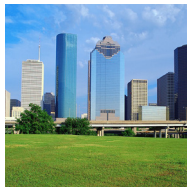




Special Purpose Districts



The Issue

Special purpose districts (SPDs) are independent governmental bodies that exist at the local level and form the most basic unit of local government. Usually, these districts are created to fulfill a particular public purpose and examples often include: hospital districts, crime control districts, library districts, and water and wastewater districts, to name a few.

Generally speaking, special purpose districts are granted significant authority by the Legislature that can include: the power to impose and collect taxes; to issue bonds and borrow money; to contract with other entities; to sue and be sued; and to acquire, purchase, sell, or lease real or personal property. Depending on the district's purpose, it is often afforded the ability to impose a property tax, a sales tax, or in some cases both.

While the concept of special purpose districts originated as a means to address inadequacies associated with urban sprawl, many of these districts today are, arguably, being created in areas that make them duplicative to the mission of the surrounding city or county. As a consequence, SPDs are increasingly becoming just another layer of bureaucracy and taxation—no small matter considering their rate of creation.

From 1992 to 2010, the number of local taxing authorities that levied a property tax grew from 3,426 to 4,017. Of the increase, special purpose districts accounted for 87% of the growth, adding more than 500 taxing authorities over the period, according to the Texas Comptroller.

Perhaps not coincidentally, local property tax levies, or the total amount to be raised from the tax, have been growing much faster than population and inflation. From 1992 to 2010, local property tax levies increased by 188% compared to 97% for population and inflation combined.

In terms of the local sales tax, there were nine districts that imposed a sales and use tax in 1993. By 2011, the number of special purpose districts levying a sales tax had jumped to 193, accounting for an increase in excess of 1,900%, according to the Texas Comptroller.

Much like local property tax levies, local sales tax collections have been fast-outpacing inflation and population growth. From 1992 to 2010, local sales tax collections grew by 160% while inflation and population growth combined increased by only 97%.

Though the quantity and burden of special purpose districts is growing undeniably, many Texans, consumed with their day-to-day living, remain unaware of these entities, in part, because there are not yet commonsense transparency requirements in place to make them aware of their smallest of local governments. These reforms should encompass everything from requiring special purpose districts to maintain a website to posting basic financial information like budgets and check registers to identifying its board of directors.

It's not only important that the Legislature take steps to better educate Texans on SPDs, but also create formal review process to make sure that these entities are still fulfilling their original purpose.

The Facts

- Today, there are 241 special purpose districts that levy a local sales and use tax and there are 1,886 SPDs that impose a local property tax.
- More than 500 special purpose districts were created between 1992 and 2010, accounting for 87% of the growth of local property taxing entities.
- From 1992 to 2010, local property tax levies increased by 188% compared to 97% for population and inflation combined.
- The number of special purpose districts levying a local sales and use tax has skyrocketed by more than 1,900% from 1993 to 2011.
- From 1992 to 2010, local sales tax collections grew by 160% while inflation and population growth combined increased by only 97%.

Recommendations

- Require a certain level of financial transparency from special purpose districts that could include: maintaining a website; posting budgets and check registers; and listing its board of directors.
- Create a formal review process to assess the current purpose and function of each SPD to determine whether it is still fulfilling its original mission.

Resources

Your Money and the Taxing Facts, Texas Comptroller of Public Accounts (Aug. 2012).

