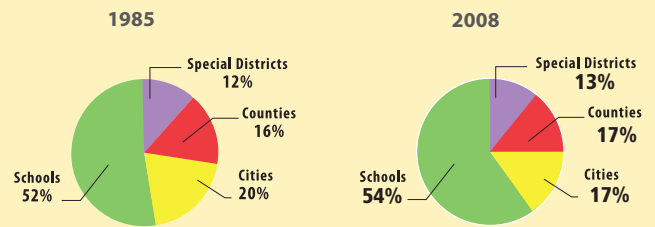


Chart 2
State and Local Government Tax Revenue, 2006

	U.S.	Texas
Per capita state and local	\$4,006	\$3,241 (37th)
Per capita local only	\$1,623	\$1,675 (14th)
Local as a % of total	40.5%	51.7%

These two fiscal conditions, which create the property tax mess in Texas, are unlikely to change unless the State of Texas takes one (or both) of two actions:

1. Inject more state money into public services and facilities, especially public schools. This means even more state revenue than was provided through the public school funding reforms of 2006.
2. Open more revenue sources for counties and cities.

Any other attempts to reduce the property tax burden in Texas will either be ineffective or create unintended, negative consequences.

In a nutshell: (1) Texas cities provide more services, relative to the state, than cities in most states; (2) Texas cities provide those services with less aid from the state; and (3) Texas cities manage all this despite a very small share of the total property tax levy and with reasonable annual increases in those taxes. ★