

PAYING FOR A BETTER BUDGET FOR TEXAS IN 2010 AND 2011

The key to adequate funding of essential state services in the 2010-11 state budget is an adequate amount of revenue. Recently we explained [the process of writing the 2010-11 budget](#) and how to get involved. This *Policy Page* highlights some of the potential threats to maintaining state tax revenue and outlines how you can participate to ensure that the state has the money necessary to fund a budget aligned with your values—a budget that invests in critical public programs and structures necessary to create opportunity and prosperity for all Texans.

- **The key to adequate funding of services is an adequate amount of revenue.**
- **Changes in areas unrelated to your issue area—school finance, property appraisals, business taxes—can affect the funding of programs you care about.**
- **Expanding small-business exemptions to the “margins” tax, lowering the cap on appraisal increases, or changing how property is appraised could reduce general revenue available to fund the budget.**
- **Revenue could be increased through property sales price disclosure, creating a hospital QAF, sunseting tax exemptions, or imposing “green” taxes.**

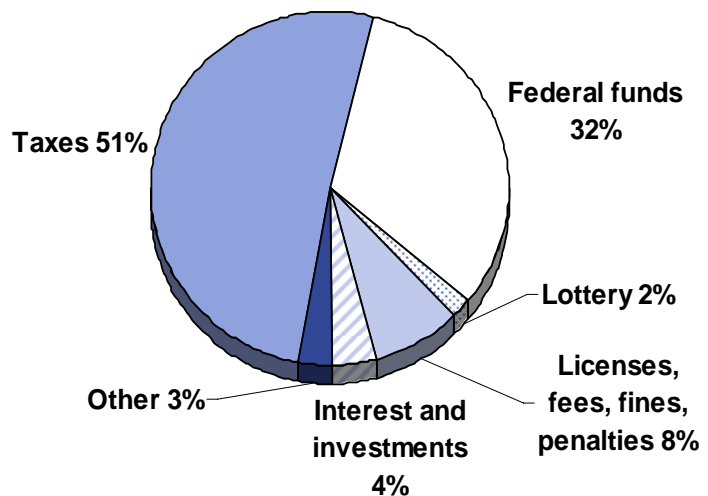
Potential Threats to Maintaining Revenue

Several potential tax issues could arise during the 2009 regular legislative session, each of which could reduce revenue available to fund state services. Advocates need to be aware that changes in areas that appear unrelated to their issue areas—such as school finance, property tax appraisal practices, or business tax policy—can influence their ability to secure or improve financial support for health and human services.

Small business exemptions from the “margins” tax

For instance, in the 2006 special session the Legislature cut school property tax rates by one-third over two years, partially offsetting the lost local property tax revenue with new state revenue from a revised franchise tax (now commonly known as the “margins” tax).¹ Many small businesses have complained about the new tax, and the Legislature

State government revenue from all sources, 2008-09
Two-year total: \$160 billion



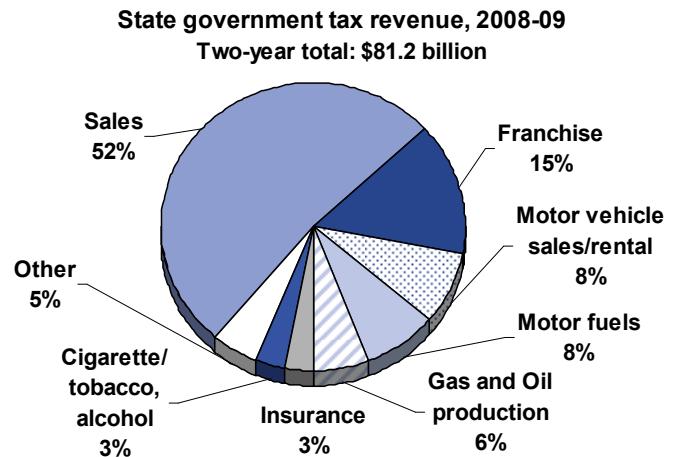
may feel pressure to reduce the taxes owed by smaller firms. However, the Legislature has also promised school districts that they will receive a certain amount of revenue per student (the “target revenue”), despite lower local property tax collections. If revenue from the “margins” tax shrinks because of an expanded small-business exemption, the state will have to use more general revenue from other sources to fund public schools—reducing general revenue available to fund other areas of the state budget.

Property tax appraisal caps

Many homeowners and businesses have complained that their property tax bills have not gotten smaller, despite the legislatively mandated rate cuts. Much of this dissatisfaction has focused on the increase in property appraisals—the value on which property taxes are calculated—which many argue has more than offset any reduction in tax rates. Under current statutes, appraisals on homesteads cannot increase by more than 10% a year. This 10% cap is intended to protect homeowners from large jumps in their tax bills when their homes enjoy large increases in market value. Legislators may attempt to reduce this “appraisal cap” to 5% or even less, which would reduce taxable value statewide, therefore reducing the amount of property taxes collected by school districts.² Because of the state’s commitment to maintaining school districts’ “target revenue” (explained above), any reduction in school property tax revenue would have to be replaced by an equal amount of state revenue—reducing general revenue available to fund other areas of the state budget.

Changes in the appraisal process

Another potential response to complaints about property tax bills could be to change the process by which appraisal districts determine the market value of property or limit the review of these values by the comptroller’s office, as currently required by statute. Any change that had the effect of reducing the taxable value of property would, as described above, reduce general revenue available to fund other areas of the budget.



Early Warning of Possible Threats

During the interim between legislative sessions, committees conduct studies to prepare proposals for the next session. Several committees are holding hearings involving issues that could directly or indirectly affect the amount of revenue available to fund essential state services in the 2010-11 state budget. Advocates and interested citizens should examine reports issued by these committees for early warnings of threats to maintaining adequate state revenue.

Committees reviewing the appraisal system

The Senate Finance Subcommittee on Property Appraisal and Revenue Caps, chaired by Senator Tommy Williams, is charged with reviewing the property tax appraisal system, studying appraisal caps and revenue limits, and considering alternative sources of funding to replace property tax revenue. The House Select Committee on Property Tax Relief and Appraisal Reform, chaired by Representative John Otto, has traveled the state taking public testimony on “the state’s property value study and recommendations on how to improve the state’s current property appraisal system.”

The House Local Government Ways and Means Committee, chaired by Representative Fred Hill, is also examining the property appraisal system, including the governance of appraisal districts and methods for reviewing local appraisal practices. In addition, the House Select Committee on Higher and Public

Education Finance, chaired by Representative Dan Branch, has taken testimony on school finance formulas.

Interim studies of school tax abatements

Other committees are looking at property tax abatements granted by school districts, which reduce property tax revenue, thus increasing the drain on state general revenue to maintain school district revenue.³ House State Affairs is charged with studying the cost and benefit to the state of these abatements; the House Economic Development and Energy Resources committees (chaired by Representatives Joe Deshotel and Rick Hardcastle, respectively) are studying the performance of the abatement program in promoting economic development and attracting capital investments in alternative energy resources, since most recent abatements have been granted to wind farms. The Senate Select Committee on Economic Development, chaired by Senator Kim Brimer, is also tasked with reviewing tax abatements.

Estimates of tax revenue and property values

Before the session starts in January, the Comptroller will issue the biennial revenue estimate for 2010-11 and revise the revenue forecast for 2008-09. These forecasts may be the first accurate estimates of the amount of new revenue generated by the “margins” tax. In addition, the *Legislative Budget Estimates*, which accompanies the draft appropriations bill filed by the Legislative Budget Board, may include information about the expected growth in property values over the coming biennium. These data will help forecast how much state general revenue will be required to replace local property taxes lost to the tax cuts passed in 2006.

Some Modest Steps to Raise Revenue

Sales prices disclosure

The accuracy of the property appraisal system could be improved to ensure that taxes paid are based on the actual market value of taxpayers’ property. Local appraisal districts base valuations of property on the best information available from commercial sources, but the districts lack the comprehensive knowledge of real estate values needed for full accuracy. In particular, price

information on high-end homes and on business property is hard to obtain. To remedy this, the state should require that sales prices in all real estate transactions be disclosed.

Ensuring that all property is on the tax rolls and accurately valued would increase the amount of taxable property value and help make sure that everyone pays their fair share. Higher property values would produce more local revenue, reducing the need for state aid and freeing state money for increased spending on education or other state services. The Legislative Budget Board (LBB) has estimated that mandatory price disclosure would save the state \$174 million a year by 2012 by accurately valuing all property in each school district.

Quality Assurance Fee

A “Quality Assurance Fee” (QAF) could be assessed on the revenues of hospitals and free-standing surgery centers to secure additional Medicaid federal funding. For example, a QAF of 3% of revenues would raise \$1.1 billion in state revenue, which would be matched with \$1.7 billion in federal revenue.

The *Code Red* study by Texas’ public medical schools, updated in 2008, supported creating a hospital and surgery center QAF.⁴ New QAF revenue, plus federal matching funds, could be used to reimburse hospitals and physicians at higher Medicaid rates, improving low-income Texans’ access to health care. Thirty-five states have QAFs or provider taxes with similar matches.

Sunset review of tax exemptions

Texas state agencies face periodic “sunset” review, usually every 12 years. A date is set on which an agency will be abolished unless legislation is passed to continue its functions, forcing the Legislature to examine each agency and change its mission or operations if needed. The many exemptions in the Tax Code should undergo a similar review. Once an exemption is in place, it is rarely re-examined to determine if it is fulfilling the original intent or if there is a more efficient or effective way to achieve that goal. The Legislature should regularly scrutinize tax breaks to determine if the economic

benefits are worth the costs in future revenue losses. Bills to create a sunset review of exemptions were recommended by the House Ways and Means Committee in the past two sessions but did not reach the House floor.

Green taxes

As concern over global warming has increased, attention has focused on using the tax system to discourage emissions of harmful green-house gases and fund energy efficiency. So-called “green” taxes, including a tax on coal use, a higher fee on highly polluting diesel fuels, and a tax on inefficient energy producers, could generate as much as \$1 billion per biennium, which could be used to support such programs as home weatherization or removal of older polluting cars from Texas highways.

What You Can Do

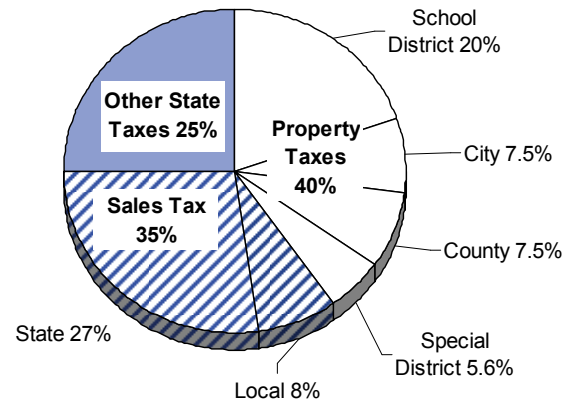
Get informed on revenue issues

Two recent CPPP publications are must-reads for anyone wanting to know more about maintaining state revenue:

[*Building Texas: The 2008 Tax and Budget Primer*](#), a booklet explaining long-term state and local tax and budget issues, presents more detailed descriptions of the changes that need to be made to our revenue system to make possible investments in Texas’ future. See www.cppp.org/research.php?aid=763&cid=6

[*The Best Choice for a Prosperous Texas: A Texas-Style Personal Income Tax*](#). Adding a personal state income tax to our tax mix is the best way to meet our needs. This recently updated publication explains why. See www.cppp.org/research.php?aid=766&cid=6

State and Local Taxes Texans will Pay in 2009



Get involved in revenue issues

CPPP will send email alerts throughout the session with information about legislative proposals that could reduce revenue available to fund state and local public services. To stay up-to-date on breaking policy developments and CPPP’s latest research and activities, sign up at www.cppp.org/subscribe.php

Get your organization involved in the revenue side of your particular issue. For example, your organization could pass a resolution asking the Legislature not to cut taxes or limit property appraisals, but instead to maintain the current revenue stream so that the state has the money necessary to fund a budget aligned with your values. To ensure such a budget, you must follow the legislative process closely and testify or register a position on revenue issues. How those issues are resolved will determine whether the Legislature has the money to support the critical public programs and structures necessary to create opportunity and prosperity for Texans.

¹ A \$6.1 billion gap existed in 2008-09 between the cost of the school property tax cuts and the anticipated revenue from the margins tax and other tax increases passed in the 2006 special session.

² Lower appraisal caps would shift the cost of property taxes onto lower-income families, tax similar properties differently, and discourage the sale of real estate. See www.cppp.org/research.php?aid=556&cid=7

³ The cost of the property tax revenue lost to these abatements is borne by the state through the school finance system and is expected to reduce revenue to the Foundation School Program by more than \$500 million in the 2010-11 biennium—enough to fund a pay increase of nearly \$1,000 for all Texas classroom teachers! See www.cppp.org/research.php?aid=652&cid=7

⁴ See www.coderedtxas.org.

To learn more, sign up for e-mails, or make a donation, go to www.cppp.org