

School Finance and Texas Cities

“ Are cities and schools in Texas interconnected? ”

Yes. Texas cities and school districts are interconnected in a number of ways. To a great extent, cities form the environment in which schools exist. For instance, cities provide the infrastructure that is used by all schools within their boundaries. City services like police and fire protection, utilities, parks and recreational facilities, and libraries all benefit area schools.

Because of the close relationship that exists between the two entities, legislation that harms cities can also harm schools. If cities are unable to provide the necessary basic services and infrastructure for their citizens, then the local school districts will also suffer. If a city stagnates in its ability to prosper and grow, so too will its schools. It would be unfortunate if school finance reform backfires because cities are unable to provide the services that help schools to thrive.

“ Can school finance reform harm cities? ”

Yes. A number of the options proposed for school finance reform could have negative impacts on cities. **Specifically, these options could:**

1 Negatively affect the ability of cities to generate property tax revenue. The property tax is a primary source of revenue for Texas cities. Revenue from property taxes paves our city streets, pays our police and firefighters, builds and maintains parks, and supports many other functions. There is a danger, however, that school finance reform proposals will address a perceived need to "reform" existing property taxes, even city taxes. While rising property taxes are a burden to landowners, it is critical that the legislature recognize that the source of the problem is not, and has never been, the city property tax component of a citizen's tax bill. While school district taxes have been on the rise, for example, city property taxes have generally held steady. Further, city property taxes as a percentage of total property tax bills have shrunk compared to school, county, and special district taxes. Accordingly, the Texas Legislature should resist efforts to "reform" city property taxes through new caps, freezes, or other artificial limitations. Current "Truth-in-Taxation Laws" are adequate to protect taxpayers.

2 Reduce sales tax revenue. Statewide, city sales taxes are nearly equal to property taxes as a source of city revenue. Most cities have adopted a basic one-cent city sales tax, and many cities have additional, dedicated-purpose sales taxes. Recent legislation has proposed expanding the state sales tax base to include many previously untaxed services. Rather than allowing each city to apply its sales tax rate to the expanded base, however, the proposed legislation would appropriate the entire increase in both state and municipal sales tax revenue to a state education fund. This is troubling for two reasons. First, it takes from cities what should be theirs. The one-cent city sales tax should apply to the same base as the state's sales tax. Second, it will be difficult, if not impossible, for the state to accurately determine the extent to which city sales tax increases are due to the expanded base and which increases are due to ordinary economic growth. As a result, city sales tax revenue can be reduced.

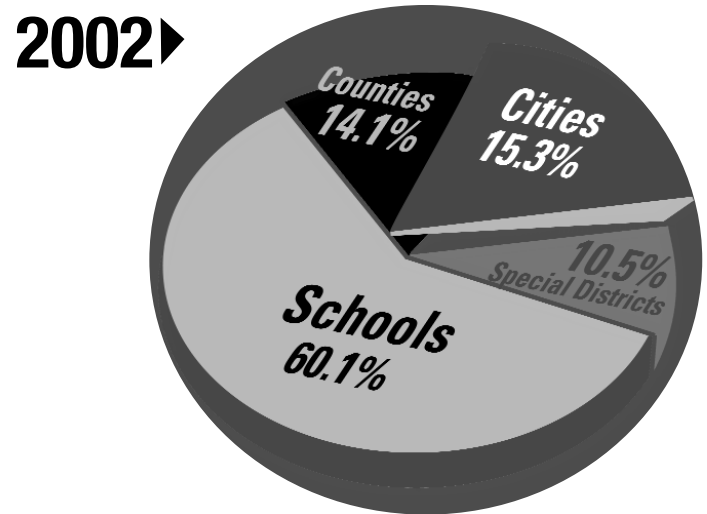
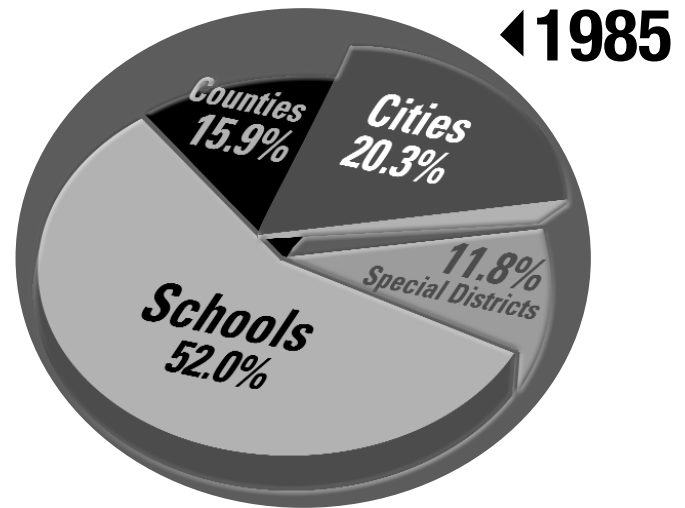
3 Harm municipal and regional economic development efforts, particularly those involving tax incentives. When a city engages in tax incentives for economic development reasons, it is frequently desirable to have county and school district participation in the incentives if possible. Because school district property taxes constitute the lion's share of most tax bills, failure to involve schools can doom a city-initiated economic development program. If the school property taxing function is moved to the state, but no provision is made for continuation of school participation in economic development, statewide economic development will suffer. The legislature should continue current public school economic development authority, and look for proactive ways to work closely with cities and counties for economic development purposes.

“ Can school finance reform occur without harming cities? ”

Yes. School finance reform can occur without negatively impacting cities and their citizens **if the legislation:**

- 1** *Does not reduce city sales tax revenue;*
- 2** *Does not affect the current authority of cities to generate property tax revenue; and*
- 3** *Does not affect municipal economic development authority.*

“ Distribution of Property Tax Collections ”



FOR MORE INFORMATION CONTACT



Texas Municipal League
 1821 Rutherford Lane, Suite 400
 Austin, TX 78754
 512-231-7400 (phone)
 512-231-7490 (fax)
www.tml.org

