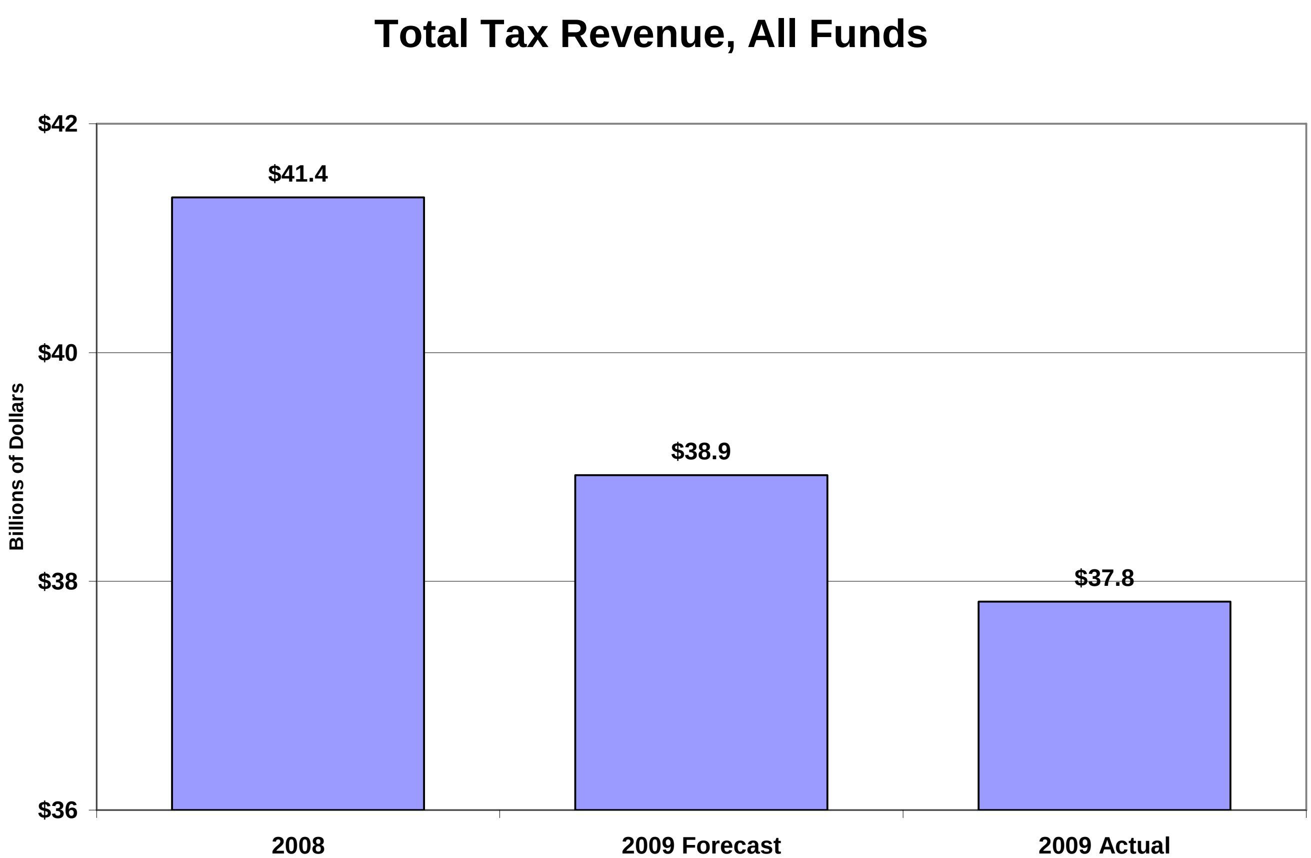
Center *for* Public Policy Priorities

Policy Page

December 1, 2009 | Contact: Dick Lavine, lavine@cppp.org | No. 09-424

TAX REVENUE FOR FISCAL 2009 FALLS $1.1 BILLION SHORT OF COMPTROLLER'S FORECAST

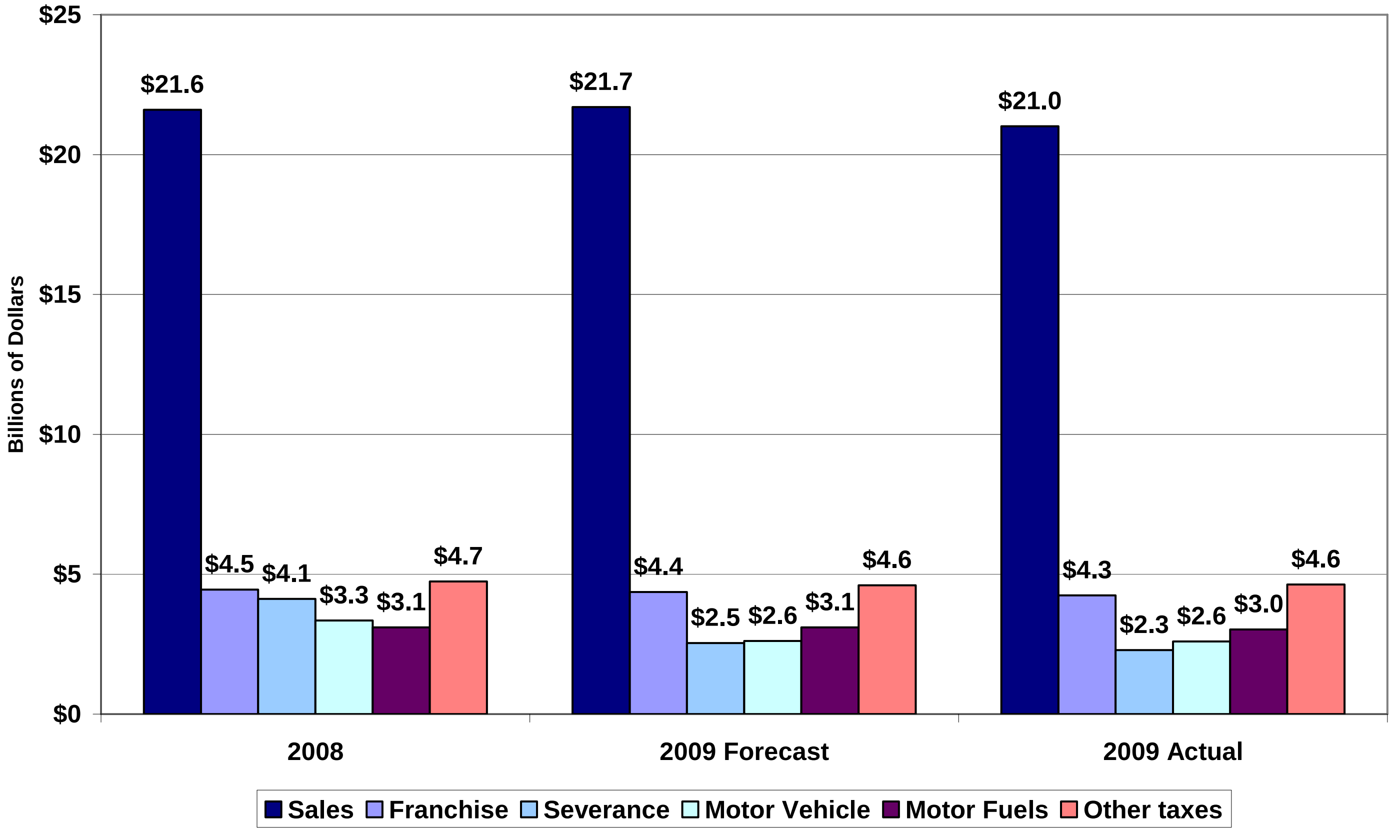
Our state needs adequate revenue to keep our public structures working and to prevent painful cuts in state services. The state's new *Annual Cash Report* for fiscal 2009, though, reveals that tax collections for the year were $1.1 billion short of the Comptroller's forecast. Total state revenue for fiscal 2009 was $1.4 billion more than forecasted, but only thanks to federal aid exceeding the comptroller's expectation at the beginning of the legislative session by $2.9 billion. In other words, **Texas' inadequate revenue system fared even worse than expected as the economy slowed, but the state budget was rescued by the federal stimulus package.** Our state still faces severe challenges in funding our public structures: ominously, for the first 2 months of the new 2010 fiscal year, sales taxes have generated 12.7 percent less revenue than in the same period in fiscal 2009. Texas needs its elected officials to take forceful action, including a second package of federal aid to states, school districts, and local governments, to help our state maintain public services until steady economic growth resumes.



Source: Comptroller of Public Accounts, Biennial Revenue Estimate (January 2009), 2009 Annual Cash Report (November 2009)

900 Lydia Street • Austin, Texas 78702-2625 • T 512/320-0222 • F 512/320-0227 • www.cppp.org

Collections of Major Taxes



Source: Comptroller of Public Accounts, Biennial Revenue Estimate (January 2009), 2009 Annual Cash Report (November 2009)

What Is the Biennial Revenue Forecast?

At the beginning of each legislative session, the Comptroller is required to submit an estimate of revenue for the upcoming biennium – the Biennial Revenue Estimate (BRE) – which limits state spending in the budget for the upcoming biennium. After the session, the comptroller must certify that the state will have enough revenue to pay for approved spending. [1] Once the comptroller certifies a general appropriations bill, that certification stands, even if the comptroller later determines that revenues will not, in fact, cover expenditures.

However, in the case of a deficit, the next budget must first fill in any hole in the current budget, as well as fund the next biennium's appropriations. For this reason the governor and lieutenant governor have recently floated proposals to have state agencies cut spending in the current 2010-11 budget, to minimize any deficit at the end of this biennium – at the cost of reducing services to Texans needing help in the economic recession.

The comptroller must also report on the actual revenue of the state for each recently completed fiscal year by the first Monday of each November. [2] This *Annual Cash Report* covers revenues and expenditures of funds held by the State Treasury. Another report, the Comprehensive Annual Financial Report (CAFR), includes information on funds outside the state treasury, such as those held by universities.

This Policy Page compares the forecasts of the BRE, which was released in January 2009, to the final revenue results reported in the *Annual Cash Report* in November.

Differences between Forecasted and Actual Revenue

The Biennial Revenue Estimate projected total tax collections of $38.9 billion. Actual tax revenue was $37.8 billion -- $1.1 billion (2.8 percent) short of the forecast.

The largest shortfall was in sales tax collections, which came in $686 million (3.2 percent) less than anticipated. Because sales tax account for 56 percent of all tax revenue, this shortfall accounted for most of the difference between forecasted and actual total tax revenue. Sales tax revenue continued to be weak in the first 2 months of fiscal 2010 (which began September 1), producing 12.7 percent less revenue than in the same period in fiscal 2009.

Severance taxes went in both directions. Natural gas taxes came in $420 million (23 percent) less than forecast, while the smaller oil production tax produced $167 million (also 23 percent) more than forecast, for a net change of minus $253 million.

The controversial franchise tax, now popularly known as the "margins tax," brought in $111 million (2.5 percent) less than expected.

2009 Compared to 2008

The *Annual Cash Report* also allows for a comparison of 2009 state revenue to prior-year revenue.

Total state revenue from all sources was $2.7 billion (1.8 percent) less in 2009 than in 2008. The state collected $3.5 billion less in taxes in 2009 than in 2008, a drop of 8.5 percent. This was partially offset by an increase in revenue from non-tax sources by $838 million (1.8 percent).

Tax revenue

The state collected $3.5 billion less in taxes in 2009 than in 2008, a drop of 8.5 percent.

In dollar amounts, the biggest drops were in natural gas taxes ($1.28 billion less in 2009 than in 2008), motor-vehicle sales taxes ($741 million less), sales taxes ($590 million less), and oil production taxes ($552 million less).

In percentage terms, the largest declines were in the natural gas tax (2009 revenue was 48 percent lower than 2008), oil production taxes (38 percent less), motor-vehicle sales taxes (22 percent). The sales tax, which accounts for more than half of all tax revenue, generated 2.7 percent less in 2009 than in 2008.

The state became more reliant for the sales tax for revenue. Sales taxes accounted for 52 percent of state tax revenue in 2008, but 56 percent of tax revenue in 2009. Natural gas taxes declined in importance, from 6.5 percent of tax revenue in 2008 to 3.7 percent in 2009.

Federal revenue

Federal revenue played a significantly larger role in state finances in 2009 than in 2008. Assistance from the federal government grew from 31 percent of all-funds state revenue in 2008 ($26.2 billion) to 37 percent of state revenue in 2009 ($30.9 billion). The increase was primarily due to money received from the American Recovery and Reinvestment Act (ARRA – the federal economic stimulus program) and emergency aid after Hurricane Ike. The state received $4.6 billion more from the federal government in 2009 than in 2008.

The bulk of the money – 58 percent of all federal funds received by the state– went to the Health and Human Services Commission, mainly in matching funds for Medicaid. This represented a 20 percent increase over the amount received by HHSC in 2008. Another 14 percent went to the Texas Education Agency, which was used primarily to fund the state's share of the Foundation School Program, and 9 percent went to TXDOT in matching funds for highway construction. These three agencies accounted for 82 percent of all federal revenue.

The Department of Public Safety received nearly four times as much federal funding in 2009 as in 2008 – the largest increase of any state agency -- because of disaster aid after Hurricanes Ike and Dolly.

Property Tax Relief Fund

In the 2006 special session, legislators reduced local school property tax rates by one-third over 2 years. To partially replace the lost property tax revenue (totaling $14.2 billion in 2008-2009, and $14.9 billion in 2010-2011), legislators raised the cigarette tax by $1 a pack; made changes to the main state business tax—the franchise tax, now also called the "margins" tax—and changed the way used car sales are taxed. The increased revenue from these 2006 tax changes goes into the Property Tax Relief Fund and can be used only to replace school property tax revenue forgone because of the 2006 rate cuts.

According to the fiscal note projections made during the 2006 special session, tax revenue deposited in the Fund was expected to total $8.3 billion in 2008-09, almost all of it ($6.8 billion) coming from the margins tax. The Annual Cash Report reveals that the PTRF actually received only $5 billion in tax revenue in 2008-09, $3 billion of which came from the margins tax. This is $3.3 billion short of the estimate relied on by the Legislature in creating the fund and $143 million less than forecasted in the Biennial Revenue Estimate. The difference between the amount available in the PTRF and the amount required to replace foregone property taxes must come from the General Revenue Fund.

Other sources

The amount of revenue from "licenses, fees, permits, fines, and penalties" was $3 billion (30 percent) less in 2009 than in 2008. The State Highway Fund received $3.2 billion in toll concession revenue in 2008, but none in 2009.

Texas Needs Additional State Fiscal Relief

On November 18, 2009, the Center for Public Policy Priorities (CPPP) sent a letter to the Texas congressional delegation urging additional state fiscal relief.[3] The letter cited the shortfall in tax collections, including the 12.7-percent drop in sales tax revenue in the first two months of the new fiscal year compared to the same period last year, as evidence that the Rainy Day Fund will be insufficient to prevent painful state budget cuts or tax increases in 2011.

Noting the critical support provided to Texas by the American Recovery and Reinvestment Act (ARRA, the federal economic recovery legislation), CPPP urged our federal officials to provide additional state fiscal stabilization to avoid cuts to critical state functions such as public education.

1 Texas Constitution, Art 3, sc. 49a.

2 Government Code, sec. 403.013

3 A copy of CPPP's letter can be found online at http://cppp.org/research.php?aid=927.