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

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Center for Public Policy Priorities, Austin
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
HIGHLIGHTS OF BUDGET BILLS

HOUSE BILL (HB) 1 AND SB 1, GENERAL APPROPRIATIONS ACT
SB 500, SUPPLEMENTAL FUNDING FOR 2019 AND FOR 2020-2021
Legislative Budget Estimates by Strategy
Articles I to III
Fiscal Years 2017 to 2021
SENATE
Who Pays Texas Taxes?

Legislative Budget Snapshot

The Legislative Budget Board has released its 2020-2021 budget proposals, focusing on school finance, health care, and public safety. The proposals address the fiscal challenges facing the state and aim to provide a balanced approach to budgeting. The budget proposals are designed to ensure that Texas is prepared for the future, while also addressing the immediate needs of its residents.

One key aspect of the budget proposals is the emphasis on school finance. The proposals include an increase in state funding for public schools, which will help to ensure that all children have access to a quality education. In addition, the proposals include funding for essential services, such as health care and public safety, which are critical to the well-being of all Texans.

The proposals also include measures to improve the state's infrastructure, including investments in transportation and water systems. These investments are expected to create jobs and support economic growth in the state.

Overall, the budget proposals are designed to provide a balanced approach to budgeting, ensuring that the state is prepared for the future while also addressing the immediate needs of its residents.
### Figure 4
**Recommendations by Article, General Revenue Funds**

#### IN MILLIONS

<table>
<thead>
<tr>
<th>ALL FUNCTIONS</th>
<th>Estimated/Budgeted 2016–17</th>
<th>Recommended 2018–19</th>
<th>Biennial Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article I – General Government</td>
<td>$3,345.5</td>
<td>$3,258.9</td>
<td>($86.6)</td>
<td>(2.6%)</td>
</tr>
<tr>
<td>Article II – Health and Human Services</td>
<td>$32,431.7</td>
<td>$32,596.0</td>
<td>$164.3</td>
<td>0.5%</td>
</tr>
<tr>
<td>Article III – Agencies of Education</td>
<td>$56,283.7</td>
<td>$54,696.4</td>
<td>($1,587.3)</td>
<td>(2.8%)</td>
</tr>
<tr>
<td><strong>Public Education</strong></td>
<td>$41,594.1</td>
<td>$40,522.4</td>
<td>($1,071.8)</td>
<td>(2.6%)</td>
</tr>
<tr>
<td><strong>Higher Education</strong></td>
<td>$14,689.6</td>
<td>$14,174.0</td>
<td>($515.6)</td>
<td>(3.5%)</td>
</tr>
<tr>
<td>Article IV – The Judiciary</td>
<td>$503.3</td>
<td>$503.6</td>
<td>$0.3</td>
<td>0.1%</td>
</tr>
<tr>
<td>Article V – Public Safety and Criminal Justice</td>
<td>$11,534.7</td>
<td>$11,556.1</td>
<td>$21.4</td>
<td>0.2%</td>
</tr>
<tr>
<td>Article VI – Natural Resources</td>
<td>$835.0</td>
<td>$769.1</td>
<td>($65.9)</td>
<td>(7.9%)</td>
</tr>
<tr>
<td>Article VII – Business and Economic Development</td>
<td>$1,176.9</td>
<td>$553.3</td>
<td>($623.6)</td>
<td>(53.0%)</td>
</tr>
<tr>
<td>Article VIII – Regulatory</td>
<td>$337.1</td>
<td>$339.3</td>
<td>$2.2</td>
<td>0.7%</td>
</tr>
<tr>
<td>Article IX – General Provisions</td>
<td>$0.0</td>
<td>($1,058.0)</td>
<td>($1,058.0)</td>
<td>N/A</td>
</tr>
<tr>
<td>Article X – The Legislature</td>
<td>$400.8</td>
<td>$387.7</td>
<td>($13.1)</td>
<td>(3.3%)</td>
</tr>
<tr>
<td><strong>Total, All Articles</strong></td>
<td><strong>$106,848.7</strong></td>
<td><strong>$103,602.3</strong></td>
<td><strong>($3,246.3)</strong></td>
<td><strong>(3.0%)</strong></td>
</tr>
</tbody>
</table>

#### RECOMMENDED 2020–21

<table>
<thead>
<tr>
<th>Recommened 2020–21</th>
<th>Biennial Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3,709.0</td>
<td>$302.2</td>
<td>8.9%</td>
</tr>
<tr>
<td>$33,611.2</td>
<td>($1,105.1)</td>
<td>(3.2%)</td>
</tr>
<tr>
<td>$63,825.4</td>
<td>$7,367.1</td>
<td>13.0%</td>
</tr>
<tr>
<td>$48,677.4</td>
<td>$7,128.7</td>
<td>17.2%</td>
</tr>
<tr>
<td>$15,148.1</td>
<td>$238.4</td>
<td>1.6%</td>
</tr>
<tr>
<td>$541.9</td>
<td>$51.1</td>
<td>10.4%</td>
</tr>
<tr>
<td>$11,141.9</td>
<td>$92.7</td>
<td>0.8%</td>
</tr>
<tr>
<td>$786.5</td>
<td>($124.1)</td>
<td>(13.6%)</td>
</tr>
<tr>
<td>$815.4</td>
<td>$318.9</td>
<td>64.2%</td>
</tr>
<tr>
<td>$350.4</td>
<td>$5.1</td>
<td>1.5%</td>
</tr>
<tr>
<td>$0.0</td>
<td>$0.0</td>
<td>N/A</td>
</tr>
<tr>
<td>$391.8</td>
<td>($0.9)</td>
<td>(0.2%)</td>
</tr>
</tbody>
</table>

**Total, All Articles:**

$115,446.6

**Biennial Change:** $6,906.9

**Percentage Change:** 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.
“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

(IN MILLIONS)

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?

- Taxes: 47%
- Federal: 36%
- Lottery: 2%
- Other non-tax: 15%
More taxes for highways & border security means less for education
STATE/LOCAL REVENUE

WHO PAYS TAXES? WHO DOESN’T PAY?  POTENTIAL REVENUE SOURCES
Other state taxes 19%
Local sales tax 7%
State sales tax 25%
Property Taxes 49%
TEXAS HOUSEHOLDS WITH THE LOWEST INCOME PAY THE HIGHEST PERCENTAGE IN STATE AND LOCAL 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) \quad \text{MINUS} \quad \begin{align*}
\$34 \text{ b} & \quad \text{Taxed by other law} \\
\$41 \text{ b} & \quad \text{Other items exempted} \\
\$17 \text{ b} & \quad \text{Service exclusions} \\
\$667 \text{ million} & \quad \text{Discounts}
\end{align*} \quad = \$71.4 \text{ billion}

Potential sales tax revenue
SCHOOL PROPERTY TAX EXEMPTIONS

$107 billion (2020-2021) MINUS $10 b $8 b $13 b = $75 billion

Potential school tax revenue
Homestead exemption
"Ag" exemption
Other
School property taxes collected
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

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