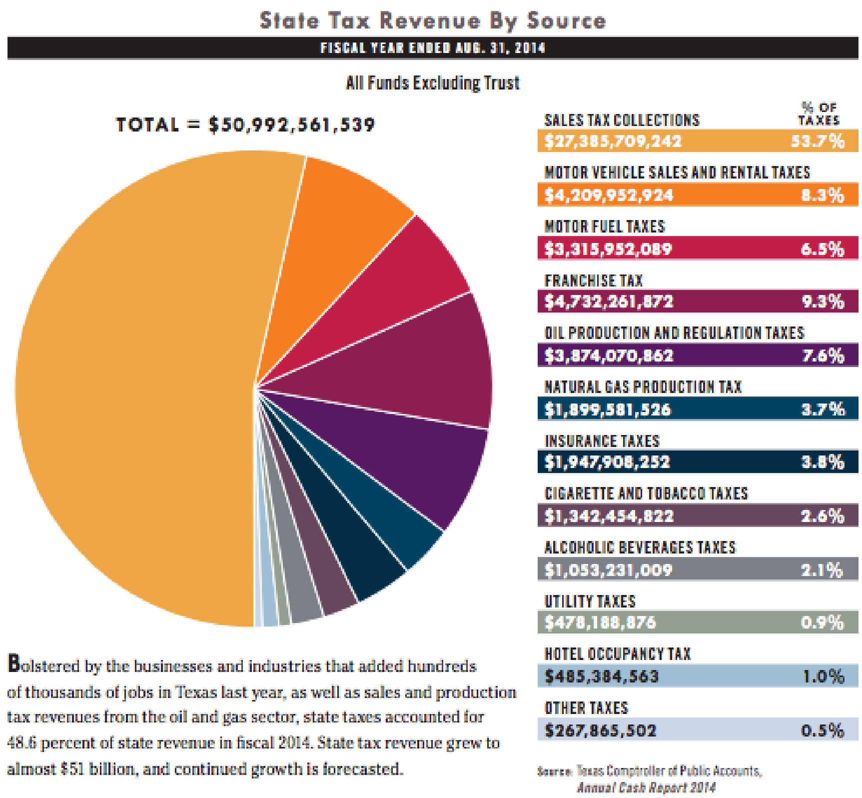
Taxes and the Budget in Texas

The Texas Constitution requires the Legislature to balance its budget every year without borrowing against future receipts. That requirement eliminates deficit spending and forces lawmakers, who meet for 20 weeks every two years, to balance public demands for programs and services against voters' desire to limit taxes, fees and other costs of government.

The state's revenue comes from more than 60 taxes, fees and assessments, primarily sales tax.



The remainder of the revenue available comes from the Federal Government, which annually accounts for about one third of total revenue.

Prior to each legislative session, the State Comptroller is required to estimate how much revenue will be available each year for the next two years. After the legislative session the Comptroller must certify that the budget is consistent with the estimate.

A 1978 amendment to the Constitution limits how fast the state budget can grow. The rate of growth of may not exceed the estimated rate of growth of the state's economy. The cap applies to spending of state tax revenue, but exempts funds from the federal government, various state fees, dedicated taxes like the one on motor fuels, investment income and the lottery.

The budgeting process involves two types of spending: discretionary and non-discretionary. Discretionary spending is affected mostly by four general revenue-related funds: the General Revenue Fund, the Available School Fund, the State Textbook Fund and the Foundation School Fund Account. The remaining non-discretionary, or dedicated, funds depend on federal receipts or state revenues set aside by the constitution or statutes (e.g., the Permanent University Fund), or other funds.

In recent budget cycles, the state of Texas has spent the lion's share of its available revenue on health and human services programs such as Medicaid, adult and child protection and assistance to needy families and the disabled. Not far behind is public education spending (which supplements local school districts' property tax revenues) for facilities, salaries, textbooks and a variety of school programs. The rest of the state budget is spent on transportation (much of it our share of federal highway construction and maintenance costs), higher education, law enforcement and prisons, employee salaries and benefits (including university and community college faculty and staff), natural resources and recreation, and other state operations.

The state also manages hundreds of billions of dollars in investments—the principals of some of which may not be appropriated. The Economic Stabilization Fund (the "Rainy Day Fund"), the state's de facto savings account, receives excess oil and gas production tax collections above a certain threshold plus half of any surplus general revenue remaining at the end of each biennium that is not reserved for a specific purpose. The Legislature may appropriate money to the fund, but never has; it has spent money from the fund six times, most recently 2011.

Lots of things would be possible now without the spending cap in place; this year it puts as much as $6 billion out of the budget writers' reach. There are proposals to get around the cap. The first alternative is simple: If a majority of senators and representatives agree, they can spend more than the cap allows. However, some state legislators would rather change the state constitution than take a tough vote addressing pressing funding needs in light of campaign promises to reduce taxes. This has led to a second proposal—change the constitution to exempt spending on tax cuts and debt payments from the calculation of a spending cap. Voters would have to approve, and it would take approval from two-thirds of the House and two-thirds of the Senate to get the measure to voters.

Property Taxes in Texas

Property taxes are local taxes that provide the largest source of money local governments use to pay for schools, streets, roads, police, fire protection and many other services. Texas law establishes the process followed by local officials in determining the value for property, ensuring that values are equal and uniform, setting tax rates and collecting taxes. Texas has no state property tax. The Legislature has authorized local governments to collect the tax. The state does not set tax rates, collect taxes or settle disputes between you and your local governments.

The local property tax system has several main components. The **property owner**, whether residential or business, is responsible for paying taxes. The property owner is also referred to as the **taxpayer**. An **appraisal district** in each county, administered by a chief appraiser, appraises the value of your property each year. The appraisal district's board of directors hires the chief appraiser. Local taxing units elect the board directors and fund the appraisal district based on the amount of taxes levied in each taxing unit. An **appraisal review board** (ARB) is a board of local citizens that hears disagreements between property owners and the appraisal district about the taxability and value of property. In counties with a population of 120,000 or more, the local administrative district judge in the county in which the appraisal district is located appoints members of the ARB. The board of directors appoints ARB members in all other counties.

Local **taxing units**, including the school districts, counties, cities, junior colleges and special districts, decide how much money they must spend to provide public services. Property tax rates are set according to taxing unit budgets. Some taxing units have access to other revenue sources, such as a local sales tax. School districts must rely on the local property tax, in addition to state and federal funds.

In many counties, taxing units contract with the **county tax assessor-collector** to collect all property taxes due in that county. The assessor-collector then transfers the appropriate amounts to each taxing unit. Although some taxing units may contract with an appraisal district to collect their taxes, the appraisal district does not levy a property tax.

The Texas local property tax is just that—a *local* tax, assessed locally, collected locally and used locally. More than 3,900 local governments in Texas—school districts, cities, counties and various special districts—collect and spend these taxes. Several types of local governments may tax your property. Texas counties and local school districts tax *all* nonexempt property within their jurisdictions. You also may pay property taxes to a city and to special districts such as hospital, junior college or water districts. The governing body of each of these local governments determines the amount of property taxes it wants to raise and sets its own tax rate. Most, but not all, local governments other than counties contract with their county's tax assessor-collector to collect the tax on their behalf.

There are a number of exemptions that can be applied to the property value being taxed. School districts must apply mandatory exemptions for homestead ($15,000), 65 and over ($10,000) and disability ($10,000). Individual jurisdictions can also apply "local option" exemptions. In Georgetown these amount to homestead ($5,000), over 65 ($12,000) and disability ($40,000). The Georgetown School District also adds an additional exemption for 65 and over ($3,000).

In addition and especially relevant for Sun City residents is the homestead tax ceiling which is a limit on the amount of taxes you must pay on your residence. If you qualify your home for an age 65 or older or disabled person homestead exemption for school taxes, the school taxes on that home cannot increase as long as you own and live in that home. The tax ceiling is the amount you pay in the year that you qualified for the age 65 or older or disabled person exemption. The school taxes on your home may go below the ceiling but not above the amount of the ceiling.