Putting Taxpayers in Charge of Their Tax Bills

How Local Government Expenditure Limits Could Help Reduce Property Taxes

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Taxpayers are busy people, understandably more concerned with earning a living on a daily basis than monitoring how their tax dollars are spent at every level of government. Because of this, it has long been suggested that automatic limits on government growth are needed. This idea was first championed by Ronald Reagan when he was governor of California.

What Is an Expenditure Limit?

An expenditure limit requires governmental entities to get permission from the taxpayers before they spend above a given level. That level can be adjusted each year to account for factors such as inflation and population growth. Essentially, government's spending powers are limited to a certain inflation-adjusted amount per citizen.

For example, suppose a city spends $1,000 per city resident in one year, then inflation pushes up prices by 3 percent and population grows some as well in the next year. The amount of total spending increase the city would be allowed for the year would be calculated by adding the 3 percent in inflation to the percentage change in population. Spending per county resident would go up by 3 percent, to $1,030. That $1,030 would be multiplied by the number of residents, including all the new ones, to get total spending. This hypothetical city would have just as much spending power per resident in the second year as in the first year.

Most believe it makes sense to allow government's expenditures to grow with population. This assumes every new resident adds cost at the same rate when in fact, new residents do not cost government much at all. Nevertheless, this insures that core government functions continue to be funded as demand on those functions increase with additional people. Inflation also pushes up costs for government, so indexing for inflation ensures that government's purchasing power is not reduced.

But what about emergencies and other unusual contingencies? Most spending limit proposals would allow for greater spending increases, but elected officials would have to ask permission of taxpayers by holding an election. This is something that is already done in Texas for extraordinary measures like bond proposals.

Why Are Expenditure Limits Needed in Texas?

Right now, with only a few restrictions, state and local government in Texas can increase spending quite freely. The best chance those who foot the bill have to stop spiraling government growth is to give up their own incomes and monitor government constantly, identifying how governments spend their money and then trying to get the word out when they spend too much.

A Texan faces a daunting task in trying to hold every level of government accountable. There is city government, county government, state government, a school district, possibly a junior college district, very likely a city transportation authority, an economic development board, and possibly a regional metropolitan planning authority. Some city residents and rural residents might also have to deal with a fire district, a flood district, a municipal utility district, and a hospital district, among others.

Despite the fact that comprehensive annual financial reports (CAFRs) are not standardized and individually

take a good deal of study to understand, there is the occasional brave soul who ventures into these documents. One such person is Bob Lemer with Citizens for Public Accountability. He found that from 1995 to 2004 Lubbock's property tax revenues rose almost 48 percent when population growth and inflation amounted to less than 33 percent. Big Spring, on the other hand, saw its property tax revenues rise at about the same rate as population growth and inflation.

Though Big Spring shows that local governments do not have to increase spending at the rate they have been, from 1996 to 2002, local property tax levies in Texas rose over 62 percent, more than twice the rate required by population growth and inflation, according to Paul Bettencourt, Harris County Tax Assessor-Collector.

Property taxes are not the whole story with cities, either. Cities also enjoy revenues from the sales tax. As the state's economy has boomed, the state has seen marked increases in sales tax revenues. So have cities. Americans for Prosperity's Peggy Venable pointed out that Comptroller data shows that in June 2006, Fort Worth's city sales tax revenue was up a whopping 13.8 percent over the previous year. Over one-hundred counties receive sales tax revenue as well. Texas Bond Review Board data also shows a whopping 576 percent increase in local government debt from 1980 to 2004. Much of this can be attributed to school districts.

Don't Local Governments Already Face Limits?

Local governments in Texas face tax rate limits that have largely proven ineffective. Cities are limited in the sales tax rate they can charge but not the total revenues they receive from them. City and county property tax revenues (levies) are arbitrarily limited to an eight percent growth rate but even this "limit" can be violated if taxpayers are too busy to mount a petition drive to roll back the rate. Petition drives also cost money.

School districts also face rollback rate restrictions that have recently been tightened. They now face mandatory rollback elections. Until recently, though, school district property tax levies were, by far, the most egregious abusers of property tax payers, as was demonstrated by Byron Schlomach in a Texas Public Policy Foundation publication, "Tax and Expenditure Limitation Reform: Is It Needed In Texas?" published in August 2004.

What is especially frustrating for property tax payers is the fact that local government officials can hide behind reduced property tax rates even as property tax revenues (levies) increase due to rising property values.

How Might Texans Benefit from Expenditure Limits?

An expenditure growth limit based on population growth and inflation should be applied at every level of government—city, school district, special district, county, state, and even federal. In Texas, there are few governments so limited except in special cases where the limit is self-imposed (as is currently true in Lubbock). While the state has an expenditure limit, it is generously based on the growth in personal income of the state so as not to constitute any real limit at all.

In "Government Growth or Poverty Reduction?" published by the Texas Public Policy Foundation in January 2007, Matthew Ladner demonstrated that states with lower rates of government growth have seen their poverty rates fall. States whose governments have grown have seen their poverty rates rise.

With tighter expenditure limits, Texans are likely to see governments that are more responsive and informative—out of necessity. Their tax bills would be less likely to rise faster than their incomes. There would be less likelihood that Texans would be taxed out of their homes due to rising property values. Governments would have to become more efficient, too.

What Is Currently Happening with Expenditure Limits?

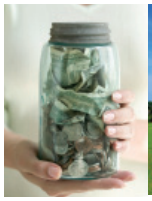
In the Fall of 2006, Governor Rick Perry appointed the Task Force on Appraisal Reform realizing that property tax rate reductions passed earlier that year

would be meaningless if something was not done to account for rising property values. The Task Force's top recommendation was to institute a tighter property tax revenue limit—one that allows only a 5 percent increase in revenue instead of the current 8 percent, and that requires an automatic vote of the people when that limit is exceeded instead of requiring a petition for people to have a vote.

Measures were proposed in both the Texas House and Senate in 2007 but were only debated in committee. One comprehensive expenditure limit proposal had 27 authors signed on—HJR 53 by Representative Paxton. Other more limited measures included HB 2553 by Representative Callegari, HB 3534 by Representative Isett, HB 3495 by Representative Otto, and SB 1638 and SB 1063 by Senator Williams.

A Tale of Six Cities

Tax Savings from Spending Limits



What if Texas cities faced a limit on government spending growth—one that said spending could not grow faster than population growth and inflation each year? What if cities were required to lower property tax rates in order to keep expenditures from exceeding the growth limit? How much might the taxpayers in some cities have saved if such a limit had been imposed a decade or so ago?

Using the best possible financial data with as much consistency as the vagaries of city government finance allows, answers to these questions are provided for Dallas, El Paso, Ft. Worth, Harlingen, Lufkin, and San Antonio. Overall, had each imposed a strict spending limit in 1994 or 1995, the taxpayers of these six cities could have saved a combined $1.5 billion over about 12 years. That is more than $100 million per year from only a handful of cities that could have stayed in the hands of taxpayers and the private sector where individuals have far more power than any government to improve their individual lives.

Lufkin taxpayers would not have saved anything. Lufkin is one of those rare cities that demonstrates that it is in fact possible to be frugal in city government. Every city is different. San Antonio taxpayers, for example, could have benefited from spending limits over the last decade much more than those in Fort Worth, who would have benefited more than those in Dallas.

A Note on Methodology

Due to the peculiar book keeping methods of each city, the data compiled reflects spending totals that are as comparable as possible. Baseline spending for hypothetical spending limit purposes is usually based on 1994 spending totals and tax rates. However, book keeping changes sometimes make it impracticable to reliably make spending comparisons back to 1994, in which case the baseline might begin in a later year. The theoretical limited spending is based on the earliest available data.

In order to reflect the best estimate of local government expenditures, bond-financed spending was left out while bond service spending was included. In city financial reports, this is recorded as "Debt Service" expenditures. Spending was allowed from all sources, which are assumed to be fungible. A few cities also raised funds through special revenue projects. In order to maintain comparability, some of these expenditures were omitted.

El Paso

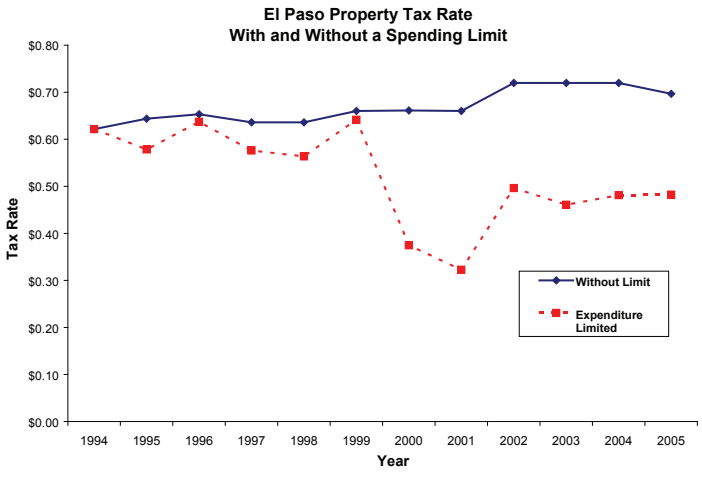
- From 1994 to 2005, El Paso taxpayers could have saved over $300 million dollars in property taxes with a local government expenditure growth limit based on population and inflation.
- El Paso spending increased 56 percent in a ten year period while an expenditure limit would have slowed this spending growth to 38 percent.
- Had the property tax rate been reduced with limited expenditures, property tax payers would have enjoyed a 22 percent drop in the city property tax rate instead of a 12 percent increase.
- The change in spending that would have resulted from a spending limit might be overstated due to the census population adjustment in 2000.

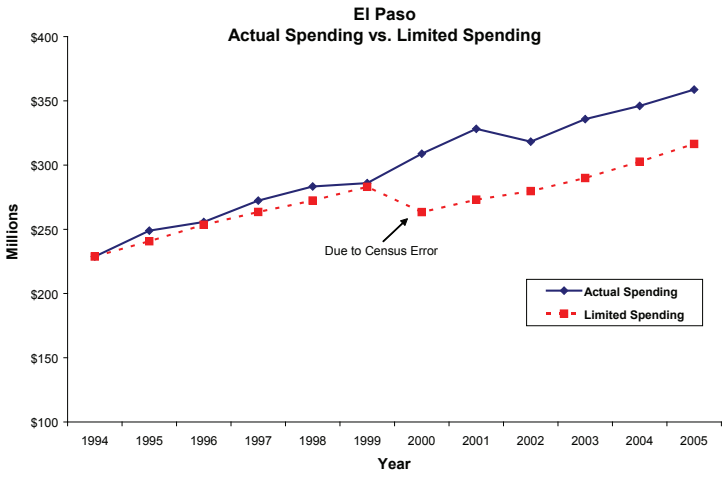
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1995, by 2005 spending would have been almost $42 million dollars less. Property tax rates could have fallen from $.62 per $100 in 1994 to $.48 per $100 value by 2005.

Additional Information on El Paso

In order to accurately reflect total city expenditures, while still being able to compare across cities, total general fund and debt service expenditures were added together while special revenue funds and bonded expenditures were omitted. Due to excellent cooperation from El Paso's finance department, a complete set of data from 1994 to 2005 was easily compiled.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

Dallas

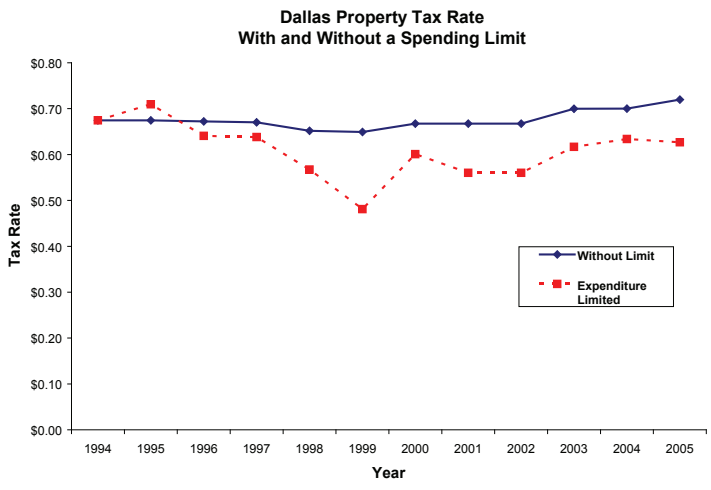
- From 1994 to 2005, Dallas taxpayers could have saved over half a billion dollars in property taxes with a local government expenditure growth limit based on population growth and inflation.
- Dallas spending increased 62 percent in a 10 year period while an expenditure limit would have slowed this spending growth to 49.5 percent.
- Had the property tax rate been reduced with limited expenditures, property tax payers would have enjoyed a 7 percent reduction in the city property tax rate instead of a 6 percent increase.

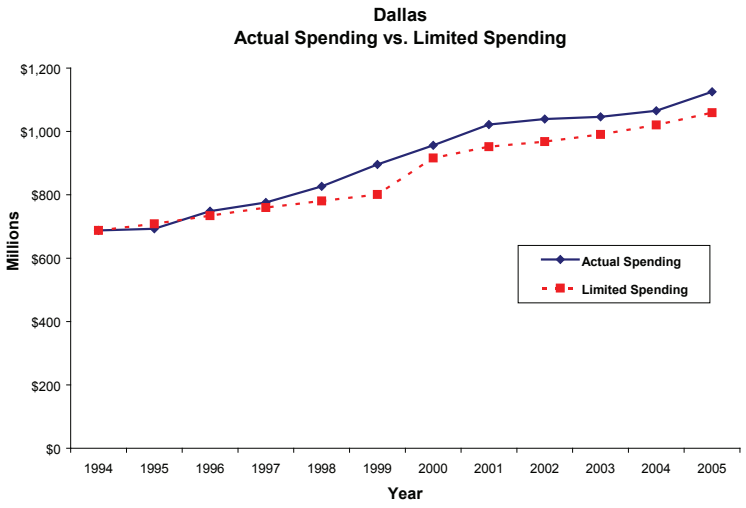
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1995, by 2005 spending would have been almost $66 million dollars less. Property tax rates could have fallen from $.67 per $100 in 1994 to $.62 per $100 value by 2005.

Additional Information on Dallas

The actual total spending of the City of Dallas would be higher if all special revenue funds were taken into account. Due to the city's accounting methods in its comprehensive annual financial report, there is no history of special revenue funds dating back to the base year. In order to maintain consistency across cities, it was prudent to only take into account the general fund and debt service fund total. It is highly likely that Dallas taxpayers could have been shown to save even more in taxes than is illustrated in the graphs below if these expenditure numbers were readily available.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

Fort Worth

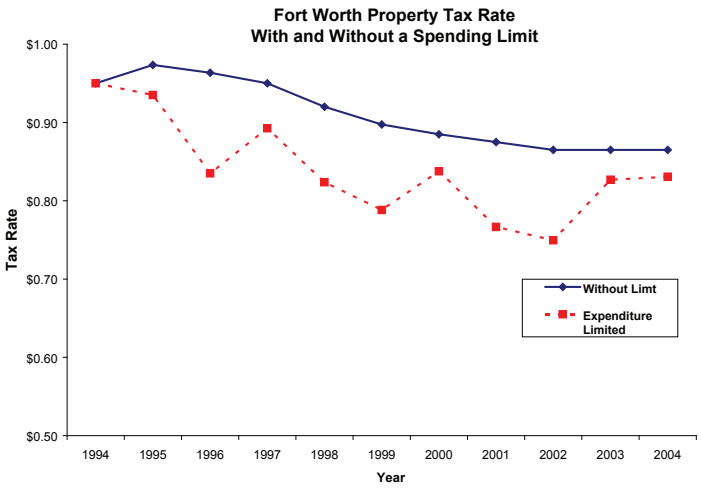
- From 1994 to 2005, Fort Worth taxpayers could have saved over $136 million dollars in property taxes with a local government expenditure growth limit based on population and inflation.
- Fort Worth spending increased 68 percent in a 10 year period while an expenditure limit would have slowed this spending growth.
- Had the property tax rate been reduced with limited government expenditures, property tax payers would have enjoyed a 12.5 percent reduction in the city property tax rate.

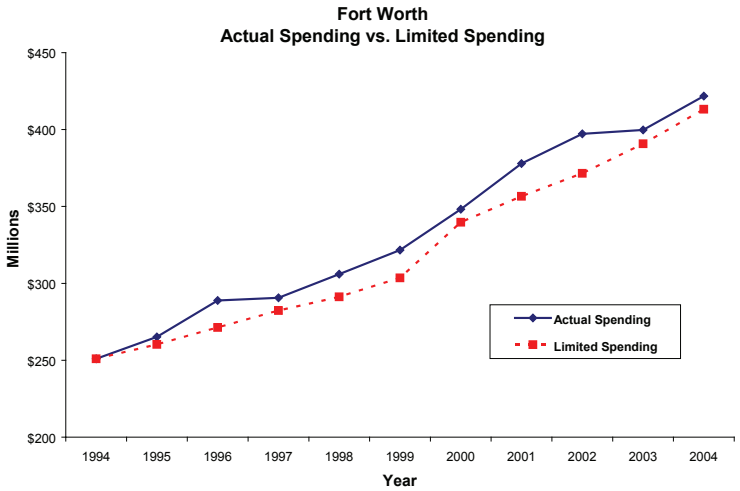
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1995, in 2005 spending would have been $8.5 million dollars less. Property tax rates could have fallen from $.95 per $100 in 1994 to $.83 per $100 in 2005.

Additional Information on Fort Worth

The actual total spending of the City of Fort Worth would be higher if all special revenue funds were taken into account. Due to the city's accounting methods in its comprehensive annual financial report, there is no history of special revenue funds dating back to the base year. In order to maintain consistency across cities, it was prudent to only take into account the general fund and debt service fund total. It is highly likely that Fort Worth taxpayers could have been shown to save even more in taxes than is illustrated in the graphs below if these expenditures were readily available.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

Harlingen

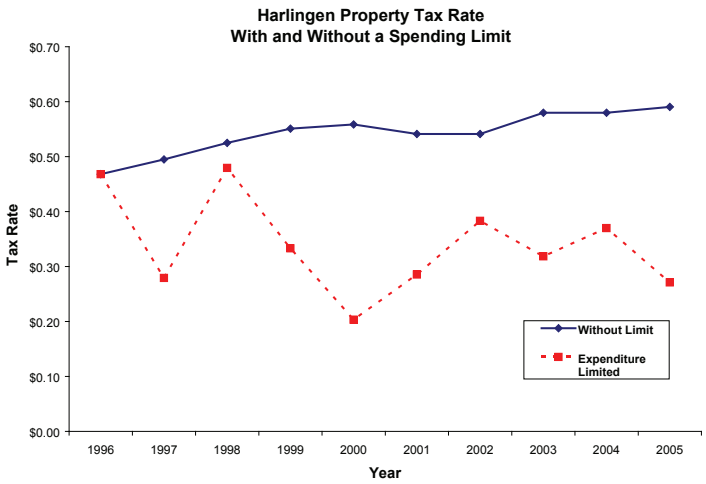
- From 1994 to 2005, Harlingen taxpayers could have saved over $15 million dollars in property taxes with a local government expenditure limit based on population growth and inflation.
- Harlingen spending increased 75 percent in a 10 year period while an expenditure limit would have slowed this growth to about 44 percent.
- Had the property tax rate been reduced with limited expenditures, property tax payers would have enjoyed a 20 percent decrease in the city property tax rate.

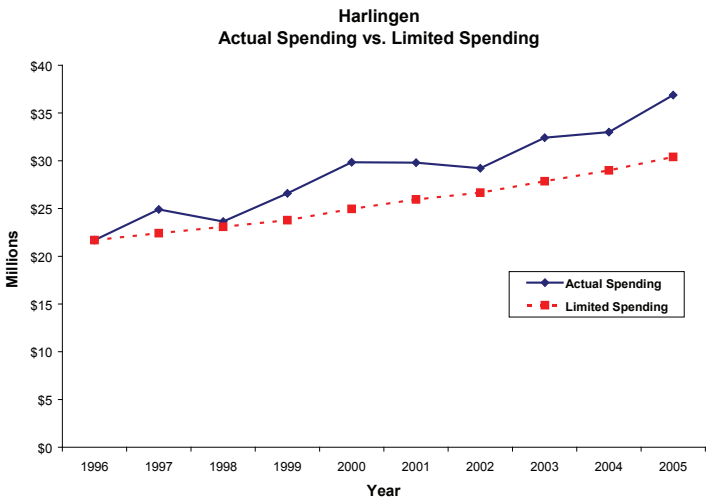
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1995, in 2005 spending would have been almost $4.5 million dollars less. Property tax rates could have fallen from $.45 per $100 to $.27 per $100 value by 2005.

Additional Information on Harlingen

In order to accurately reflect Harlingen spending, total governmental expenditures, including debt service and general fund expenditures, were used to show total city spending. The actual total spending of the City of Harlingen would be higher if all special revenue funds were taken into account. To maintain consistency across cities, it was prudent to only take into account the general fund and debt service fund total. It is highly likely that Harlingen taxpayers could have been shown to save even more in taxes than is illustrated in the graphs below if these expenditures were readily available.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

Lufkin

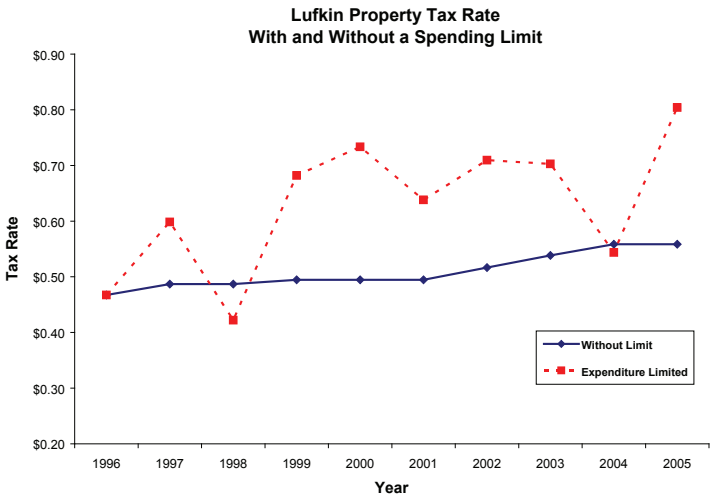
- From 1997 to 2005, Lufkin taxpayers enjoyed controlled city expenditures that were below the theoretical expenditure growth limit.
- Lufkin spending increased just under 25 percent while an expenditure limit would have allowed for 42 percent.
- Lufkin spends more per-person than some other Texas cities such as Fort Worth.

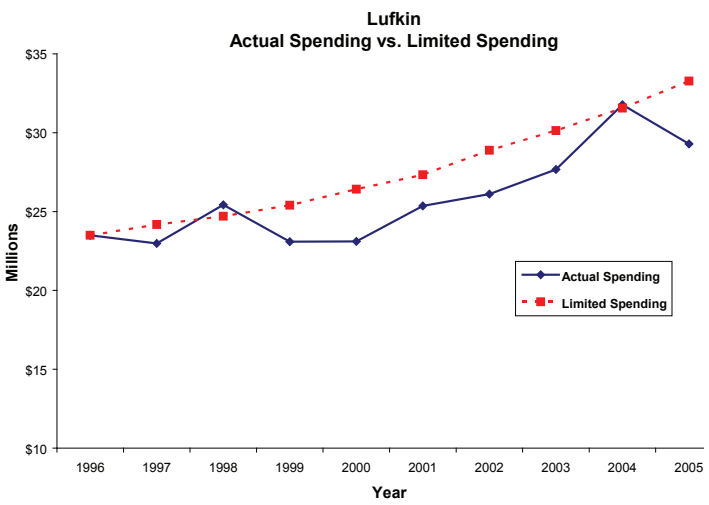
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1997, in 2005 spending could have been close to $4 million dollars more. From 1996 to 2005, Lufkin's actual spending generally falls below the level of what a local expenditure limit would have allowed. Only twice does the city go over the limit, once in 1998 and again in 2004. This also helps explain the dip in the theoretical property tax rate on the chart on the left.

Additional Information on Lufkin

Due to changes in book keeping methods by the city, data before 1996 was unavailable. Total expenditures from 1995 to 1996 reflected an unreasonable 59 percent increase, but this was later explained by differences in how total expenditures were recorded.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

San Antonio

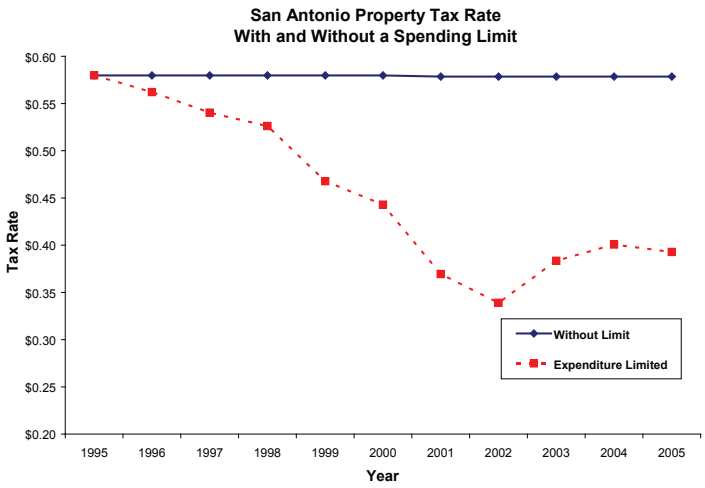
- From 1995 to 2005, San Antonio taxpayers could have saved over $526 million dollars in property taxes with a local government expenditure growth limit based on population growth and inflation.
- San Antonio spending increased 77 percent in a ten year period while an expenditure limit would have slowed this spending growth to 55 percent.
- Had the property tax rate been reduced with limited expenditures, property tax payers would have enjoyed a 32 percent reduction in the city property tax rate.

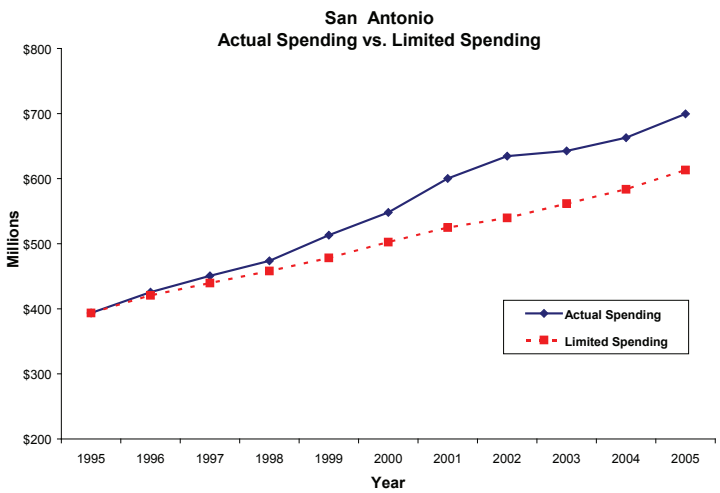
Taxpayer Benefits from Spending Limits

The graphs below show that had a population growth plus inflation spending limit been in place beginning in 1995, in 2005 spending would have been almost $86 million dollars less. Property tax rates could have fallen from $.57 per $100 in 1995 to $.39 per $100 in 2005.

Additional Information on San Antonio

The spending of the City of San Antonio is actually significantly greater than that illustrated in the graph below. The city accounts for its spending by general fund, debt service, and special revenue funds only after 2002. In order to maintain consistency after this reporting change, special revenue spending has been netted out of all years. It is likely that San Antonio taxpayers could have saved close to $200 million dollars more.





Sources: City Comprehensive Annual Financial Report (CAFR), census data, authors' calculations.

About the Authors

Byron Schlomach, Ph.D. is the chief economist for the Texas Public Policy Foundation, and the director of the Center for Fiscal Policy Studies. Raised in Texas, Byron received both his bachelor and doctorate degrees in economics from Texas A&M University. Byron came to the Foundation from the Texas Education Agency. He has also served as a staff member in the Texas Legislature as the chief of staff to State Rep. Kent Grusendorf, former chairman of the House Committee on Public Education. Previously, Byron was a researcher in the Office of the Texas Comptroller. There he conducted research into education and transportation, and was the principal author of a study examining the public school start dates. Byron has also served as an assistant lecturer in the Texas A&M Department of Economics, and has taught at Austin Community College.

Chris Robertson graduated from the University of Texas in 2006 with a degree in Political Science. During his years of undergraduate study he interned at a public consulting firm, a grassroots taxpayer advocacy group, and finally at the Texas Public Policy Foundation. Chris joined the Foundation's Center for Fiscal Policy in January 2007. Chris is a native Texan from the city of Colleyville.

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