THE WILLIAM P. HOBBY DISTINGUISHED LECTURE

TEXAS CERTIFIED PUBLIC MANAGER CONFERENCE

SOCIAL JUSTICE IN PUBLIC POLICY AND ADMINISTRATION

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Our problem is not spending:
State Budget: Adjusted for Population and Inflation

Source: Legislative Budget Board, *Fiscal Size Up 2012-13*. Dotted lines include Medicaid supplemental funding and the August 2013 FSP payment.
Our problem is inadequate taxation: State Taxes as Percent of Total Personal Income

State revenue would be $10+ billion higher in 2013; State/local, $11 billion

State taxes

Local taxes

Source: Comptroller of Public Accounts, U.S. Census Bureau.
How We “Balanced” 2012-13

• $5 billion Medicaid IOU (matched with $6 billion federal); if not paid would require a 30% cut to nursing homes

• $5 billion in dedicated GR used to balance the budget – money left unspent is used for certification

• $3 billion in accounting maneuvers: postponed payments to 2014, speeded-up tax collections due in 2014

• $11 billion in cuts to current services for 2012-13 -- $5.3 billion from preK-12, $1.5 billion from higher education
Revenue vs. Needs 2014-15

Billion $

$125

$100

$100

$75

$75

$50

$50

$25

$25

$-


Rainy Day Fund
GR

$79
$86
$95
$96
$108
Public services are provided by both state and local governments and, looking at the combined effort, Texas is a low-spending state. This is the direct result of low state government spending.

Texas is 43rd on direct general spending per capita, for state and local government, 2009

The 2012-13 Texas State Budget

All-Funds Budget
Total: $173 billion

- K-12 Education: 32%
- Health & Human Services: 29%
- Higher Education: 14%
- Public Safety/Criminal Justice: 7%
- Other: 6%

General Revenue Budget
Total: $81 billion

- Business/Econ. Development: 42%
- Health & Human Services: 28%
- Public Safety/Criminal Justice: 15%
- Other: 5%
- Higher Education: 10%

Source: Legislative Budget Board, Fiscal Size-up 2012-13, appropriated amounts as of December 2011
Texas Gets Its Money Primarily from Taxes and Federal Support

Sources: Texas Comptroller of Public Accounts, Certification Revenue Estimate, December 2011, and federal funds appropriated, Legislative Budget Board, Fiscal Size-up 2012-13
The State Relies on Federal Funding to Support Public Services

Source: Texas Comptroller of Public Accounts
The State Relied on Federal Stimulus Funds in 2010–11

Sources: Texas Comptroller of Public Accounts, Certification Revenue Estimates, December 2011; federal funds from Legislative Budget Board, Fiscal Size-up 2012-13, excludes anticipated need for Medicaid supplemental.
Amount for Texas in 2011 (Federal Fiscal Year)

- $19.6 billion: Medicaid
- $1.7 billion: Title I Grants to Local Education Agencies
- $843 million: Children’s Health Insurance Program
- $731 million: Special Supplemental Food Program (WIC)
- $4 billion: Highway Planning & Construction
- $1.4 billion: Special Education Grants to States
- $1.4 billion: National School Lunch Program
- $573 million: Temporary Assistance for Needy Families Grants

Sources: Texas State Auditor, Federal Portion of the Statewide Single Audit Report for Fiscal 2011; Legislative Budget Board
Texas Does Not Have a State Personal Income Tax

Texas has a very low state tax bill, ranking 45th in state taxes per resident. But Texas has a very high local tax bill—16th highest among the 50 states—because the state “pushes down” to local governments a larger share of costs.

Texas Is a Two-Tax State: Property and Sales Taxes

- Local Sales Tax: 7%
- State Sales Tax: 25%
- Property Taxes: 47%
- Other State Taxes: 21%
- School District: 25%
- County: 8%
- City: 6%
- Special District: 8%

Taxable Property Value After Exemptions
Total: $1.6 trillion

- Commercial/Industrial: 37%
- Single-Family Residential: 45%
- Oil and Gas: 7%
- Agricultural Land: 0.8%
- Other: 11%
Schools lost $5.7 billion in potential revenue in 2011 because of exemptions.

- **$2.7 billion** Agriculture “Ag” Exemption
- **$650 million** Over-65 “Tax Freeze”
- **$725 million** Business Exemptions
- **$460 million** Local Optional Percentage Homestead Exemption
- **$1 billion** Statewide Homestead Exemption
- **$100 million** 10% Cap on Appraisal Increases
- **$100 million** Local Optional Over-65 & Disabled Exemption
State Taxes
2010–11 Biennium: $74 billion
(All Funds)

Alcohol 2%
Cigarette/Tobacco 4%
Motor Fuels/Gasoline 8%
Motor Vehicle 8%

Sales 55%
Oil/Natural Gas 5%
Insurance 4%
Franchise 10%
Other 3%

Source: Texas Comptroller of Public Accounts, Certification Revenue Estimate, December 2011
The Sales Tax Applies to a Shrinking Portion of All Sales

Source: Texas Comptroller of Public Accounts, Quarterly Sales Tax Historical Data
Cost of Business and Professional Services Exclusions in the 2012-13 biennium

$802 million
Architectural & Engineering Services

$656 million
Freight Hauling

$485 million
Real Estate Brokerage & Agency

$911 million
Legal Services

$511 million
Accounting & Audit Services

Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011
Franchise Tax Revenue is Far Short of Original Forecast

Original Revenue Forecast (May 2006)


Sources: Fiscal Notes to HB 1, 3, 4, and 5 (2006 special session), HB 2 (2007); Annual Cash Reports 2008-2011; 2012-13 Certification Revenue Estimate, December 2011; Legislative Budget Board, Fiscal Size-up 2008-09
TExAS’ REgRESsIVE TAx SYSTEM

The Highest-Income Texas Households Pay Less Than Their Fair Share of State and Local Taxes

Four-fifths of Texas households contribute more to the support of public services than their share of personal income, while the one-fifth of households with incomes over $126,500 pay a smaller share.

Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011
Texas Households with the Lowest Income Pay the Highest Percentage in Taxes

Another way to look at the fairness of Texas’ tax system is to examine the share of family income that goes to paying for public services.

The one-fifth of households with the lowest income pay four times as much in taxes, as a share of their income, as do the one-fifth of households with the highest incomes.

<table>
<thead>
<tr>
<th>State/Local Taxes as a Share of Personal Income</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $29,223</td>
<td>14.6%</td>
</tr>
<tr>
<td>$29,223–52,960</td>
<td>8.0%</td>
</tr>
<tr>
<td>$52,960–80,882</td>
<td>6.8%</td>
</tr>
<tr>
<td>$80,882–126,460</td>
<td>6.0%</td>
</tr>
<tr>
<td>Over $126,460</td>
<td>3.6%</td>
</tr>
</tbody>
</table>

Source: Texas Comptroller of Public Accounts, Tax Exemptions and Tax Incidence 2011
An average Texas low-income family pays 6.0 percent of its income in sales taxes.

An average high-income family pays only 1.3 percent of its income in sales taxes.
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