
CENTER *for* PUBLIC POLICY PRIORITIES

BUDGET 201

Crafting a State Budget for a Healthy,
Well-Educated, and Financially Secure Texas

January 31, 2019



GREETING


Luis Figueroa – Legislative and Policy Director
Center for Public Policy Priorities, Austin

TODAY'S TOPICS

State budget and state/local tax issues we'll cover

- Highlights of HB 1 and SB 1, SB 500
- What's not in the budget?
- Who pays Texas taxes? Who doesn't? Policy solutions
- What would better support for state services mean?

SPEAKERS

- Luis Figueroa, Legislative and Policy Director, [@LFiggy78](#)
 - Eva DeLuna Castro, Budget [@DeLunaEva](#)
 - Dick Lavine, Fiscal Analyst [@dlavine](#)
 - Kim Denning-Knapp, McNeil High School teacher
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HIGHLIGHTS OF BUDGET BILLS

HOUSE BILL (HB) I AND SB I, GENERAL APPROPRIATIONS ACT
SB 500, SUPPLEMENTAL FUNDING FOR 2019 **AND** FOR 2020-2021



Glenn Hegar Texas Comptroller of Public Accounts



Biennial Revenue Estimate
2019-2021 Biennium • 86th Texas Legislature • January 2019



LEGISLATIVE BUDGET BOARD

Legislative Budget Estimates
by Strategy
Articles I to III

Fiscal Years 2017 to 2021

SENATE



TEXAS EDUCATION AGENCY

	For the Years Ending	
	August 31, 2020	August 31, 2021
Method of Financing:		
<u>General Revenue Fund</u>		
General Revenue Fund		
Available School Fund		
Technology and Instructional Materials Fund No. 003		
Foundation School Fund No. 193, estimated		
Certification and Assessment Fees (General Revenue Fund)		
Lottery Proceeds, estimated		
Subtotal, General Revenue Fund	\$ 342,184,369	\$ 181,727,359
<u>Federal Funds</u>		
Federal Education Fund	1,346,500,000	2,344,900,000
School Nutrition Programs Fund	1,093,701,159	12,270,954
Federal Funds	14,269,182,007	28,063,223
Subtotal, Federal Funds	\$ 1,454,000,000	\$ 12,599,482,006
Other Funds	\$ 18,302,530,758	\$ 1,244,300,000
Permanent School Fund No. 044		
Property Tax Relief Fund, estimated	\$ 3,158,329,335	\$ 3,158,329,308
Economic Stabilization Fund	2,156,303,851	2,209,425,209
Emergency Contracts	8,442,808	8,442,808
License Plate Trust Fund Account No. 0602		
Repayment Payments - Attendance Credits, estimated	\$ 5,322,975,994	\$ 5,376,097,323
Subtotal, Other Funds	\$ 11,640,052,088	\$ 11,752,295,648
Total, Method of Financing	\$ 5,398,737,165	\$ 5,398,737,165
This bill pattern represents an estimated 83.8% of this agency's estimated total available funds for the biennium.		
Number of Full-Time-Equivalents (FTE):		
Schedule of Exempt Positions (FTE):		
Commissioner of Education, Group 8		
Permanent School Fund Chief Investment Officer		
Items of Appropriation:		
A. Goal: PROVIDE ED SYS LEADERSHIP GUIDANCE AND RESOURCES		
Provide Education System Leadership, Guidance, and Resources		
A.1.1. Strategy: FSP - EQUALIZED OPERATIONS		
Foundation School Program - Equalized Operations	939.0	939.0
A.1.2. Strategy: FSP - EQUALIZED FACILITIES		
Foundation School Program - Equalized Facilities	\$234,678	\$234,678
A.2.1. Strategy: STATEWIDE EDUCATIONAL PROGRAMS		
Resources for Low-income and Other At-risk Students	\$ 21,143,200,000	\$ 21,111,700,000
A.2.2. Strategy: ACHIEVEMENT OF STUDENTS AT RISK		
Resources for Low-income and Other At-risk Students	594,000,000	552,800,000
	127,980,437	130,480,437
	1,589,671,167	1,589,671,165

A701-LBB House-3-A

III-1

December 28, 2018

Who Pays Texas Taxes?

Dick Lawrie, lawrie@cppp.org

For the state to invest in the building blocks of thriving communities – schools, health care, public safety, roads, parks, and other public services – we need a fair and adequate tax system. The type of tax system we need should provide adequate revenue to maintain these public services and also divide up the responsibility for funding these services according to a household's ability to pay. Unfortunately, our tax system falls in apportioning responsibility equitably.

Our state's tax system is upside down, asking the most from those with the least. In Texas, the wealthiest residents pay an average of 4.3 percent of their income in state and local taxes, compared to 16.7 percent for residents with the lowest incomes.

The unfairness of a tax system is measured by a "tax incidence analysis," which evaluates the impact of various taxes on residents at different income levels. The Texas Comptroller is required to conduct that type of analysis every two years. The newest [Tax Exemptions and Tax Incidence Report](#) demonstrates conclusively that low- and moderate-income Texas households bear a disproportionate share of state and local taxes.

Texas households that are least able to afford it pay the most in taxes as a percentage of their income, while the Texas households that can afford to pay more pay the least.

Tax Fairness

One way to judge the fairness of a tax system is to compare the percentage of their income that different households pay in taxes. The Comptroller's study ranks Texas households according to income, from highest to lowest, then combines them into five groups (called "quintiles"), each of which contains the same number of households. In a state with a fair tax system, the taxes that each income group pays have similar percentages of household income. However, in Texas, the households with the lowest incomes pay the highest percentage of their income in taxes; the households with the highest incomes pay the lowest percentage of their income in taxes.

The graph below, derived from the information in the Comptroller's report, shows the range of incomes of households in each group and the average percentage of total household income paid in state and local taxes. Each group contains one-fifth (20 percent) of all Texas households, or about 2 million households. The graph reveals that households with income less than \$17,630 pay almost four times more in taxes as a percentage of income than households with income over \$149,453.

Legislative Budget Snapshot

Representatives and Senate have released their 2020-2021 "star" budget respectively. The Senate also has a supplemental spending bill for 2019 needs and has additional funds for state services. This snapshot contrasts the two budget proposals and highlights their impact on essential services.

Revenue spending of \$115.4 billion in 2020-21, up from \$112.2 billion in 2019-20. That difference goes into state aid to school districts and charter schools.

Utilization Fund is \$1.5 billion, up from \$1.2 billion in 2019-20.

Revenue budget compared to 2019-20.

Education is the second largest such expenditure, rising from \$15.4 billion in 2019-20 to \$15.4 billion by 2021. Designed to be a major source of state revenue sources and help prevent cuts to essential services like schools and health care, the Education Trust is used by the Legislature to support more than \$11.6 billion of the budget needs since 1990.

As lawmakers hash out details of the 2020-2021 state budget, CPPP will crunch the numbers, put them in a helpful context, and analyze the impact of the budget on core Texas services. We look forward to working with state and community leaders to build public revenue and budgeting systems that better meet all Texans' needs.

A Mixed Bag on School Property Tax – Exemptions

School property tax exemptions reduce the amount received by school districts statewide by nearly one-third. Eliminating some of these exemptions could increase funding for public education. But, like repealing sales tax exemptions, increasing school revenue by eliminating property tax exemptions is not as easy as it looks.

Exemptions for residential homesteads will total \$10 billion in 2020-21. These include the state-required \$25,000 homestead exemption (\$3.7 billion), the over-age-65 or disability-related school tax ceiling (\$2.7 billion), and the 10 percent cap on the annual increase in appraised value (\$3.6 billion).

Reform the Local Option Homestead Exemption

However, one homestead exemption stands out as long past its sell-by date – the local-option percentage exemption. This allows school districts to exempt up to 20 percent of a home's value, in addition to the statewide mandatory flat-dollar exemption.

The Legislature created this option in 1991, when comprehensive property tax reform for the first time required appraisal of all homes at their full market value. The exemption was intended to cushion the "sticker shock" resulting from the rapid increase in appraisals in some communities. Thirty-eight years later, the rationale for the exemption is no longer applicable because of the 10 percent cap on appraisal values. The local-option homestead exemption is now offered by fewer than 700 school districts.

A percentage exemption gives the largest dollar amount of tax break to the highest value homes. A 20 percent exemption reduces the taxable value of a \$500,000 home by \$100,000, but the same percentage exemption reduces the taxable value of a \$250,000 home by only \$50,000. The Comptroller calculates that more than half of the benefits of this exemption therefore goes to the one-fifth of Texas households with annual incomes over \$150,000, who tend to own the most expensive houses.

The state currently replaces half of the property tax revenue foregone by districts granting the exemption, but only for Chapter 41 (property-wealthy) districts (this is currently under litigation). This is nearly unfair to the majority of homeowners in Texas, not to mention non-homeowners. To make matters worse from a regressive tax standpoint, the exemption is expected to cost the state almost \$1.7 billion in 2020-21.

Chapter 313 Corporate Tax Exemption Should Expire

Another large cost to the state comes from school property tax breaks given under Chapter 313 of the tax code. In the name of attracting employers to a region, school districts can sign agreements with companies to exempt all but a specified amount of property taxes for 10 years. If these projects, most of which would have located in Texas even without a tax break, were taxed on their real market value, school districts would bring in another \$1.6 billion in 2020-21. This special treatment is market value-based growing exemption, expected to reduce school revenue by more than \$2 billion by 2022-23. Thankfully, Chapter 313 is due to expire in 2021, and lawmakers should not extend it.

2017 “STARTING POINT” (SB I)

...AND 2019’S (HB I)

**FIGURE 4
RECOMMENDATIONS BY ARTICLE, GENERAL REVENUE FUNDS**

(IN MILLIONS)

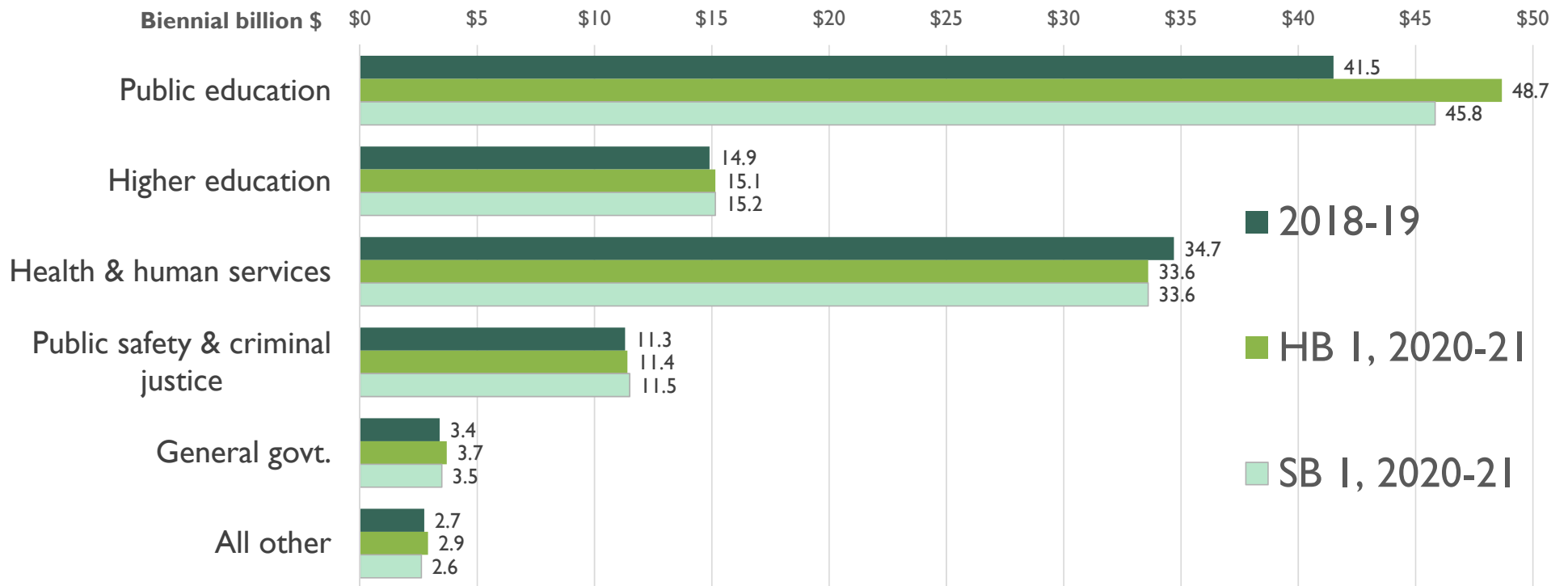
ALL FUNCTIONS	ESTIMATED/BUDGETED	RECOMMENDED	BIENNIAL	PERCENTAGE	RECOMMENDED	BIENNIAL	PERCENTAGE
	2016–17	2018–19	CHANGE	CHANGE	2020–21	CHANGE	CHANGE
Article I – General Government	\$3,345.5	\$3,258.9	(\$86.6)	(2.6%)	\$3,709.0	\$302.2	8.9%
Article II – Health and Human Services	\$32,431.7	\$32,596.0	\$164.3	0.5%	\$33,611.2	(\$1,105.1)	(3.2%)
Article III – Agencies of Education	\$56,283.7	\$54,696.4	(\$1,587.3)	(2.8%)	\$63,825.4	\$7,367.1	13.0%
<i>Public Education</i>	\$41,594.1	\$40,522.4	(\$1,071.8)	(2.6%)	\$48,677.4	\$7,128.7	17.2%
<i>Higher Education</i>	\$14,689.6	\$14,174.0	(\$515.6)	(3.5%)	\$15,148.1	\$238.4	1.6%
Article IV – The Judiciary	\$503.3	\$503.6	\$0.3	0.1%	\$541.9	\$51.1	10.4%
Article V – Public Safety and Criminal Justice	\$11,534.7	\$11,556.1	\$21.4	0.2%	\$11,414.9	\$92.7	0.8%
Article VI – Natural Resources	\$835.0	\$769.1	(\$65.9)	(7.9%)	\$786.5	(\$124.1)	(13.6%)
Article VII – Business and Economic Development	\$1,176.9	\$553.3	(\$623.6)	(53.0%)	\$815.4	\$318.9	64.2%
Article VIII – Regulatory	\$337.1	\$339.3	\$2.2	0.7%	\$350.4	\$5.1	1.5%
Article IX – General Provisions	\$0.0	(\$1,058.0)	(\$1,058.0)	N/A	\$0.0	\$0.0	N/A
Article X – The Legislature	\$400.8	\$387.7	(\$13.1)	(3.3%)	\$391.8	(\$0.9)	(0.2%)
Total, All Articles	\$106,848.7	\$103,602.3	(\$3,246.3)	(3.0%)	\$115,446.6	\$6,906.9	6.4%

NOTES:

- (1) May include anticipated supplemental spending adjustments.
- (2) Biennial change and percentage change are calculated on actual amounts before rounding. Therefore, figure totals may not sum due to rounding.

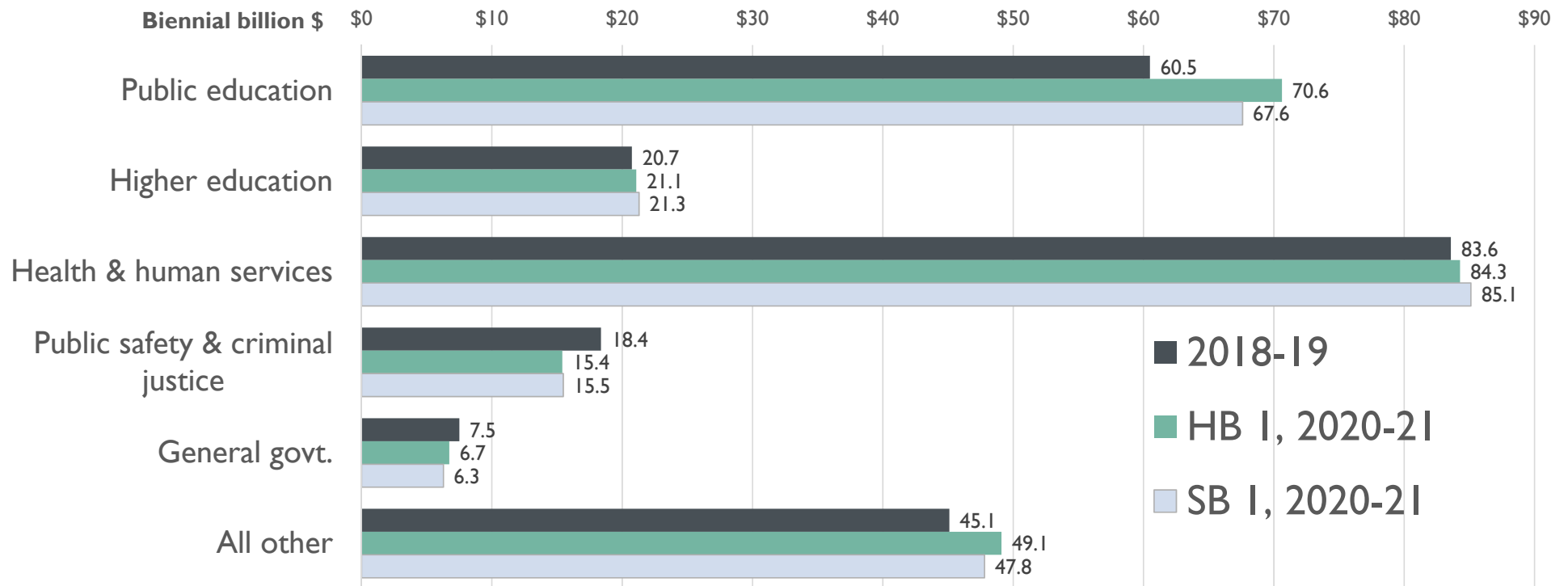
SOURCE: Legislative Budget Board.

STARTING-POINT GENERAL REVENUE PROPOSALS



“Other” is Business and Economic Development, Natural Resources, Courts, Regulatory, and Legislative Agencies.


ALL FUNDS PROPOSALS (GR-RELATED, FEDERAL, ESF, OTHER STATE DOLLARS)



“Other” is Business and Economic Development, Natural Resources, Courts, Regulatory, and Legislative Agencies.

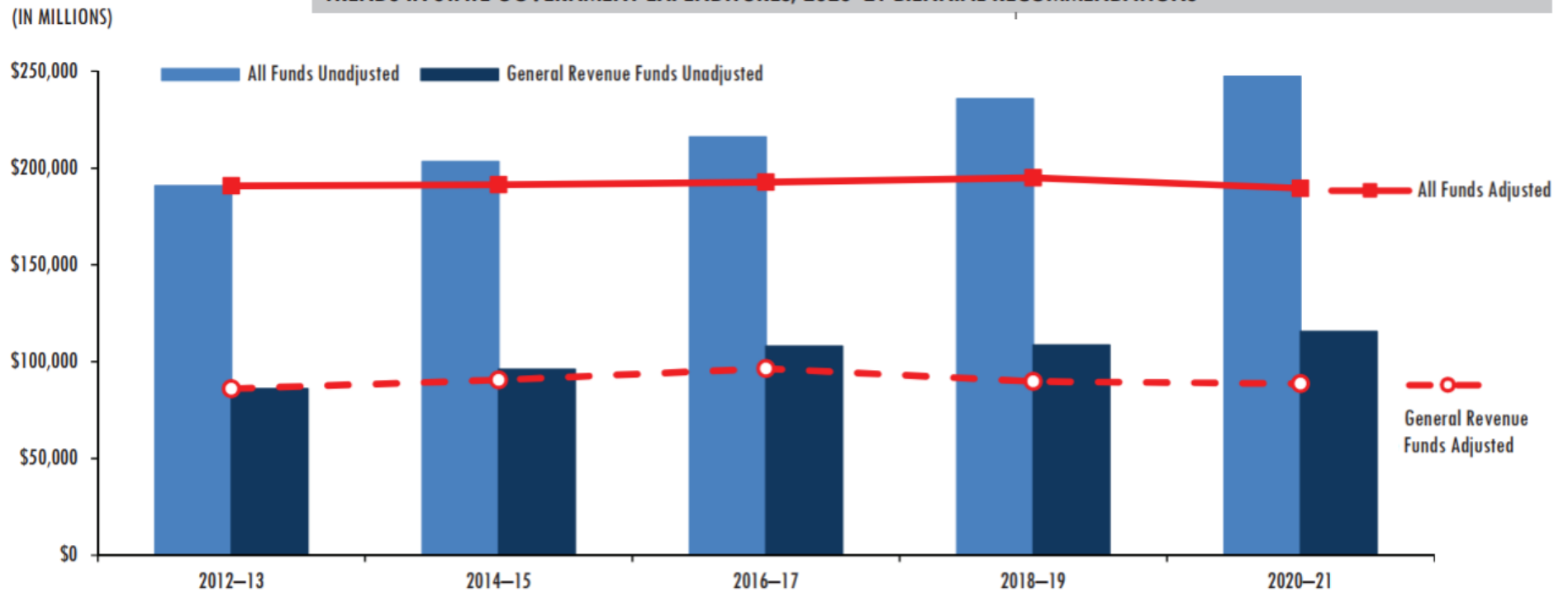


WHAT'S NOT IN THE BUDGET?

- **Adequate rates for services**
 - ❖ Example: community care wages
 - **Enough services (“slots”)**
 - ❖ Example: child care assistance
 - **Services in other state’s budgets**
 - ❖ Example: Public libraries; Medicaid for working adults
- 

2020-2021 PROPOSALS DON'T PAY FOR GROWTH

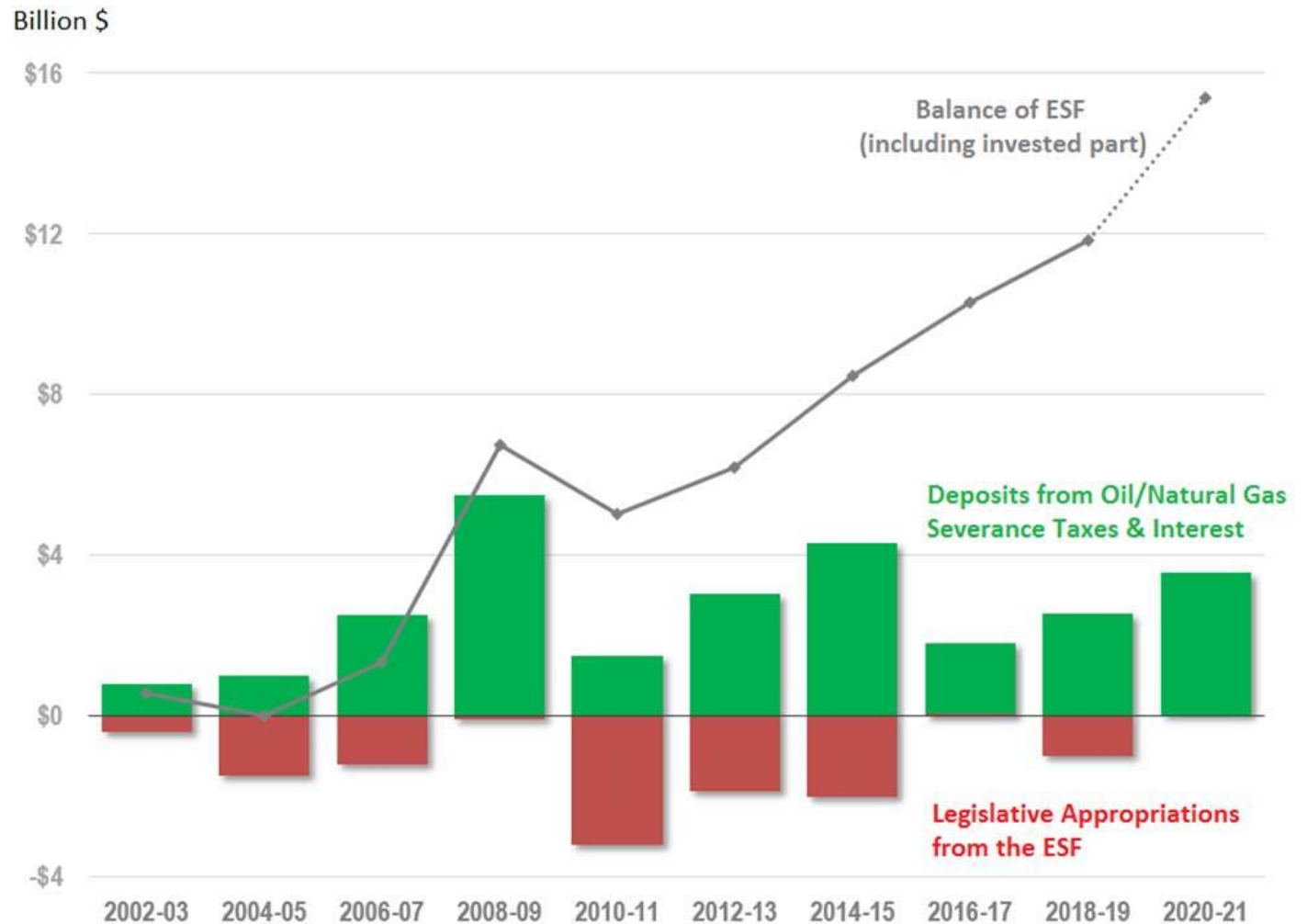
FIGURE 19
TRENDS IN STATE GOVERNMENT EXPENDITURES, 2020-21 BIENNIAL RECOMMENDATIONS



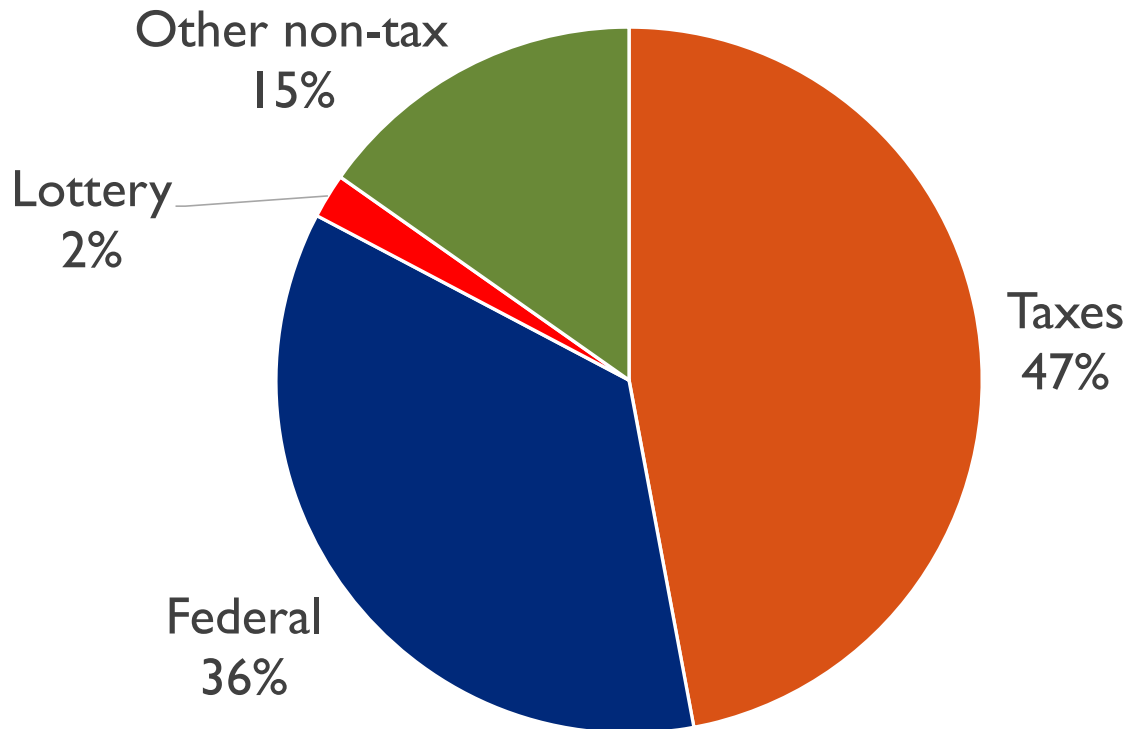
SOURCE: Legislative Budget Board.

ECONOMIC STABILIZATION FUND: \$15.4 BILLION BY 2021

- **HB 1: \$633 million would be used in 2020-2021**
- **SB 500: \$1.8 billion in 2019, \$711 million in 2020-2021**

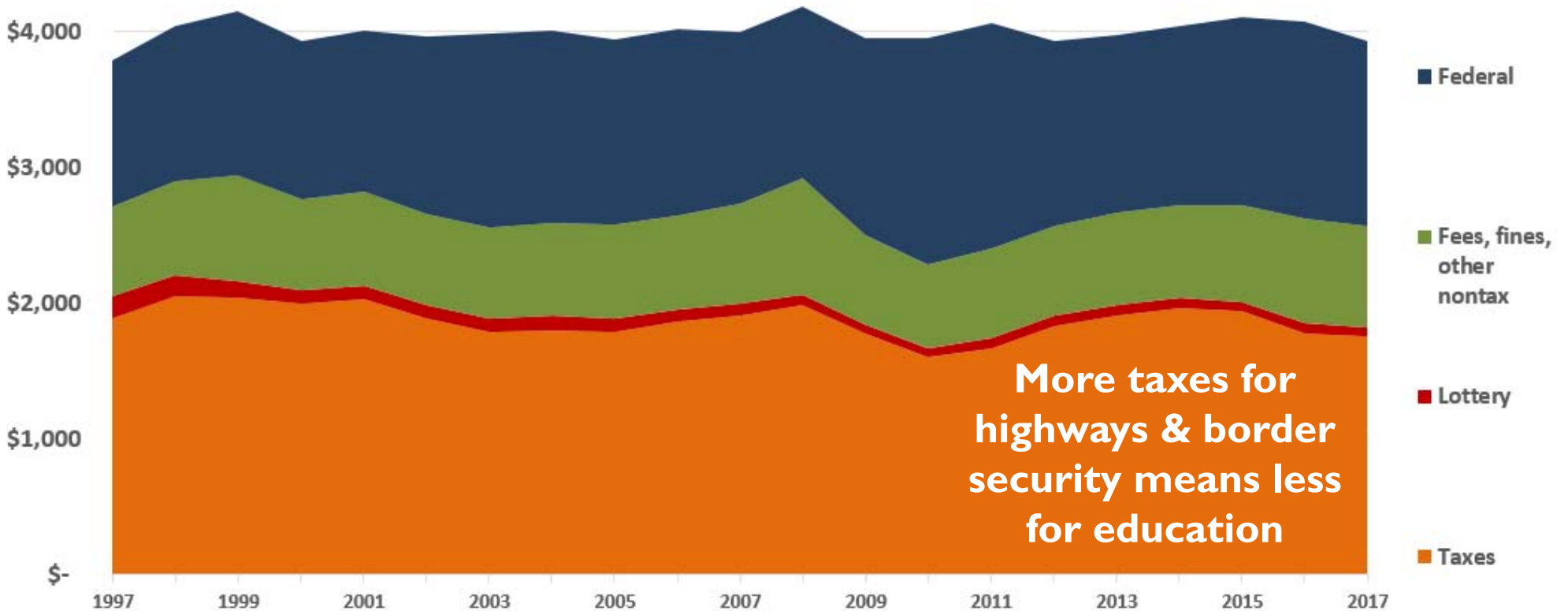


HOW ARE STATE SERVICES PAID FOR IN 2018-2019?



NO REAL INCREASE IN STATE REVENUE; ONLY A REALLOCATION

State revenue per Texan, in 2017 \$
(State/Local Govt. inflation)



More taxes for
highways & border
security means less
for education



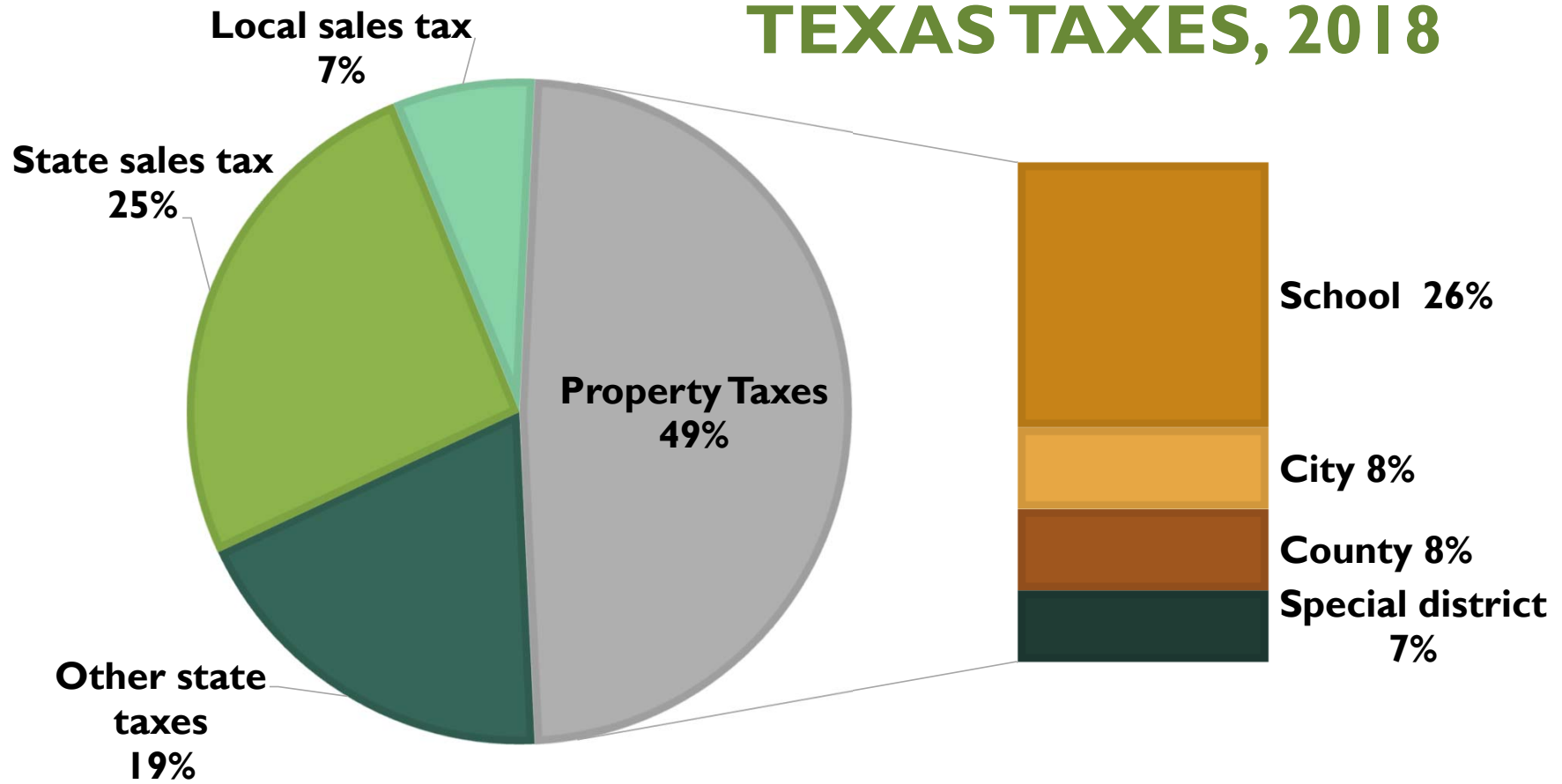
STATE/LOCAL REVENUE

WHO PAYS TAXES? WHO DOESN'T PAY?

POTENTIAL REVENUE SOURCES

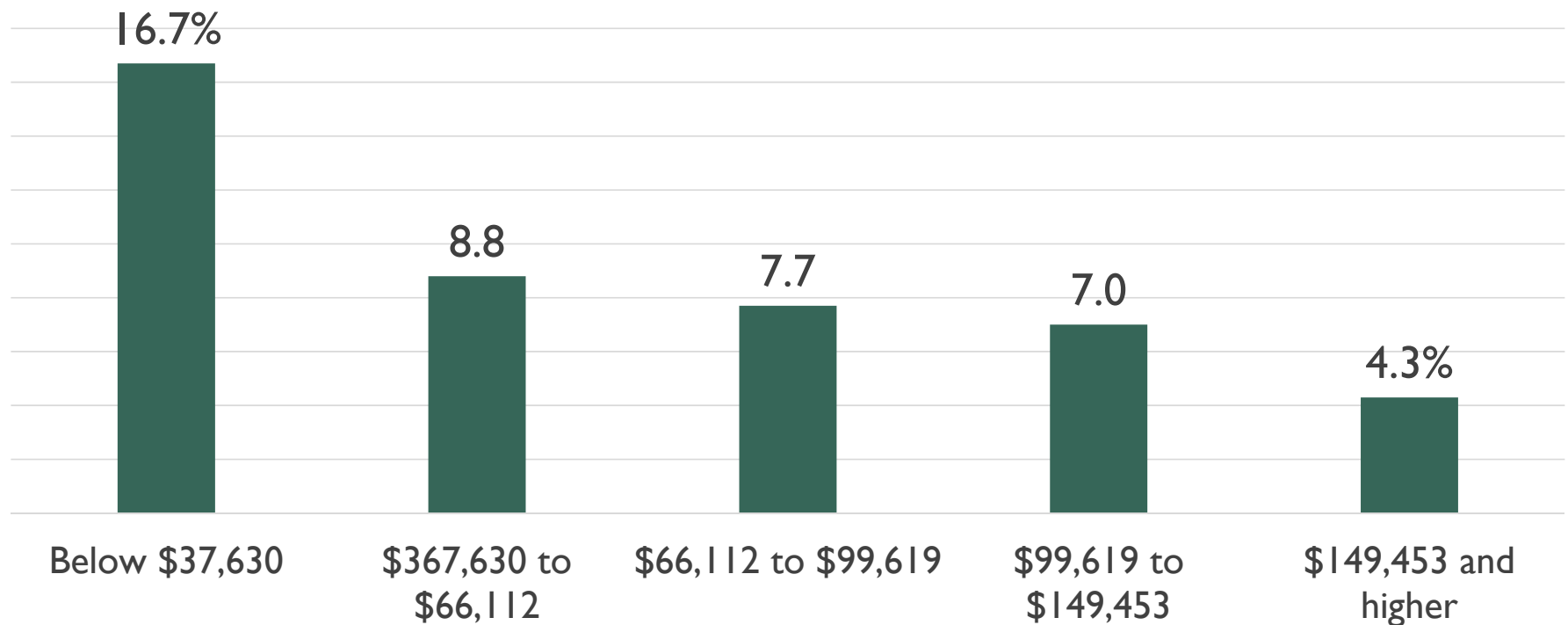


TEXAS TAXES, 2018



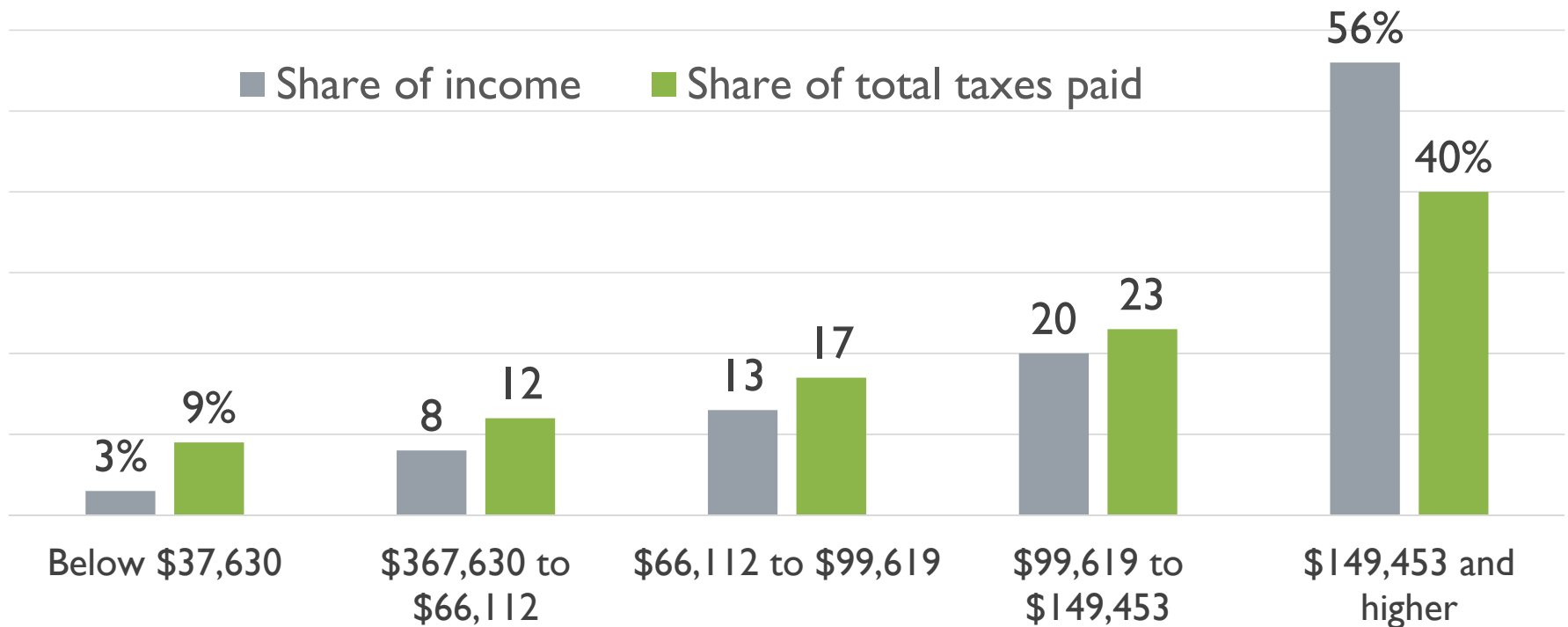
TEXAS HOUSEHOLDS WITH THE LOWEST INCOME PAY THE HIGHEST PERCENTAGE IN STATE AND LOCAL TAXES

Percent of Income Paid in Taxes



Source: Texas Comptroller of Public Accounts, *Tax Exemptions & Tax Incidence*, November 2018

TOP ONE-FIFTH OF TEXAS HOUSEHOLDS PAY LESS THAN THEIR FAIR SHARE OF STATE/LOCAL TAXES



Source: Texas Comptroller of Public Accounts, *Tax Exemptions & Tax Incidence*, November 2018

EXEMPTIONS TO STATE SALES TAX

\$164 billion (2020-2021)

MINUS

= \$71.4 billion

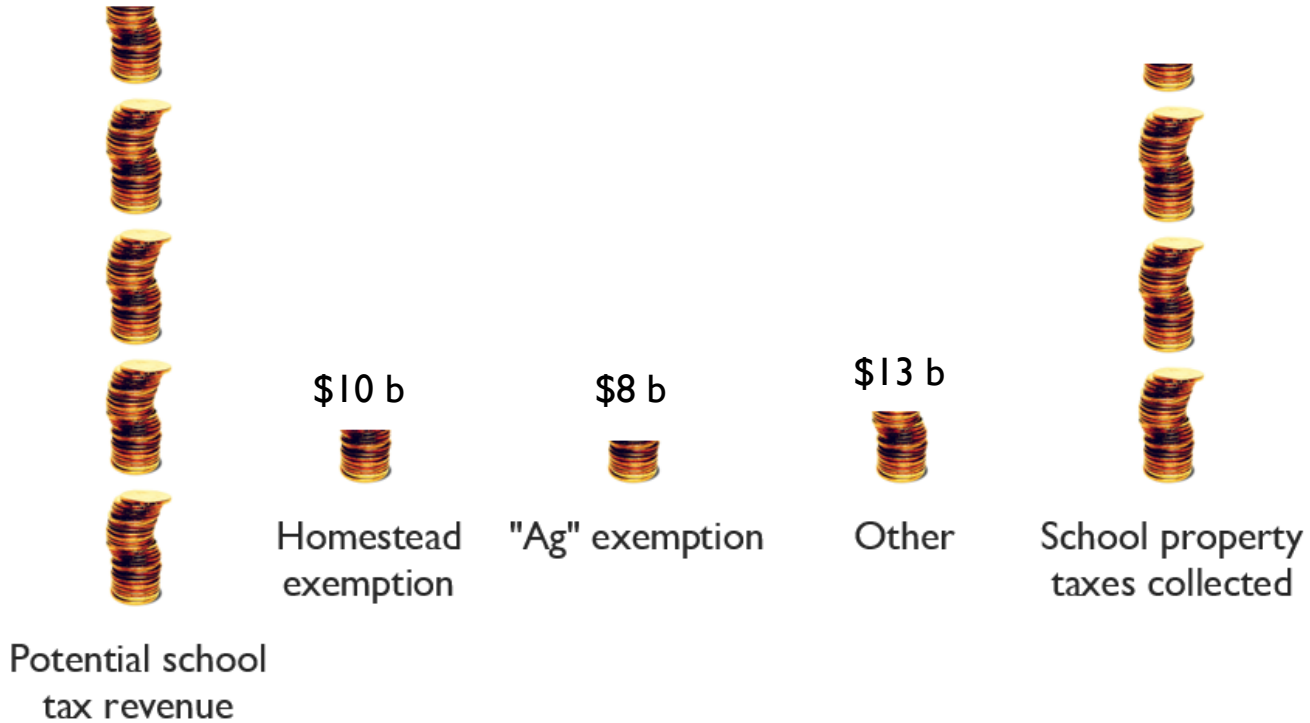


SCHOOL PROPERTY TAX EXEMPTIONS

\$107 billion (2020-2021)

MINUS

= \$75 billion



REVENUE TEXAS COULD GET FROM A MODERNIZED TAX SYSTEM

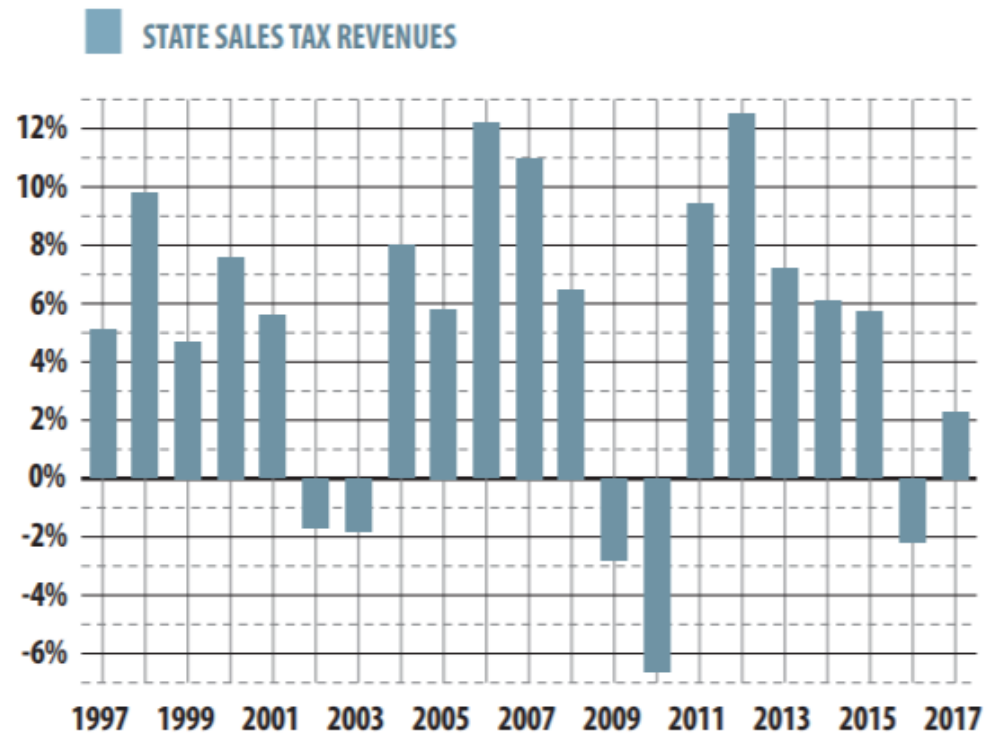
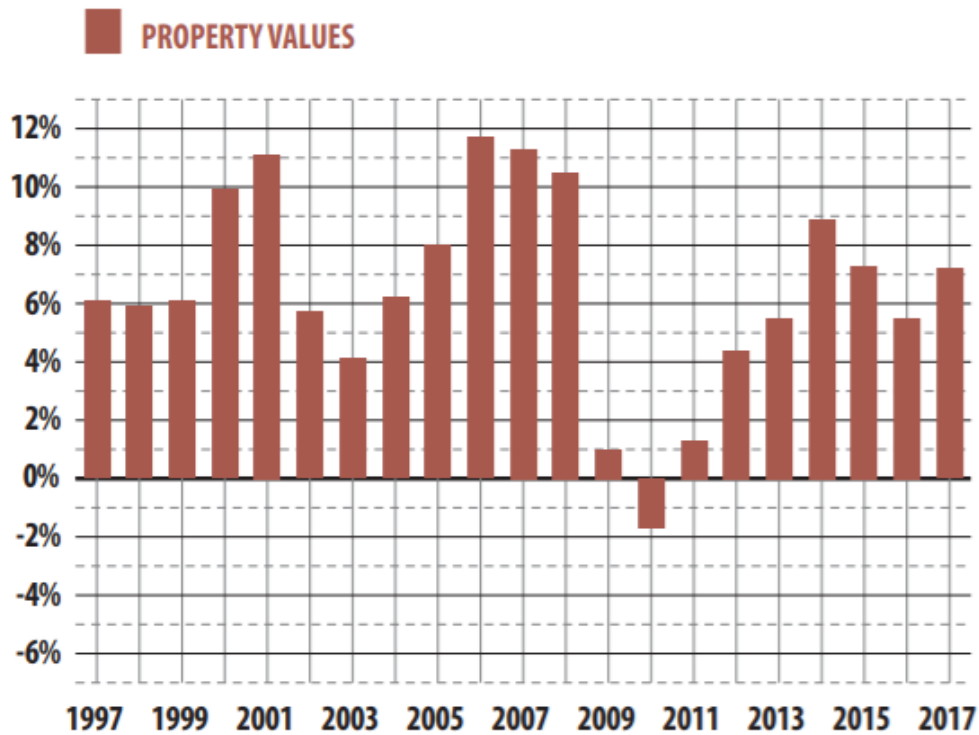
- **Outmoded tax breaks**
 - High-cost natural gas wells
 - Local optional homestead exemption
- **Stagnant tax rates**
 - Beer/wine; gasoline
- **Sales tax base**
 - Business/professional services



ALSO

- **Tax Code Sunset**
 - **Property tax transparency**
- 

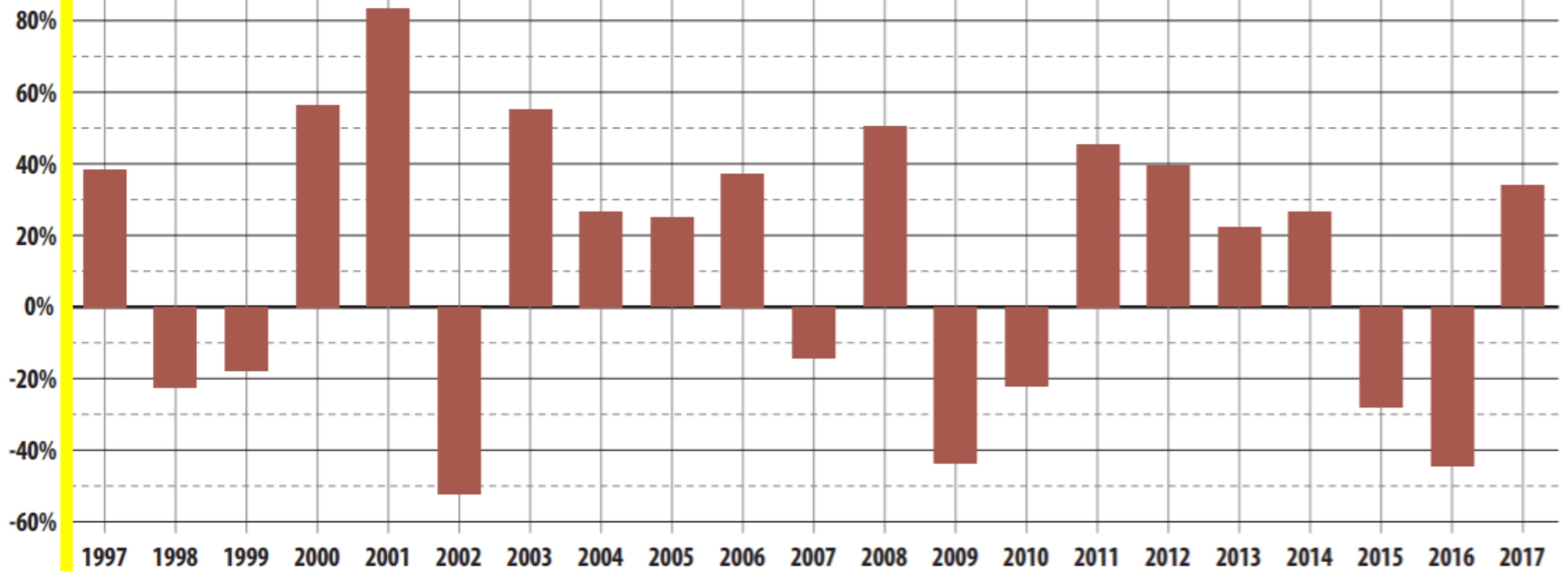
ANNUAL CHANGE IN TEXAS PROPERTY VALUES AND SALES TAX REVENUE, 1997-2017



Note: Property value calculations are for tax years 1997-2017; sales tax calculations are for fiscal 1997-2017.

Sources: Texas Education Agency and Texas Comptroller of Public Accounts

ANNUAL CHANGE IN STATE SEVERANCE TAX REVENUE, FISCAL 1997-2017



Source: Texas Comptroller of Public Accounts



FUNDING AND REVENUE IN THE CLASSROOM

Kim Denning-Knapp – 11th grade U.S. History and AP psychology teacher
McNeil High School, Round Rock ISD

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