Taxes and Other Revenue Sources

• Nobody likes paying taxes, especially Texans. Yet taxes are essential as they make up the funds the state and local governments use to operate.

• The state’s revenue is primarily tax-funded, approximately 47 percent in 2015.

**Revenue:** the income a state receives from taxes, fees, and other sources
Taxes

• Since 1967, the sales tax has served as the state’s largest single source of tax income.

• The state sets the rate at 6.25 percent and local government can add up to 2 percent to this (most of which do).

• Sales tax is a **regressive tax**, because the tax rate is the same for everyone.

**regressive tax**: a tax that exacts a larger percentage of the earnings of low-income than of high-income individuals
Texas: A Two-Tax State: Property and Sales Tax

Source: Texas Comptroller of Public Accounts.
Two-Tax State

- Texas is a two-tax state: most revenue comes from property taxes (45 percent), which funds local governments, followed by sales taxes (27 percent) used by the state.

- Property taxes are collected primarily by school districts (25 percent) but cities, counties, and special districts also levy small amounts.

- A tax on overall income is prohibited by the constitution and is politically unsavory to politicians in the current no-tax-increase climate.

- Property taxes have historically driven tax revenue for local governments. As the state’s needs have expanded, the number and amount of these taxes has multiplied.
Budget, Finances, and Policy

State and Local Sales Taxes, 2016

Source: Tax Foundation. Figures represent combined sales tax for state and local levels.
Property Taxes

- Property taxes (called *ad valorem*, meaning “according to value”) are assessed based upon the value of the property the taxpayer owns.

- Although the state outlawed state-based property taxes in 1982, local governments use property tax revenue to fund schools, utility systems, fire and police protection, public libraries, parks, and other services.

- Property tax revenue is collected locally and—for the most part—stays local.

  *homestead exemption*: a portion of property value that Texans don’t have to pay taxes on
Texans’ Attitudes Toward “Taxes they would like to see cut”
The Texas Budget

• Most state tax revenues, fees, and other revenue are banked in general revenue funds that are channeled into the all-funds budget that also includes federal funding.

• Then the Texas legislature allocates—divvies up—the funds—which is not an easy job.

**general revenue funds:** state funds that include revenue from all sources (including federal funds)
Budget Cycle

• Each session, lawmakers pass a budget that is implemented in the following two fiscal years.

• Today, budget rules structure the budget process, but budgeting for two years is a challenge since the economy may tank, programs may fail, state priorities may change, or revenue may fall.

• Although candidates for the state legislature may make lofty promises of reducing property taxes or drawing funds for underfunded public schools, once elected they are significantly constrained by the Texas Constitution and state laws.
The Budget

Budget Terms

“Pay as you go”: budget rule that Texas cannot spend more money than it receives in revenue

Expenditures: the total amount of funds that the state government can spend, as established by the spending cap

Dual budgeting process: the legislative branch and executive branch coordinate to propose, shape, and pass a biennial budget
Budget Terms

**fiscal note**: an overview of the estimated financial impact, including cost of the proposed changes, revenue generated, and staffing impacts to the bureaucracy resulting if the bill passes

**appropriation bill**: legislation that specifies what spending the state will undertake
Can we afford this?

- The state comptroller leads the parade by providing a biennial revenue estimate (or “BRE”) at the beginning of each regular session.
- The BRE is used to make sure the state does not spend more money than it takes in.
- In addition, all bills submitted later during the legislative session must include a fiscal note, an overview of the estimated financial impact if the bill passes.
- The Legislative Budget Board (LBB) adopts a constitutional spending limit in this early phase.
2016–2017 State Budget Highlights

- **Public Education**: $55.4 billion (2014–2015) vs. $58.4 billion (2016–2017)
- **Medicaid**: $59.1 billion (2014–2015) vs. $61.2 billion (2016–2017)
- **Mental Health**: $3.4 billion (2014–2015) vs. $3.6 billion (2016–2017)
- **Border Security**: $0.5 billion (2014–2015) vs. $0.8 billion (2016–2017)

*Source: Texas Comptroller of Public Accounts.*
Big Budget Items

• The state’s 2016–2017 budget increased spending for many of the big ticket items, including $3 billion for public education and $2 billion for Medicaid.

• Many Republican candidates also promised more spending for border security, which they did to the tune of about $800 million.

• The state’s Republican leadership promised small budgets and a minimal footprint of the state on local policy issues (like education).
Many Texans are just “one crisis away” from financial disaster. Nearly a quarter of Texas children live in poverty.

Poverty rates for African Americans and Hispanics are nearly three times higher than for Anglos or Asians.

Geography matters as well: although poverty rates in North Texas have fallen 3 percent from 2014 to 2015, rates increased during the same period in South Texas (32 percent).

One in six Texas families is food “insecure,” facing hunger or engaged in coping mechanisms to avoid it.
redistributive policies: policies that transfer wealth from those who have more to those who have less

Medicare: a national social insurance program for older Americans funded by a payroll tax, premiums, and surtaxes and administered by the federal government

Medicaid: medical coverage for low-income Texans provided by the federal government
Children’s Health Insurance Program (CHIP): a federal program that is run by the states to provide health coverage to children whose families who make too much to qualify for Medicaid but not enough to buy private insurance.

The Patient Protection and Affordable Care Act (PPACA): allows states to expand Medicaid coverage to families with incomes up to 133 percent of the federal poverty level and provides insurance subsidies for families with incomes between 100 percent and 400 percent of the federal poverty level. The catch is that every individual who was not covered by their employer’s plan must buy insurance or pay a fine.
Healthcare and Welfare

Health Care Sign-Ups

 mapa de Estados Unidos mostrando sign-up de cuidados de salud por estado.
Education Policy in Texas

– Debate over Texas public education extends back to period when Texas was part of Mexico.
– Republic of Texas Constitution requires public education system; legislature adopts one 1854
– Constitution of 1876 established the Permanent School Fund, specifies funding guidelines.
– Public education policy was left to local school districts until the 1940s
  • State legislature attempted to address problems associated with public school funding and facilities.
Education Policy in Texas

• State Board of Education
  – 15 members, 4-year terms
  – Oversees the Permanent School Fund
  – Executes the education budget
  – Nominates commissioner of education
  – Purchases textbooks and shapes what is in them
    • Curriculum, content, and materials covered in books reflects what the SBOE wants—Texas is a huge market for companies selling textbooks and testing services
  – Sets education standards for students and schools
Three issues have shaped Texas public educational policy over the last fifty years:
1. Desegregation
2. Equity in public school funding
3. Search for educational excellence
   – How to measure and demonstrate
   – High stakes testing
Education Policy in Texas: Segregation

- Texas Constitution called for segregation
  - Black students had fewer school days,
  - One-third less funding than white students
- Many districts are still de facto segregated by residence patterns
• *San Antonio ISD v. Rodriguez* landmark case addressed equity in public school funding

• 1971, Texas school finance system ruled unconstitutional
  – Violated 14th Amendment equal protection clause.
  – Overturned on appeal by the U.S. Supreme Court.
• *Edgewood ISD v. Kirby* (1989)
  
  – State Supreme Court declares existing funding system in violation of state constitution
  
  – Funding public school districts with local property taxes violated Texas equal protection and efficient systems clauses

• Vast differences in property values from one school district to another produced an unequal system of school funding
Education Policy in Texas: Funding
“Robin Hood” funding system emerged as a result of the *Edgewood* decision
- Property wealthy districts share their local tax revenue with poor districts
  - Wealthy districts pay “wealth equalization” share of their local property taxes back to the state
  - The state redistributes funds to poor districts
- Poor districts retain their local property tax dollars and receive additional funds the state collects from the wealthy districts
Education Policy in Texas: Funding

- Robin Hood system remains in place today

- Texas has 1,265 school districts

- As of September 2012, 374 districts designated by state as “property wealthy”
  - First year of program, only 35 in that category
Education Policy in Texas: Educational Excellence
Education Policy in Texas: Educational Excellence

• Education Reform in 1980s
  – Select Committee on Public Education (SCOPE)
  – Made 140 recommendations
  – Centralized state control over education

• Education Reform in 1990s
  – Students in low-performing schools have some ability to move out of them
  – Gov. Bush lead effort, foundations of NCLB
Education Policy in Texas: Educational Excellence

• Twenty years after reforms, mixed results
  – Dropout rates declined
    • Controversy remains about how these data are derived
  – Scores on standardized tests rose
    • Controversy remains about curriculum and daily classroom effort driven by state testing

• 2011 state legislature budget cuts to education may jeopardize many of the reform initiatives of the previous 20 years.