

The Quorum Report

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PAUKEN REPORT LANDS HEAVILY ON THE SHOULDERS OF LOCAL GOVERNMENT

Perry calls the rollback election provision the crown jewel of the report.

The foremost goal of the *Pauken Commission* on appraisal reform was not accuracy in the appraisal process but rather predictability in tax bills, **Gov. Rick Perry** told reporters who gathered for a briefing with Perry and **Chair Tom Pauken** at the Capitol today.

So it shouldn't be a surprising that the real teeth in the unveiled Pauken Commission's recommendations -- rolling back to the *rollback rate* to growth plus 5 percent; swapping out *property tax* for a half-cent sales tax; and prospectively "prohibiting" *unfunded mandates* -- were all focused on reining in local government spending.

Perry called the rollback rate -- which would trigger an automatic local election -- the crown jewel of taxpayer protections in the Pauken Commission report. The time has come, Perry said, to stop the stealth tax creep, which has less to do with equity in the tax appraisal process and more to do with the predictability in annual tax bills.

"There is nothing fair about property tax bills increasing 233 percent across Texas in less than 20 years, or a forty-six percent increase on residential homesteads in major metropolitan areas from 2000 to 2004," Perry said. "If Texans are going to be taxed every year on the same property, there at least needs to be a belief among the public that every precaution is being taken to keep their tax bills from rising any faster than needed."

On the revenue side, the Pauken Commission's report focuses on two additional *taxpayer representatives* on appraisal review boards; additional *truth-in-taxation* reporting measures; doubling the *margin of error* of property values measured against the comptroller's property value study; self-reported *sales price disclosures*; and a five-year *rolling average option* on appraisals to avoid fluctuations in *ad valorem* tax bills.

As Perry pointed out, the rollback rate -- which is actually the rollback rate proposed in the state's initial truth-in-taxation law -- would require only a majority vote in the House and Senate. The five-year rolling average on appraisal values and the sales tax-property tax swap, on the other hand, both require a Constitutional amendment on the ballot, which means they would have to pass both chambers with a two-thirds majority.

Under the Pauken proposal, the sales tax swap could be initiated by either Commissioners Court or petitioned for a vote if commissioners decline to pass such a measure. The half-cent sales tax would be added on top of any existing tax rate. Under the swap, taxpayers in each jurisdiction would choose to either drop the appraisal cap from 10 percent to 5 percent or to increase homestead exemptions from \$3,000 to \$6,000.

Notably absent from the distributed Pauken Commission report was a signature page from the commission members. Brazos County Tax Appraiser **Buddy Winn**, who served on the commission, said members were not asked to sign off on the final report and, in fact, he didn't agree with the final recommendations, although Winn admitted a number of his comments were incorporated into the final draft, which was distributed on Monday.

"My belief is if you fix the truth-in-taxation then everything else will take care of itself," Winn said. "We've gotten away from the law in the past 25 years, and it doesn't mean anything anymore. We need to go back to the original House Bill 18, which used four steps to calculate the effective tax rate, rather than two pages of deductions and additions before you arrive at your effective rate. We need to go back to the basics."

A variety of stakeholders -- from cities and counties to taxpayer advocates and appraisal districts -- will weigh in on the Pauken proposal. Each will be focused on different aspects of the report. **Jim Robinson** of the *Harris County Appraisal District*, for

instance, wants the appraisal functions and the taxing functions in appraisal reform clearly separated. One should not be punished for the other. An appraisal district's duty is fair market value on property appraisals, and no one has proven that property is being overvalued.

Robinson is opposed to an arbitrator making legal determinations that could set tax precedents. He favors the larger margin of error on the appraisal value study. And he said the taxpayer representatives on the appraisal review board may improve public perception but will make "no difference at all" on the appraisal process. He suggests more pragmatic corrections, like drawing appraisal districts along county lines.

The rollback rate, of course, will be a key point of contention for local government. In his speech, Perry said the rollback rate was not a limitation of local control; instead, it was an empowerment of local taxpayers. Perry has promised that local government will not be facing such tests alone; he intends to put state government under similarly stringent limitations in other measures he intends to unveil in coming weeks.

For their part, county representatives are disappointed that the prohibition of unfunded mandates was not taken more seriously, possibly through a Constitutional amendment. **Don Lee** of the *Conference of Urban Counties* said some of the ideas to improve the appraisal process were good; others appeared to be unworkable. He's looking for a stronger proposal on sales price disclosures and more details on the tax swap deal.

Lee says CUC is looking forward to working with lawmakers "to salvage what we can" from the report. **Frank Sturzl** of the *Texas Municipal League* is even more dour. Sturzl calls the efforts to force cities to limit their own revenue "a recipe for disaster."

"We have always been ready and willing to work with anyone who wants to make the appraisal process more fair and equitable, but many of the proposals in the Pauken report are seriously misguided," Sturzl said. "In particular, enacting stringent, new revenue limitations is a flawed idea that will have dramatic repercussions for all Texans and will undoubtedly lead to substantial service cuts at the local level."

Elna Christopher over at the *Texas Association of Counties*

called the Pauken report "vague and confusing." She predicts the five-year rolling average will hurt fast-growth counties; that an Attorney General's opinion provides no protection from unfunded mandates; and says that it's unclear from the report exactly how the half-cent sales tax would be divided among the county and its cities.

Christopher also criticized the commission's decision to pass a watered-down sales disclosure in exchange for the 5 percent revenue cap.

Dick Lavine over at the *Center for Public Policy*

had a laundry list of concerns: how rolling averages would work in a declining value market; the regressive nature of trading property tax relief for sales tax increases; the weakened sales price disclosure proposal; the inability to create uniform administration of the tax code under binding arbitration; and the unintended consequences of giving the Attorney General the ability to veto a law by calling it an unfunded mandate, allowing the executive branch to trump the decisions of the state's legislative body.

The report, however, did have its supporters, primarily among the state's conservative groups. Over at the *Texas Public Policy Foundation*, **Chief Economist Byron Schlomach**

called the report a framework to provide true taxpayer protection. He praised the automatic rollback elections as making local government more accountable. Property tax relief delivered last year will be fleeting, Schlomach warned, unless the Legislature is willing to bring property appraisals and government spending under control.

Peggy Venable of *Americans for Prosperity-Texas*

noted that few elected officials testified in support of greater taxpayer protections during the Pauken Commission hearings around the state, even as rising property taxes priced people out of their homes.

"It's time for local government officials to start representing their constituents," Venable said. "Elected officials aren't elected to represent government, but the people."

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