Texas Budget Update
and 2020-2021 Preview

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Outline

- The current state budget
  - Supplemental needs for 2019
  - State revenue trends
- 2020-2021 outlook
2018-2019 Budget: What it Supports, How it’s Paid For

$217 billion All Funds  $107 billion in General Revenue
Compared to 2016-17, preK-12 schools & HHS received **LESS** general revenue.

Higher ed: **1.6%** more, but way below the **9%** that would’ve funded formula growth.

*All Funds budget (federal, State Highway Fund, Property Tax Relief):* $217 billion, only **0.2%** more than in 2016-17.
Texas state services are paid for primarily with taxes and federal funds.

Revenue for the 2018-2019 Budget, as of July 2018

- Taxes: 49%
- Federal: 32%
- Other non-tax: 18%

[Category Name], [Percentage]
A “balanced” General Revenue budget – but only because of unspent GR-D
Reliance on consumption taxes makes Texas revenue system volatile and regressive (hits low-income Texas households the hardest)
Sales tax revenue doesn’t always grow

Percent Change from Prior Year

State Sales Tax Volatility
State AND Local Taxes in Texas, 2018

- State sales tax: 26%
- Local sales tax: 7%
- Other state taxes: 19%
- Property taxes: 49%
- School taxes: 26%
JANUARY - JUNE

BUDGET INSTRUCTIONS TO ALL AGENCIES (April-July)

LBB and Governor’s Budget Office tell state agencies how much money they can request

AGENCIES SUBMIT BUDGET REQUESTS (July-August)
BUDGET HEARINGS FOR AGENCIES (August-October)

FISCAL YEAR BEGINS (September)
LBB SETS SPENDING GROWTH CAP (November-December)
Limits the legislature’s ability to fund state needs
General Revenue Forecasts

- October '17 Certification: $107 B
- July 2018 revision: $110 B
- 2020-21, at 6% growth: $117 B

- Nontax, including GR-D balances ($5.3 B+)
- Other state taxes
- Sales tax

General Revenue Baseline

- 2018-19: $110 B
- 2020-21: $112 B

- All other
- HHS
- Higher ed formulas
- Education Agency
2018-19 General Revenue needs: $110 billion?

GR in July 2018 forecast: $110 billion*

Revenue growth in 2020-21 of 6% $117 billion

2020-21 GR “current law” budget, $3.8 B **less** for public schools $112 billion

BUT: “current law” ≈ $8 billion local school tax increase. Other issues: prepaid tuition shortfalls; federal Internet Tax Freedom Act; push for more state franchise tax cuts

*5.3 billion is legally dedicated General Revenue balances (GR-D) – “smoke & mirrors”
“Status quo” would mean more pressure on local taxes

State and Local Shares of School Formula Funding, Pre-Harvey

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<th>Local</th>
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<td>46%</td>
</tr>
<tr>
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<td>55%</td>
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<tr>
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<tr>
<td>2019</td>
<td>62%</td>
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</table>
No real increase in state revenue – only a reallocation

More taxes for highways & border security means less for education
Texas school districts & other local governments bear more of the responsibility for public services.

Tax Share of State Personal Income

- 1991: 9.8% combined
- 2017: 8.8% combined
How The Texas State Budget is Written

Legislative Process – Executive Roles
Before the 85th Session Started...

**Budget instructions to state agencies (June 2016)**

**Agency requests go to LBB & Governor’s Office (August)**

**Public hearings before LBB/Gov (Aug/Oct 2016)**

**Governor’s Budget Proposal**

**LBB Budget Proposals**

**Comptroller’s Revenue Estimate**

With a few exceptions: 2018-19 “base” = 4% less than the amount of GR and GR-Dedicated Funds that agency will spend in 2016-17

Between joint hearings and drafting of LBB budget: LBB adopted 8.00% spending growth rate cap (applies to undedicated tax revenue)

Four-fifths vote to override
Committees named

- Senate Finance (budget and taxes)
  - Public hearings
  - Mark-up (4 workgroups)
  - Committee version to full Senate (up or down vote, Article XI)
- House Appropriations (budget bills)
  - Public hearings (4 subcommittees)
  - Mark-up
  - Committee version to full House (floor amendments, Article XI)

Conference committee on budget

Ways & Means: taxes
Conference committee report to House and Senate

Senate

To Comptroller for certification

To Governor for vetoes

To state agencies (operating budgets)

Two-thirds vote to override (if still in session)
Other Things To Know

• “General Revenue” vs. any other method of finance

• Fiscal notes, for budget items needing a separate bill to pass, and FTEs (state employees)

• Contingency riders
We believe in a Texas that offers everyone the chance to compete and succeed in life.

We envision a Texas where everyone is healthy, well-educated, and financially secure.
Economic Stabilization Fund at All-Time High
Past Uses of ESF: More than $11 billion