

Texas Property Tax Reform

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April 12, 2019

Houston Property Rights Association

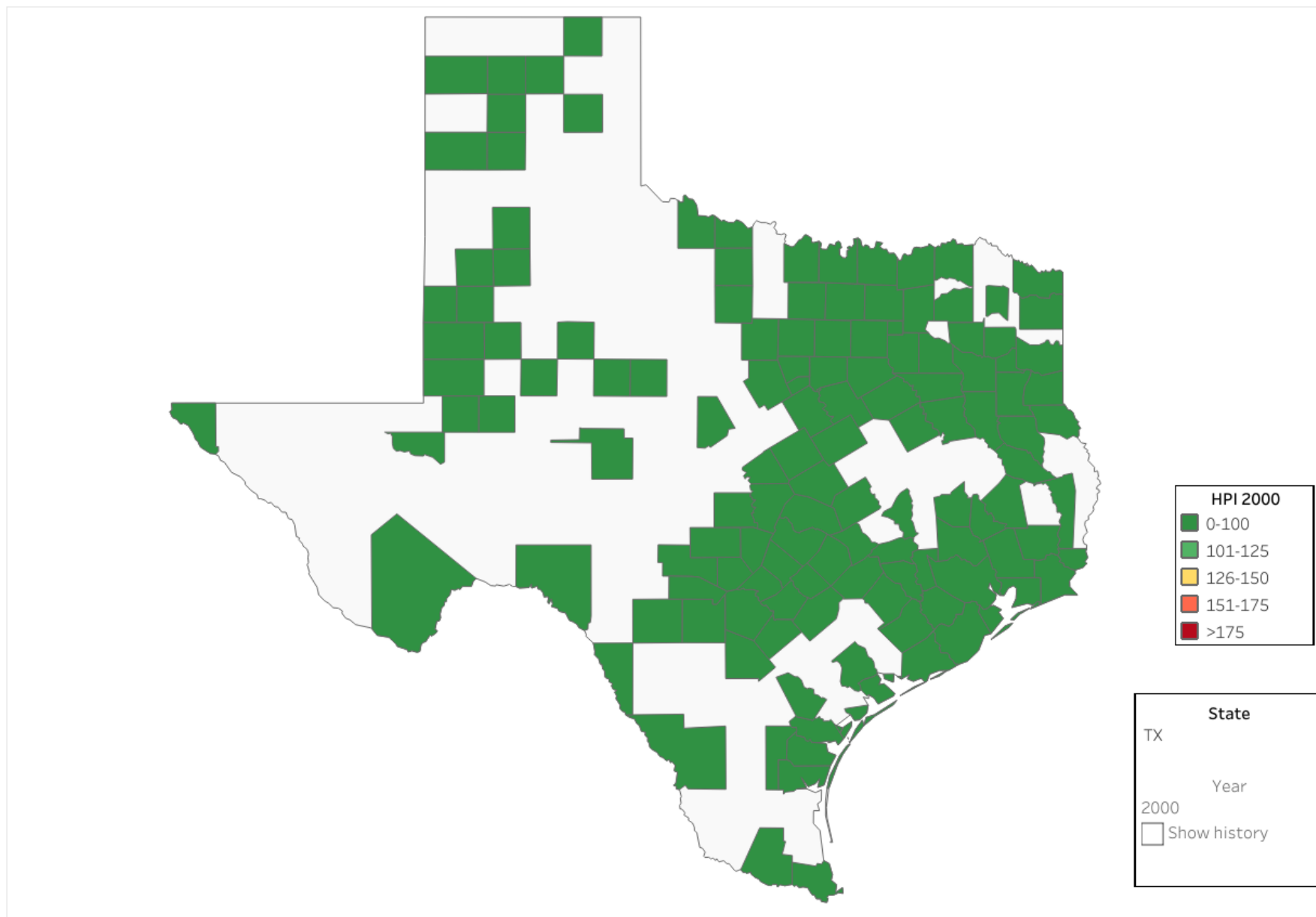
The logo for Rice University's Baker Institute for Public Policy. It features a light green world map in the background. The text "RICE UNIVERSITY'S" is in a small, dark green, sans-serif font. Below it, "BAKER INSTITUTE" is in a large, bold, dark green, serif font. At the bottom, "FOR PUBLIC POLICY" is in a medium-sized, dark green, sans-serif font.

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Overview

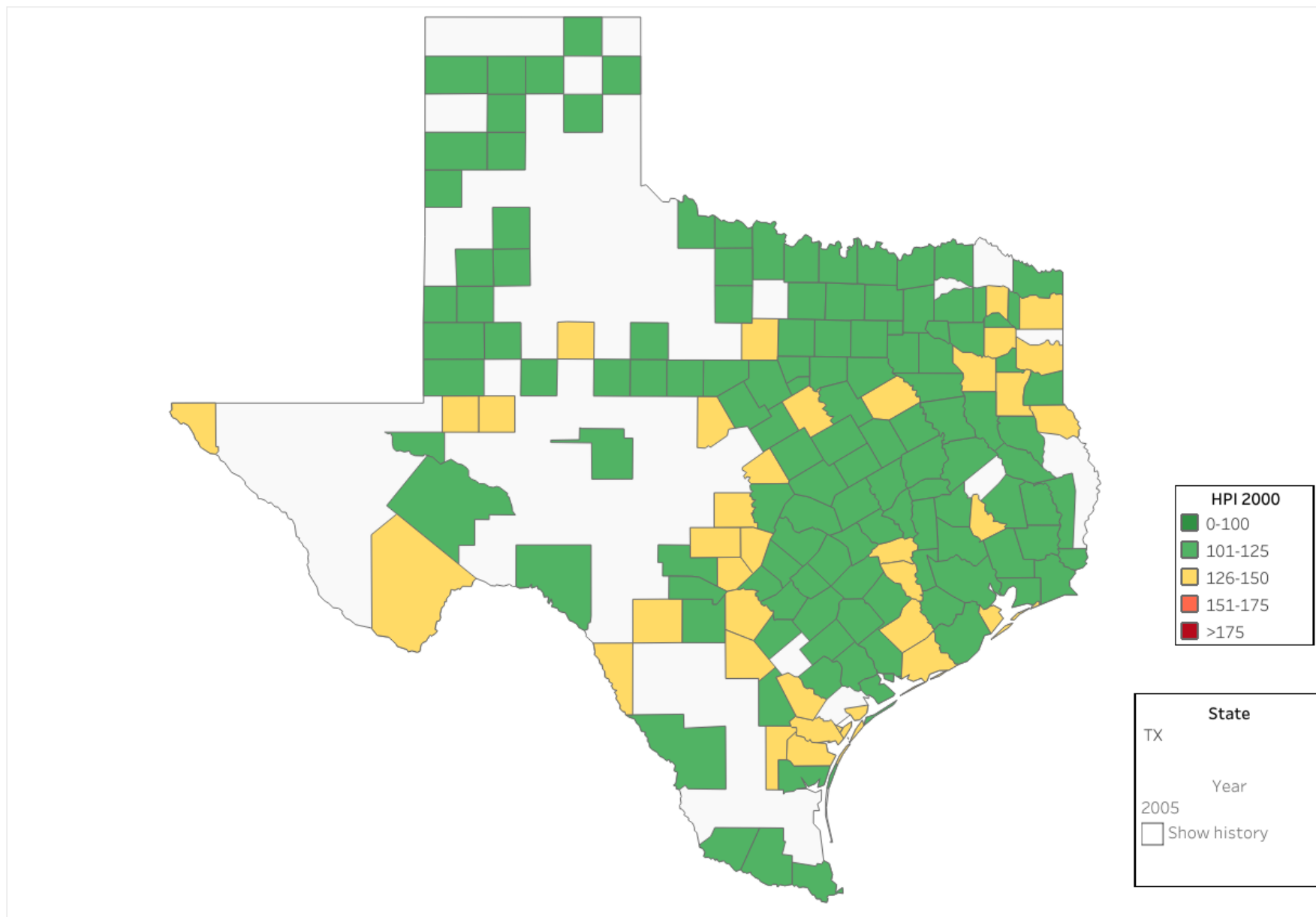
- Texas Housing Market
- Policy Proposals
- Modeling Overview
- Economic Impact

HPI (base year 2000)
Current View: TX in 2000



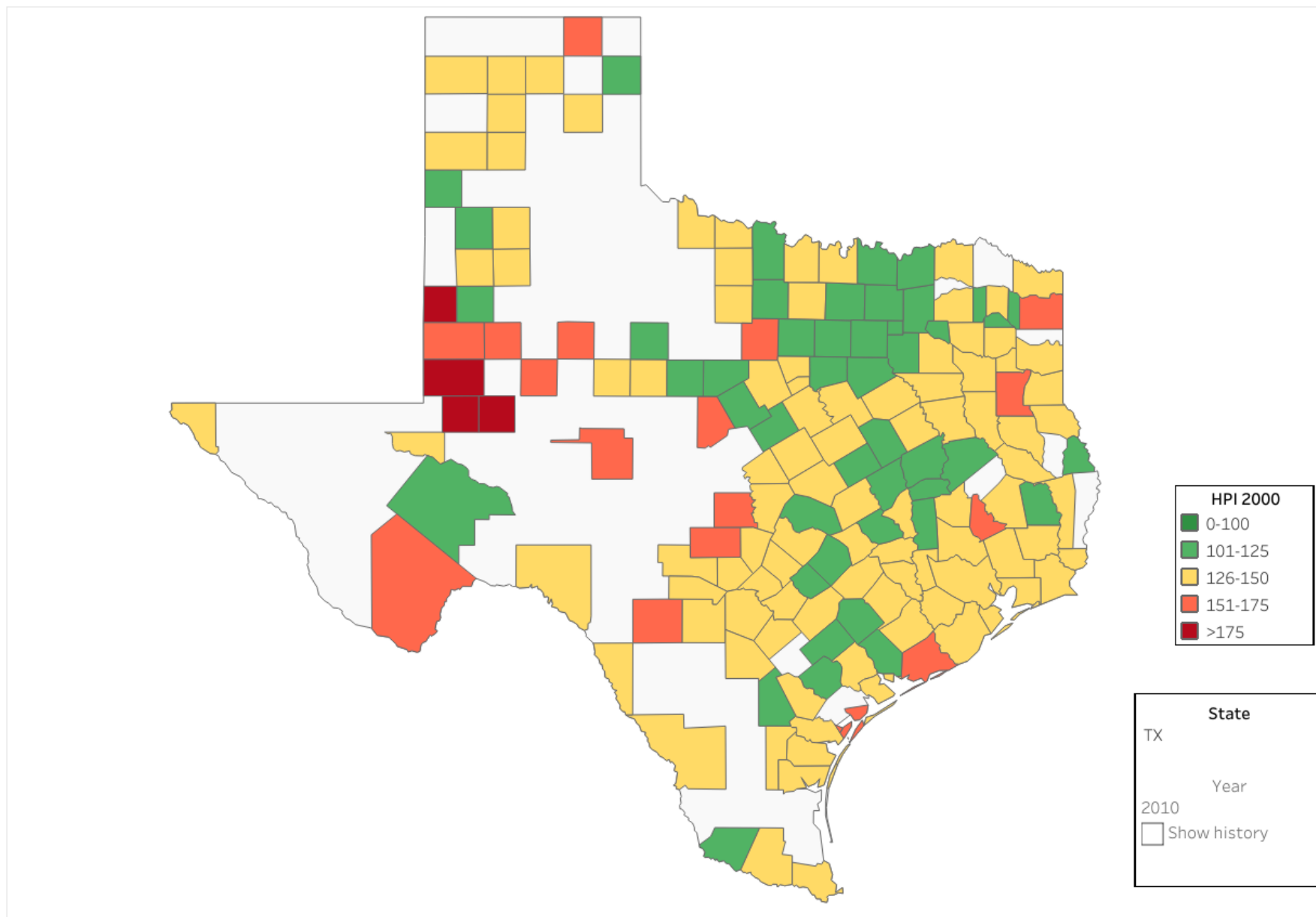
For more information please see our Working Paper 16-01 (<https://www.fhfa.gov/papers/wp1601.aspx>) or our Frequently Asked Questions (https://www.fhfa.gov/papers/wp1601_FAQs_ZIP5_HPIs.pdf).

HPI (base year 2000)
Current View: TX in 2005



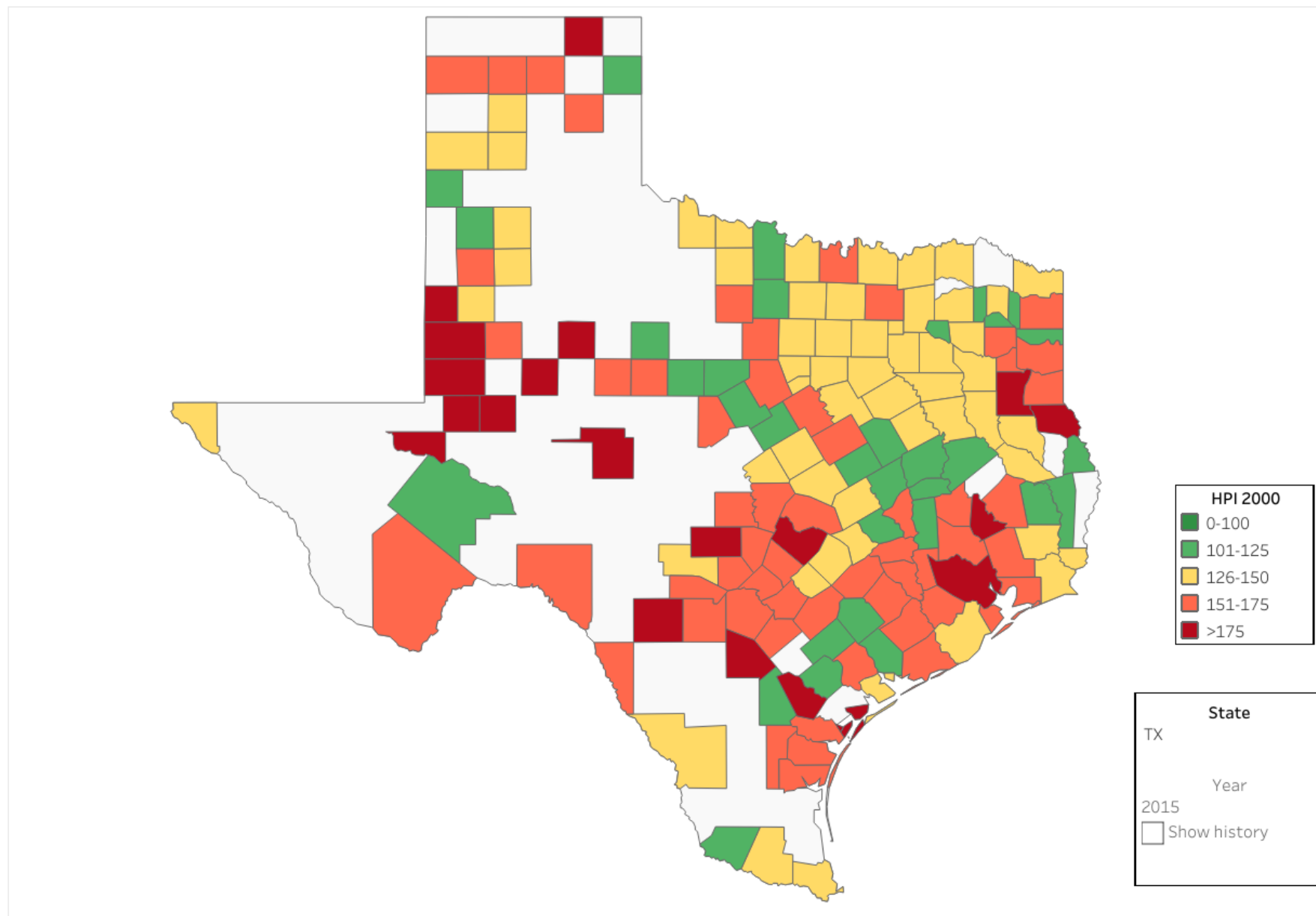
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HPI (base year 2000)
Current View: TX in 2010



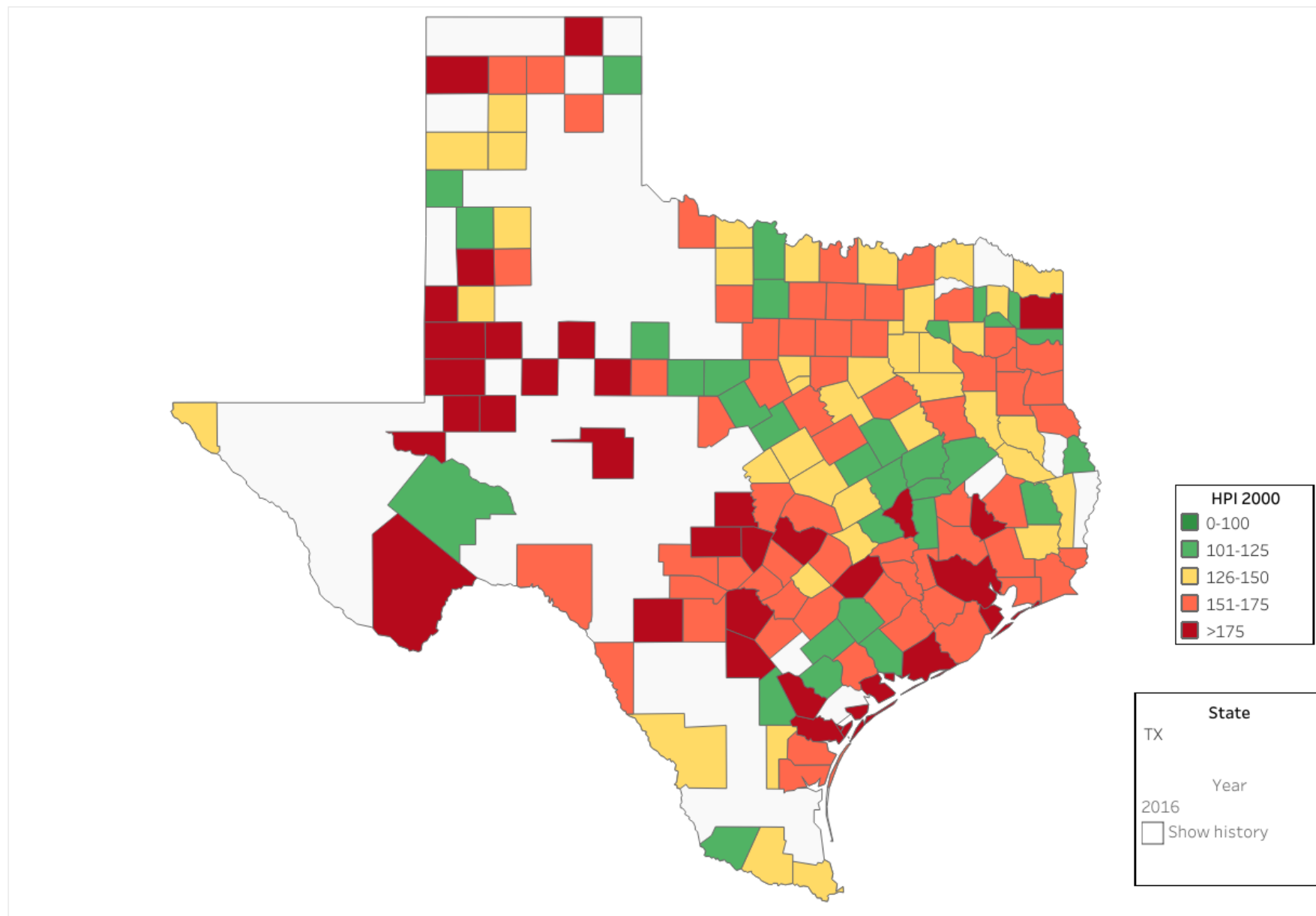
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HPI (base year 2000)
Current View: TX in 2015



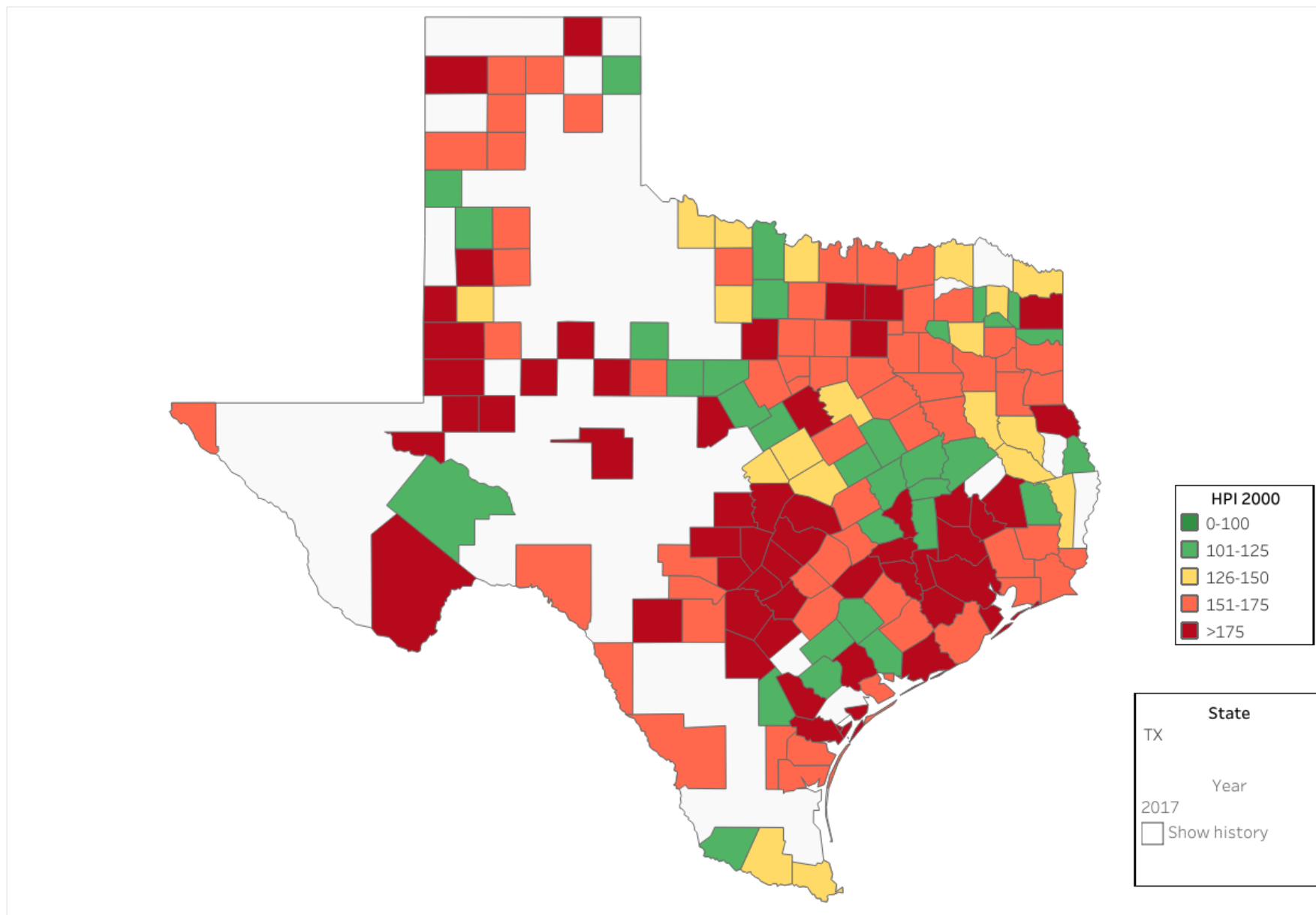
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HPI (base year 2000)
Current View: TX in 2016



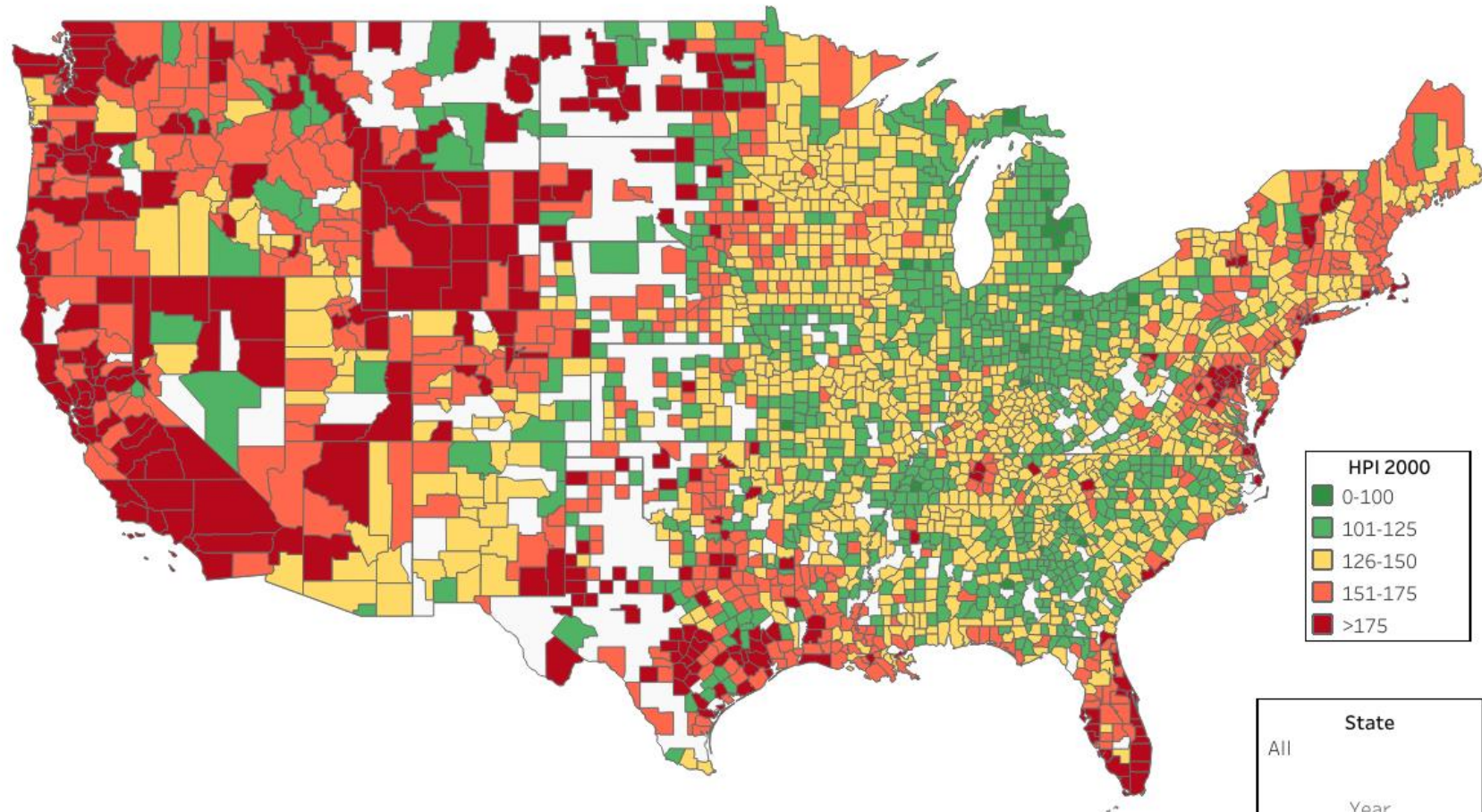
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HPI (base year 2000)
Current View: TX in 2017



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HPI (base year 2000)
Current View: All in 2017



For more information please see our Working Paper 16-01 (<https://www.fhfa.gov/papers/wp1601.aspx>) or our Frequently Asked Questions (https://www.fhfa.gov/papers/wp1601_FAQs_ZIP5_HPIs.pdf).

Texas Housing Market

- Property values sharply rising
- Several areas well in excess of inflation
 - CPI increased 42.3% between 2000-2017
 - Texas metropolitan areas appreciation in excess of 75%
- Property taxes
 - Revenue increased 70% just from 2007 to 2017 (Forbes)

Property Tax Reform

- Texans seeking property tax relief
- Proposed reforms include
 - Sales for property swap
 - Restricted property tax growth
 - Spending-financed property tax cut
- Most reforms target the M&O component of property taxes

Economics of Property Taxation

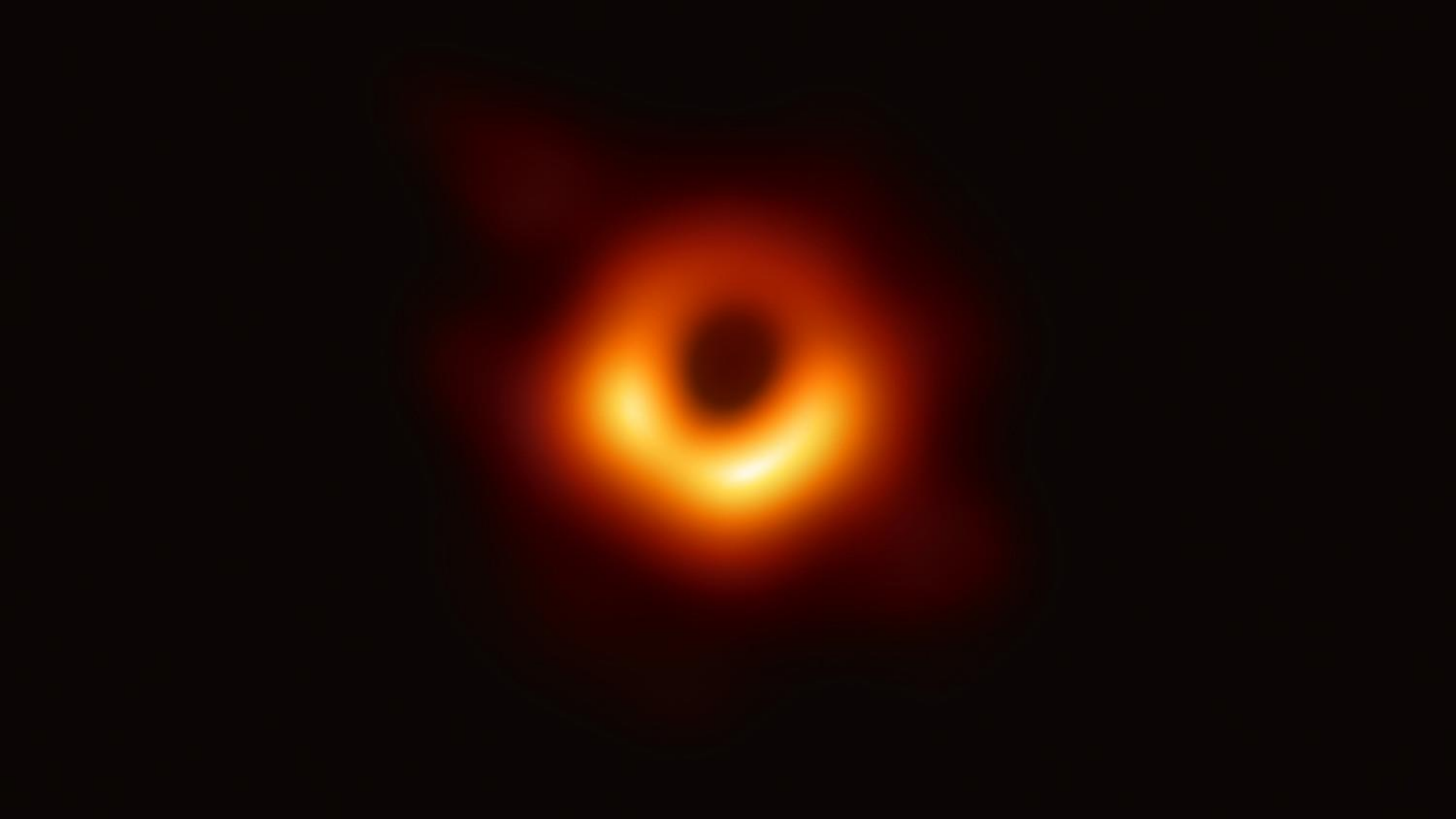
- Traditional View:
 - Property tax inefficiently drives out capital
 - Residents incur the entire burden
- Benefit View:
 - Residents migrate towards property taxes/provisions that best suit them
 - Efficient user cost of government benefits
 - Home appreciation b/c of government provision is in proportion to tax
- Capital Tax View:
 - Extends traditional view to account for extensive property taxation abroad

Economics of Property Taxation

- Two taxes in one: Commercial and Residential
 - **Commercial Property Tax**
 - Tax on a stock of assets → capital tax
 - **Residential Property Tax**
 - Tax on a stock of value → wealth tax
 - Tax on a consumption good → consumption tax

Measuring Economic Impact

- Create a theoretical model
- Indirectly infer behavior
- Fit model to observed behavior
- Vary policy parameters, evaluate reforms



Two Fields

- Astrophysics
 - General relativity theory
 - Equations, predictions, indirect inference
- Economics (Structural)
 - General equilibrium theory
 - Equations, predictions, indirect inference

Two Texas Economy Models

- Diamond and Zodrow Model
 - Accounts for business activity and capital flows
 - Simulates a time path of the Texas economy
- Barro Model
 - Rigorous empirical match to the data (indirect inference)
 - “Snap shot” distributional analysis; personal taxation only

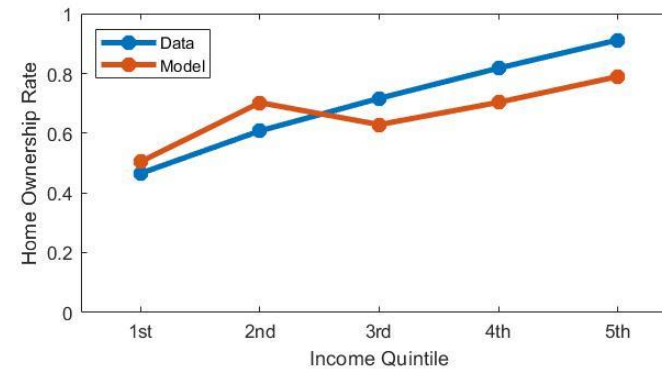
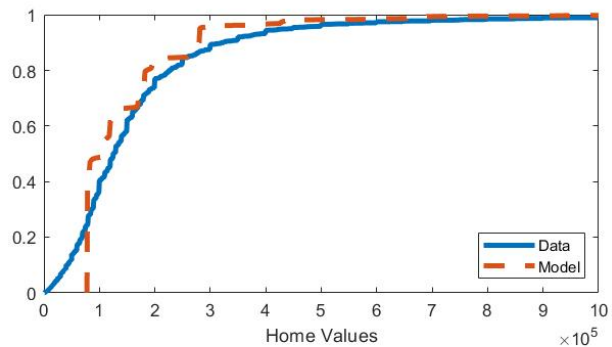
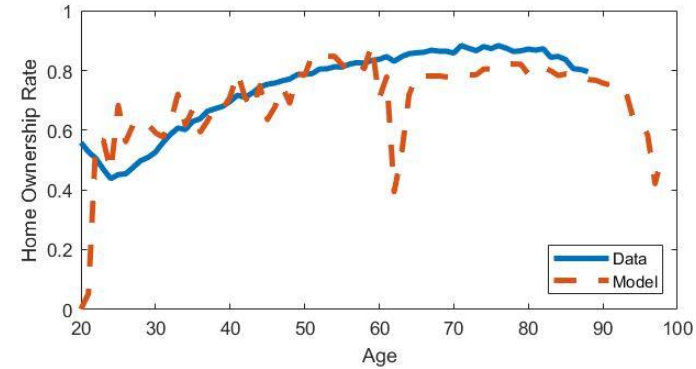
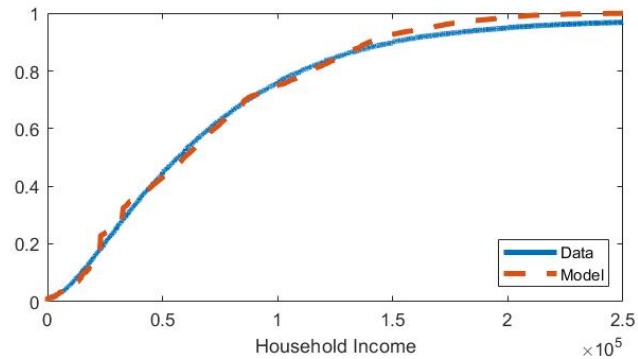
Main Results of DZ Model

- Sales for property swap
 - TX GDP \uparrow 0.8-1.1% over time
 - Investment \uparrow 2.1-2.8% over time
 - Corporate assets and residential housing increase 3-5%
- Spending-financed property tax reduction
 - TX GDP \uparrow 0.7-0.8% over time
 - Investment \uparrow 0.7-3.1% over time
 - Corporate assets and residential housing increase 2-5%

Barro Model

- Simulation model with emphasis on data validation process
- Fine details of the Texas residential property tax
- Broad details of sales tax

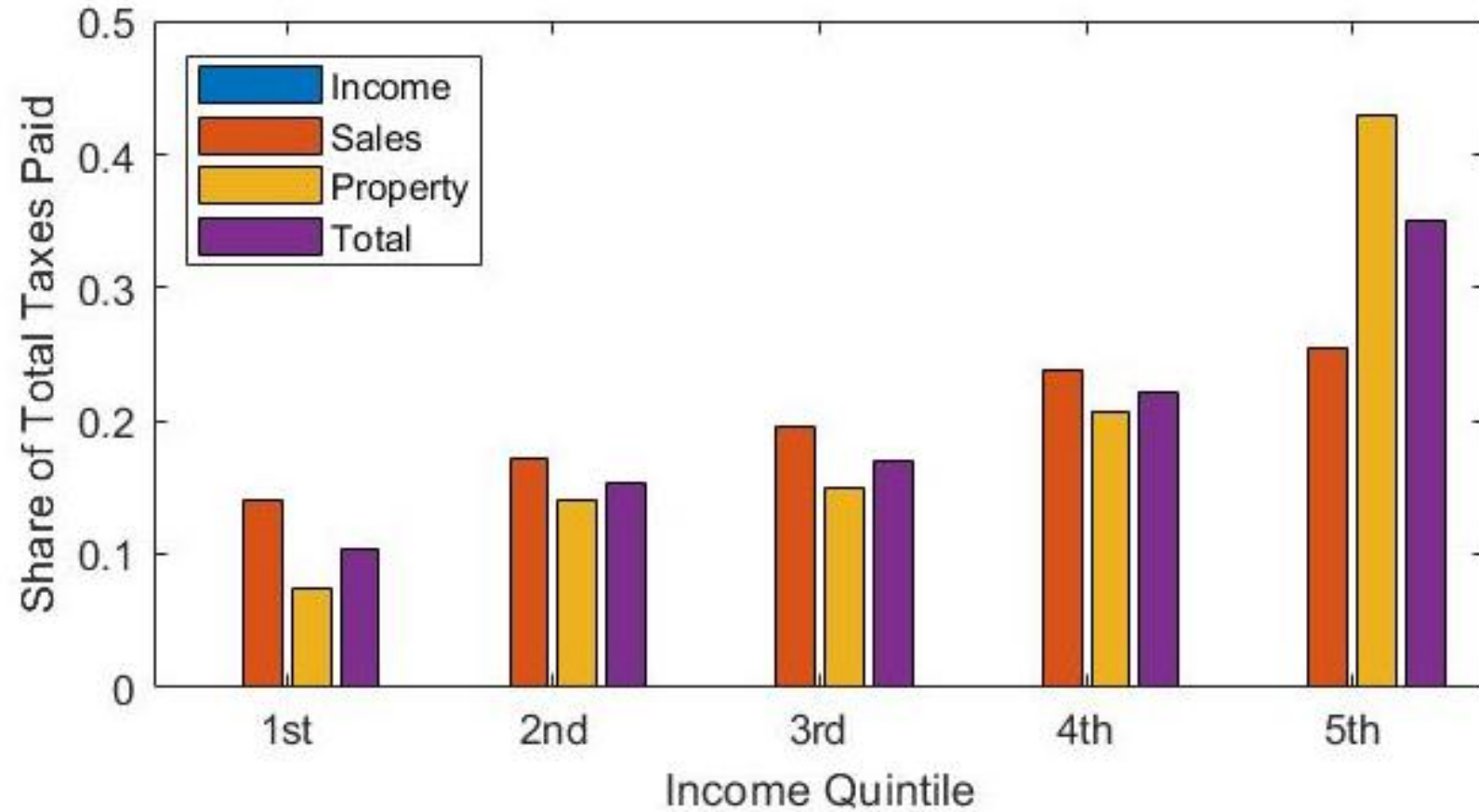
Simulation Model vs Data



Main Results of Barro Model

- Policy change: 20% ↓ in the M&O rate, 1ppt ↑ state sales tax rate
- Preliminary results:
 - Hours worked: ↑ 0.73%
 - Average income: ↑ 0.24%
 - Ownership rate: ↑ 0.90 ppt.
 - Home values: ↑ 5.11%
- Need to model commercial property taxes

Distributional Effects



Sales for Property Swap

- Economic effects mostly positive
- Reduces progressivity of the overall tax
- Encourages home ownership

Education Finance Reform

- Property tax is local; sales tax (proposed) is state-level
- Schools are locally administered and financed
- Is fiscal centralization of schools idea?

Conclusion

- Texas experiencing accelerated property value growth
- Property tax reform is a political priority
- Academic emphasis on rigorous modeling of Texas economy
- Sales for property tax swap has positive economic benefits
- Reform transfers administration of school financing to state