

Tax System

By Bill Hobby

Another election year is ending and with it, another debate about public schools. We've heard a lot in recent months about vouchers and charter schools, privatization and local control.

The basic issues are the same ones that have preoccupied Texans since the days of the Republic: Who runs the schools and who pays for them.

The Texans who revolted against Mexico in 1836 listed as one of their grievances the failure to establish a system of public education. But when the Texans won their independence, they proved to be no better educators than the Mexicans. The congress of the Republic merely provided an endowment to each county and left the maintenance and support of the schools up to parents.

To the extent that the Republic did anything at all about education, it provided a voucher system and not a very generous one, since the allotment per student in 1854 was 62 cents per year.

It would be hard to come up with a way of governing schools that Texas hasn't tried. The state governing body has sometimes been constitutional, sometimes statutory. It has varied in size from three to 24 members. It has been appointed. It has been elected.

Frontier Texans were willing to share the cost of the schoolteacher's salary. Taxes have been more problematical. Now, in a far more complex society, we must consider not only who pays for public schools but who pays for human services.

The two issues are related in a surprising way. When Congress raises Medicaid costs, it raises your school property taxes. Here's how it works.

In human services, the federal government (Congress and federal agencies) sets the rules, allows limited state discretion, and pays about half the cost. In public education, the state government (the Legislature and the Texas Education Agency) sets the rules, allows limited local discretion, and pays about half the cost.

When Congress increases Medicaid costs the increased state share comes off the top. The states then have just that much less money to provide for education, prisons, or anything else. But the schools, prisons, and other services still have to be provided. And those services will cost more than they did last year because there will be more students and prisoners than there were last year.

Therefore, legislatures must raise state taxes or cut expenses in areas not affected by federal mandates or court orders and shift more expenses to the school districts. In the current anti-tax climate legislatures by default choose the latter course.

All over the country, property taxes have come under increasing attack. They less and less represent a homeowner's ability to pay. They are taxes on investment by business and industry.

The State of Texas provides a relatively low level of public services and imposes a relatively low tax burden. Texas ranks 49th among the 50 states in per capita state tax burden, but local school property taxes are another matter. Texas ranks 19th in local property tax burden and those taxes are rapidly increasing.

The most recent property tax revolt has been in Michigan. Last July, the Michigan legislature repealed all local school property taxes. Michigan, like Texas, relied on those taxes for more than half the cost of public schools.

Last December the Michigan legislature put two alternatives before the voters. Last March the voters had to choose between raising the income tax or the sales tax. They overwhelmingly chose to raise the sales tax.

The new plan retains (or reinstates) a much smaller school property tax but shifts about 80% of the burden to state sales and business taxes, and away from property taxes.

Why should Texas not follow the Michigan example? Were Texas to eliminate school property taxes and replace the revenue with state aid, the state would have to impose an income tax of 6 to 7 percent of federal adjusted gross income or a 10 cent increase in the sales tax.

Hardly an appealing political prospect.

The interesting political result, the common denominator in Texas, California, and Michigan, is that when property taxpayers are pitted against the sales and/or the income taxpayers, the property taxpayers win.

The lesson is that Texas' tax structure won't change until the property taxpayers get mad.

Originally published November 9, 1994, in the Austin American-Statesman.