

The image shows the Texas State Capitol dome in Austin, Texas, rendered in a light, semi-transparent style. The dome is the central focus, with its iconic statue of Liberty on top. The background is a soft, light blue sky with wispy white clouds. The overall aesthetic is clean and professional, suitable for a policy briefing document.

# Policy Briefing: Budget and Tax Issues for the 87th

December 1, 2020

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# The Good Old Days: June 2019

## Comptroller Certifies 2020-21 Budget as Balanced

- Economy is healthy, US in longest economic expansion in history
- Legislature passes landmark bills for:
  - School finance (including school property tax relief)
  - City/county/special district tax constraint
- Comptroller Hegar certifies 2020-21 budget as balanced (official estimates later put surplus at **\$2.9 billion**)
- Economic Stabilization Fund balance expected to be \$9.4 billion
- But, an additional \$1 billion or more for Medicaid may be needed to close out budget

# Revisions & the New Bottom Line

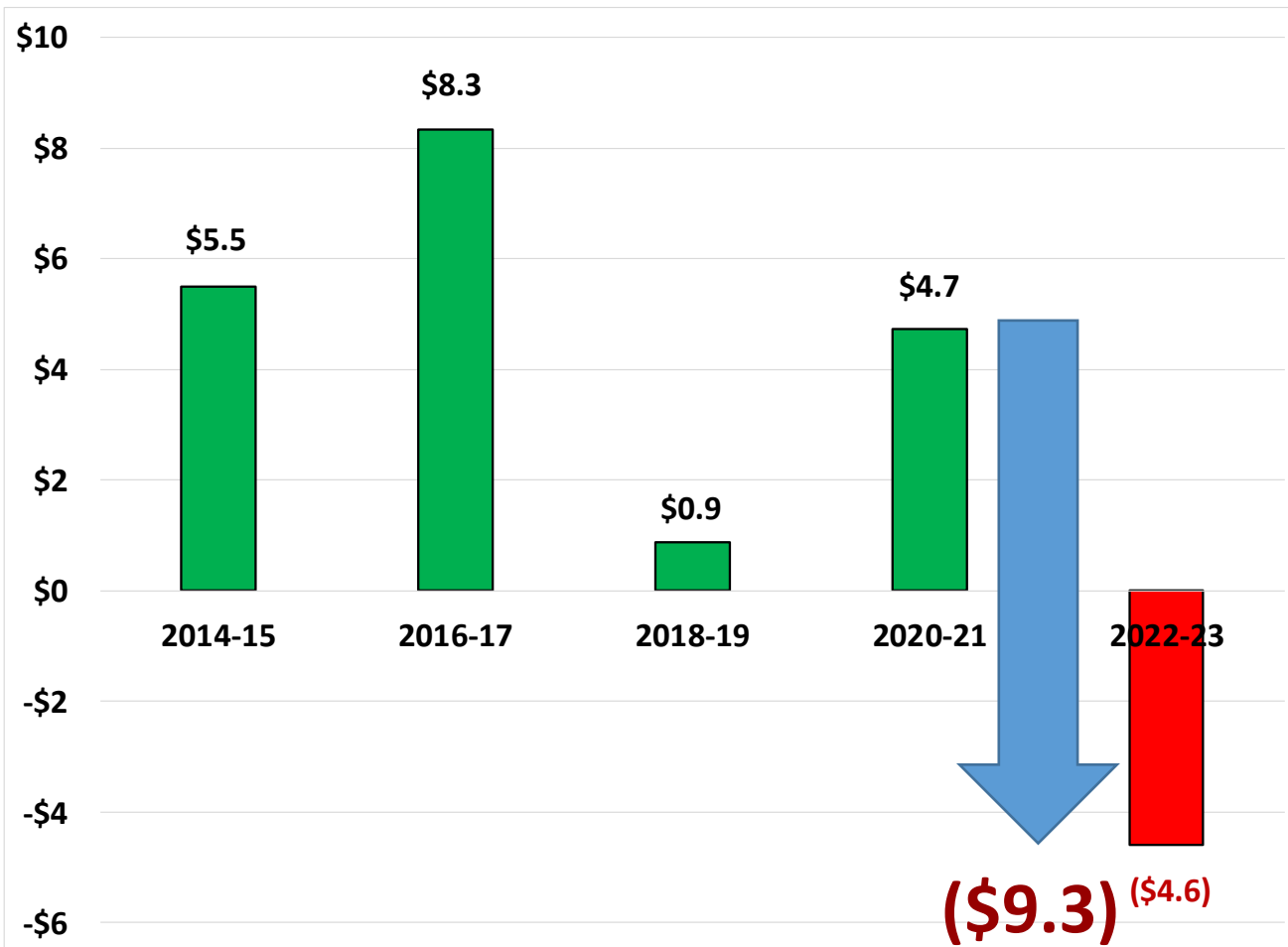
Item	Original CRE	July 2020 Revision	Difference
Beginning Balance	\$4.7	\$4.7	\$0.0
Plus: Tax Revenues	\$108.1	\$94.1	(\$14.0)
Plus: Other Revenues	\$15.0	\$14.7	(\$0.3)
Less: ESF/Hwy Sev. Tax	(\$6.5)	(\$3.4)	\$3.0
Plus: GRD Balance Changes	<u>\$0.4</u>	<u>0.1</u>	<u>(\$0.3)</u>
Equals: Total Revenue	\$121.8	\$110.2	(\$11.6)
Total Spending (mostly schools)	<u>(\$118.9)</u>	<u>(\$114.8)</u>	<u>\$4.1</u>
<b>Net Balance</b>	<b>\$2.9</b>	<b>(\$4.6)</b>	<b>(\$7.5)</b>

*Note: Dollars are in billions. Numbers may not add due to rounding.*

# That was Then, This is Now: July 2020 Comptroller Revises Revenue Estimate

- Comptroller Hegar revises revenue estimate:
  - General Revenue surplus turns to \$4.6 billion deficit—a net cut of \$7.5 billion
  - Economic Stabilization Fund balance estimated at \$8.8 billion—down \$0.6 billion
  - Higher-than-expected school property values, federal pandemic aid, and other revisions allow the Comptroller to cut his estimate of state spending by \$4.3 billion
- Increased federal match rate as part of federal pandemic mitigation may reduce or eliminate need for supplemental Medicaid appropriation.

# The Revisions: Implications for the 2022-23 Budget



- Surpluses have been a substantial source of revenue for recent legislatures, adding to the amount of money available for appropriation.
- Compared to the current budget, which began with a \$4.7 billion surplus, the 2022-23 Budget will begin with a \$4.6 billion deficit—a swing to the downside of \$9.3 billion.

# Revenue Available if No Revenue Growth in 2022-23

Item	2020-21 Revenues	2022-23 Revenues	Difference
Beginning Balance	\$4.7	(\$4.6)	(\$9.3)
Plus: Net Current Revenues	<u>\$105.5</u>	<u>\$105.5</u>	<u>\$0.0</u>
Equals: Total Revenue	\$110.2	\$100.9	(\$9.3)

Note: The above example is to show the impact of going from a surplus to a deficit. It is NOT a projection of available revenue.

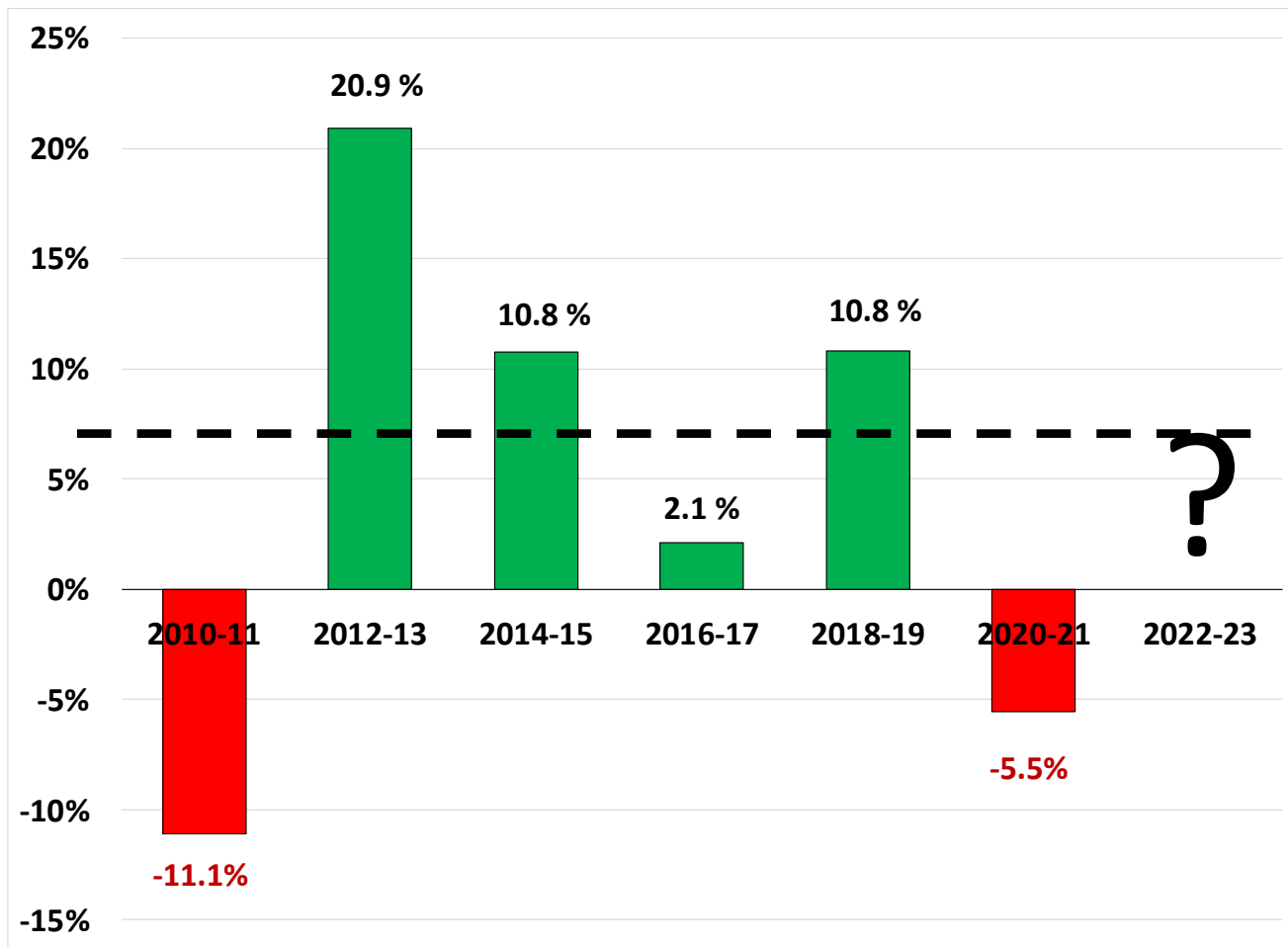
# How Much Revenue Growth is Needed in 2022-23?

Base Revenue Growth Rate Needed to Match	Amount Needed (\$ bl)	Growth Needed
2020-21 General Revenues	\$ 9.3	8.8 %
2020-21 GR Spending + Federal Pandemic Aid <sup>1</sup>	\$ 16.1	15.2 %
2022-23 “Current Services” Budget <sup>2</sup>	\$ 21.1	20.0 %

<sup>1</sup> Texas has received \$1.2 billion in federal aid to offset state general revenue spending for schools, and an additional \$250 million per quarter for Medicaid as long as the federal emergency remains in place.



# Recent Biennial Growth in Net Current Revenue



Over the past several biennia, average biennial revenue growth has been **4.7%**, including two severe recessions.

Average biennial revenue growth during times of recovery/prosperity has been **11.2%**.

The highest recent biennial growth was **20.9%** in 2010-11, recovering from the Great Recession.

# Texas' Budget Outlook

- Absent a very strong economic recovery, lawmakers will face tight fiscal constraints in 2021
- At its most severe, with the pandemic worsening, the state's shortfall could rival the relative magnitude of 1987 or 2011
- Most likely, budget pressures will be **challenging, but manageable** under our current budget framework without either massive:
  - budget cuts or
  - tax hikes.

# What is a Tax Increase?

Any measure that

1. Raises the *rate* of the tax
2. Expands the *base* of the tax by reducing or eliminating exemptions, exclusions, discounts, credits or refunds to the tax

# Texas' Fiscal Toolbox (\$ Billions)

Item	Subtotal	Total
Economic Stabilization Fund Balance*		\$8.8
One Time Measures Used in Prior Sessions		
Delay August Foundation School Fund Payment	\$2.0	
Delay 3 months ERS Transfers	\$0.1	
Delay 3 months TRS Transfers	\$0.5	
Delay 3 months Fuels Tax Transfers to Hwy Fund	\$0.6	
Delay August Medicaid & CHIP Payment**	<u>\$0.3</u>	
Total, One-Time Measures		\$3.5
Reduce Sales Tax for Highways (3 yrs; 2/3 vote required)		<u>\$3.8</u>
Total		\$16.1

Amounts are estimates and have not been certified by the Comptroller.

\* Balance as of August 31, 2021. Another \$1 to \$1.5 billion may be added to the fund during the 2022-23 Biennium and would be available for appropriation.

\*\*Any Medicaid deferral may require provider contract changes

# Key Issues: Property Tax

## Property Tax

- SB 2 technical corrections
  - Real time tax notice standardization
  - Disaster provisions
  - 3.5% vs 8.0% increase for small jurisdictions
- Use of Supplemental Tax Rolls
- Use of Certificates of Obligation (non voter-approved debt)
- Appraisal Review Process
- Property Tax Relief (Tax Swap? Don't do it)

# Website Information for Property Taxes

Property Address: 123 Sycamore Lane

Legal Description: Lot 18 Block C Frosty Acres Sec 2

Property Identification ID: 624387

Market Value: \$280,000

Jurisdiction	Taxable Value	"No New Revenue" Tax Rate	"Voter-Approval" Tax Rate	Proposed Tax Rate	Tax on Property at "No New Revenue" Tax Rate	Tax on Property at Proposed Tax Rate	Proposed Tax Increase	Time/Date/ Location of Public Hearing	Link for Comment
<a href="#">County</a>	\$277,000	\$0.380	0.393	\$0.393	\$1,052.60	\$1,088.61	\$36.01	8:00 p.m.; Aug 15, 2017 211 Main St; Smith City	<a href="mailto:County@email.gov">County@email.gov</a>
<a href="#">School District<sup>1</sup></a>	\$255,000	\$1.315	\$1.315	\$1.315	\$3,353.25	\$3,353.25	\$0.00	6:00 p.m.; Aug 1, 2017 457 Rock Ln.; Green City	<a href="mailto:School@email.gov">School@email.gov</a>
<a href="#">City</a>	\$280,000	\$0.472	\$0.510	\$0.540	\$1,321.60	\$1,512.00	\$190.40	2:00 p.m.; Aug 18, 2017 477 Sun Dr.; Smith City	<a href="mailto:city@email.gov">city@email.gov</a>
<a href="#">Junior College District</a>	\$280,000	\$0.050	\$0.054	\$0.054	\$140.00	\$151.20	\$11.20	6:00 p.m.; Aug 16, 2017 100 Travis St.; Travis City	<a href="mailto:JrCollege@email.gov">JrCollege@email.gov</a>
<a href="#">Special District #1</a>	\$280,000	\$0.082	\$0.089	\$0.086	\$229.60	\$240.80	\$11.20	4:00 p.m.; Aug 18, 2017 3 Calvert Rd.; Smith City	<a href="mailto:SD1@email.gov">SD1@email.gov</a>
<b>Total</b>					\$6,097.05	\$6,345.86	\$248.81		

<sup>1</sup> The school district "no new revenue tax rate" is one which would generate the same amount of state aid and revenue under current school finance formulas as in the previous year.

Note: Clicking on the name of the jurisdiction will connect to the webpage for that jurisdiction. Clicking on the link for comment will direct to a form by which comments may be conveyed to the governing board concerning the proposed tax rate.

# Key Issues: Property Tax

- SB 2 technical corrections
  - Real time tax notice standardization/simplification
  - Disaster provisions
  - 3.5% vs 8.0% increase for small jurisdictions
- Use of Supplemental Tax Rolls
- Use of Certificates of Obligation
- Appraisal Review Process
- Property Tax Relief (Tax Swap? Don't do it)

# Key Issues: Sales Tax

- Property Tax Swap (again, don't do it!)
- Local sales tax sourcing
  - In person sales (location of store)
  - Internet sales (location of delivery, effective October 2021)
  - Phone sales (location of store)
  - Mail order sales (location of store)
- Eliminate exemptions, credits, discounts?



# Other Tax Issues

- Franchise tax apportionment for services
  - Where the service is performed (*cost of performance*),  
or
  - Where the benefit is received (*market-based*).
  - SiriusXM
- High-cost natural gas: temporary reduced rate for higher cost wells

# Beyond the Budget: Chapter 313

- Chapter 313 allows school districts to offer a temporary discount against school M&O taxes
- Must be renewed or it expires 12/31/2022
- Current criticisms
  - Program is bureaucratic (application & reporting)
  - Program is complex (varying thresholds on investment and value limit based on school district)
  - Schools demand too much \$
  - Program costs too much money

# What Does 313 Cost the State?

- Comptroller fiscal note assumes every project will come here regardless, meaning every project costs the state money
- BUT:
  - Projects must have to demonstrate that 313 is a determining factor: no limitation, no project
  - Projects must demonstrate the state will gain more from the limit than the project will

# Tesla During the Limitation

- Tesla will build on property currently valued at \$5 million and pays \$67,000 annually in taxes.
- Tesla's billion dollar investment will initially be capped at \$80 million, paying:
  - \$776,000 in M&O taxes annually
  - \$2 million annually in debt service taxes

*Since Del Valle will see a \$709,000 increase in M&O taxes, the state will reduce DVISD's formula aid by that amount*

# Tesla After the Limitation

- Tesla estimates the value of its property will be roughly \$400 million once the limitation expires, paying:
  - \$4 million in M&O taxes annually
  - \$1.5 million annually in debt service taxes

*Since Del Valle will see a \$4 million increase in M&O taxes, the state will reduce DVISD's formula aid by that amount*

# Tesla Project over 25 Years

- Absent the limitation, Tesla would have been subject to a \$158 million school property tax bill over the life of the project (25 years)
- Instead, Tesla will **save \$50 million** in school property taxes
- Tesla will **pay \$108 million** in school property taxes Texas never would have collected if the project had not come here (plus \$ millions in sales, franchise, other property, and other state taxes), vs **\$1.7 ml** w/o project
- Project will employ 5,025 permanent workers; CPA estimates just under 20,000 total jobs and a \$2 billion increase in Texas personal income from the project

# Thanks for Joining Us!

If you have any questions or comments, please feel free to contact TTARA staff.

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