

POTENTIAL REVENUE ITEMS

1. General revenue, especially in light of strong sales tax growth.

- (1) The Comptroller will be releasing the Biennial Revenue Report (BRE) in January 2019 that will provide the exact amount of revenue available for allocation in the next biennium.
- (2) Since January 2017, the Comptroller has increased the revenue estimate from \$104.9 billion to \$110.2 billion in July 2018, a \$5.3 billion increase
- (3) Sales tax revenue represents 58% of all state tax collections
- (4) Historically state general revenue has grown an average of 10% every biennium since 2004-05
- (5) Current trends indicate an increase of General Revenue available for budgeting for the next biennium
- (6) The charts below show the amount of sales tax growth over past two full fiscal years and the beginning months of the current fiscal year:

	2016-17	2017-18	% Change		2017-18	2018-19	% Change
Septemeber	\$ 2,128,221,000	\$ 2,356,666,000	10.41%	Septemeber	\$ 2,356,666,000	\$ 2,706,622,000	14.85%
October	\$ 2,290,300,000	\$ 2,458,543,000	6.94%	October	\$ 2,458,543,000	\$ 2,637,335,000	7.27%
November	\$ 2,499,590,000	\$ 2,784,661,000	11.12%	November	\$ 2,784,661,000	\$ 2,997,742,000	7.65%
December	\$ 2,437,750,000	\$ 2,745,041,000	12.30%	December	\$ 2,745,041,000		
January	\$ 2,439,299,000	\$ 2,672,488,000	9.06%	January	\$ 2,672,488,000		
February	\$ 2,397,932,000	\$ 2,612,239,000	8.56%	February	\$ 2,612,239,000		
March	\$ 2,229,512,000	\$ 2,400,001,000	7.19%	March	\$ 2,400,001,000		
April	\$ 2,427,420,000	\$ 2,766,470,000	13.45%	April	\$ 2,766,470,000		
May	\$ 2,494,191,000	\$ 2,758,373,000	10.18%	May	\$ 2,758,373,000		
June	\$ 2,426,348,000	\$ 2,769,213,000	13.74%	June	\$ 2,769,213,000		
July	\$ 2,553,076,000	\$ 2,741,744,000	6.93%	July	\$ 2,741,744,000		
August	\$ 2,473,082,000	\$ 2,871,796,000	15.81%	August	\$ 2,871,796,000		
Total	\$ 28,796,721,000	\$ 31,937,235,000	10.51%	Total	\$ 31,937,235,000	\$ 8,341,699,000	9.76%

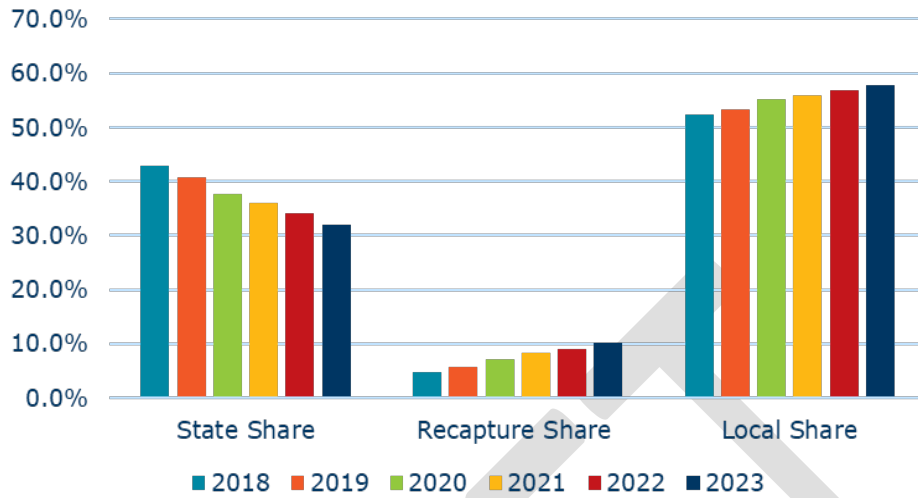
Addressing Recapture aka Robin Hood

One of the early conclusions of the Commission was the recognition that addressing Recapture must be a high priority. Below are three possible ways of beginning the process of weaning off of Robin Hood. This is not an endorsement of any of the ideas and the final plan adopted by the Legislature may well use ideas from more than one plan.

2. Comprehensive School Finance Reform

- (1) The state only pays the amount that a school district does not collect through local property taxes.
- (2) As property values rise – and property tax revenues rise – more local revenues mean a reduced need for state funding.
- (3) Fixed M&O tax rates ensure the state share will always decline as property values rise.
- (4) Utilizing a 2.5% M&O Tax Compression to:
 - Prevent the imminent collapse in the state’s share of public education funding
 - Reduce recapture’s projected growth, keeping tax dollars local
 - Slow the growth of skyrocketing tax bills

Current Law State Share Projections (2018-2023)

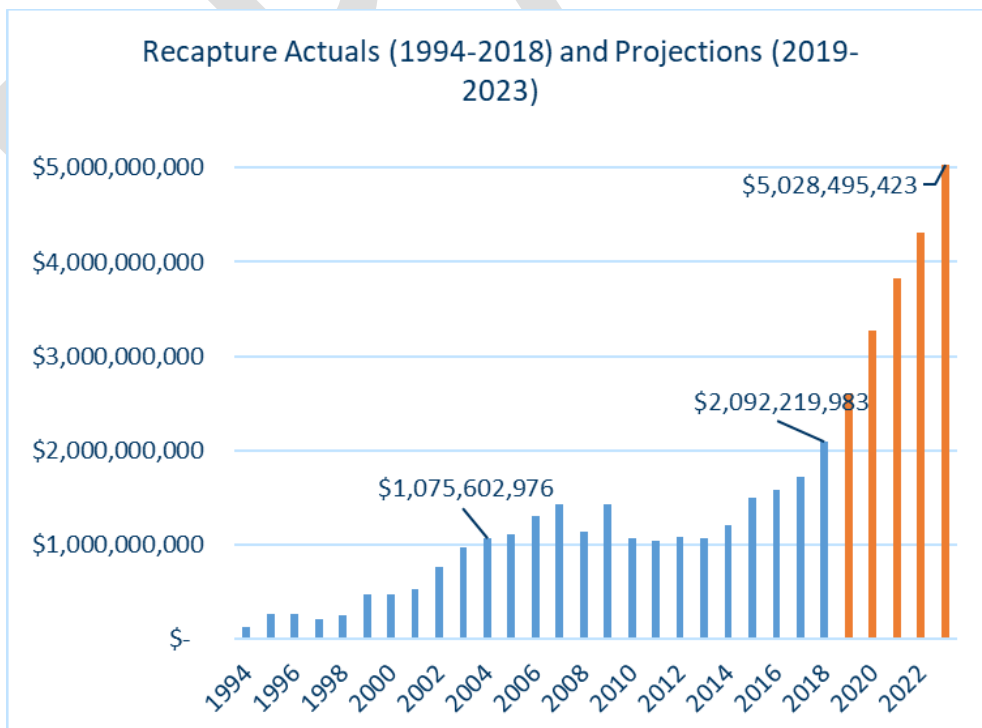


If we do not address recapture, the graph above shows what will happen over the next five years.

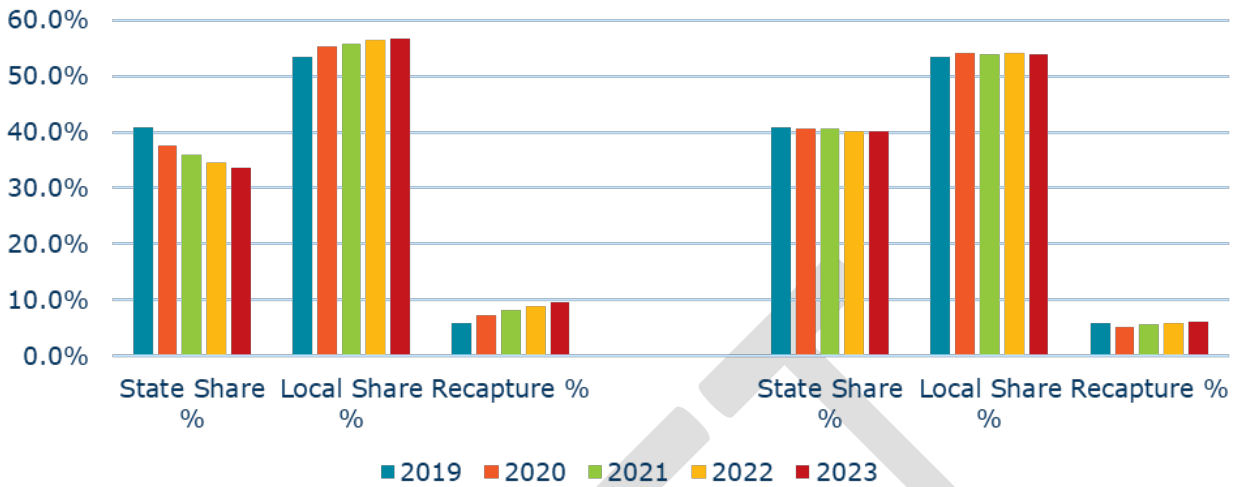
- Current law projections have the state share of public education M&O funding falling to 32% in 2023
- Recapture will double its share of public education funding
- Local property taxes (including recapture) will finance 68% of education in 2023

Without tax reform, recapture will also skyrocket as shown in the graph below.

- It took 14 years for recapture amounts to double from \$1 billion to \$2 billion
- Recapture will explode over the next 5 years from \$2 billion to \$5 billion, unless addressed now.



Impact of 2.5% Tier 1 M&O Compression on the State Share of M&O Funding



- The state share of public education funding stabilizes going forward
- Growth in property tax bills slows
- Future recapture growth slows

3. Using Recapture payments for tax rate compression

- (1) Public school finance is a shared responsibility of the state and local school districts.
- (2) Any period in which property values rise at a rate greater than enrollment growth, the local share (and property taxes) will increase, while the state share will decrease.

Shifting Responsibilities in Funding:

Foundation School Program Maintenance and Operations Revenues

	2018-19	2020-21	Change
Local Property Tax (includes amounts recaptured shown below)	\$52.8 bl	\$60.2 bl	\$7.4 bl
State General Revenue Funding	\$37.0 bl	\$33.5 bl	(\$3.5 bl)
Total School M&O Funding	\$89.8 bl	\$93.7 bl	\$3.9 bl

Item of Information:

Recaptured Property Tax

\$4.6 bl

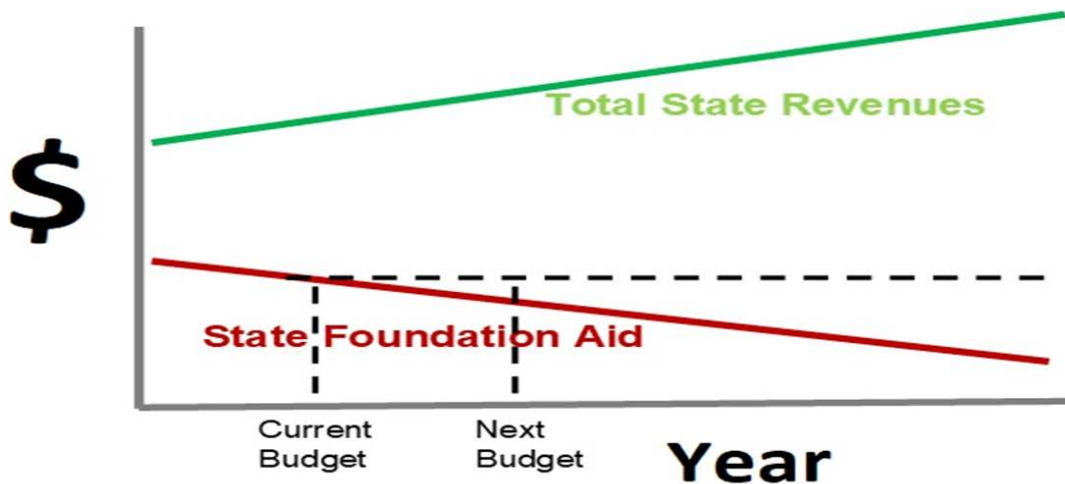
\$6.9 bl

\$2.3 bl

Note: State General Revenue funding for maintenance and operations is from the 2020-21 Budget Request from the Texas Education Agency. Property tax amounts are estimated based on the value growth assumptions stated in the agency's budget request. Tax rates are assumed to be constant. The total shown is not as would be calculated by the Foundation School Program formulas, as the FSP use prior, not current, year's property values. Recapture amounts are as estimated by the agency.

- (3) Changes in values should be used to adjust the compression percentage so that as values per student rise, the compression percentage declines by a corresponding amount.
- (4) Use some or all revenue from recapture to reduce the compression percentage, providing relief against rising property tax bills to all property owners by reducing tax rates uniformly statewide.

Foundation School Funding in the State Budget



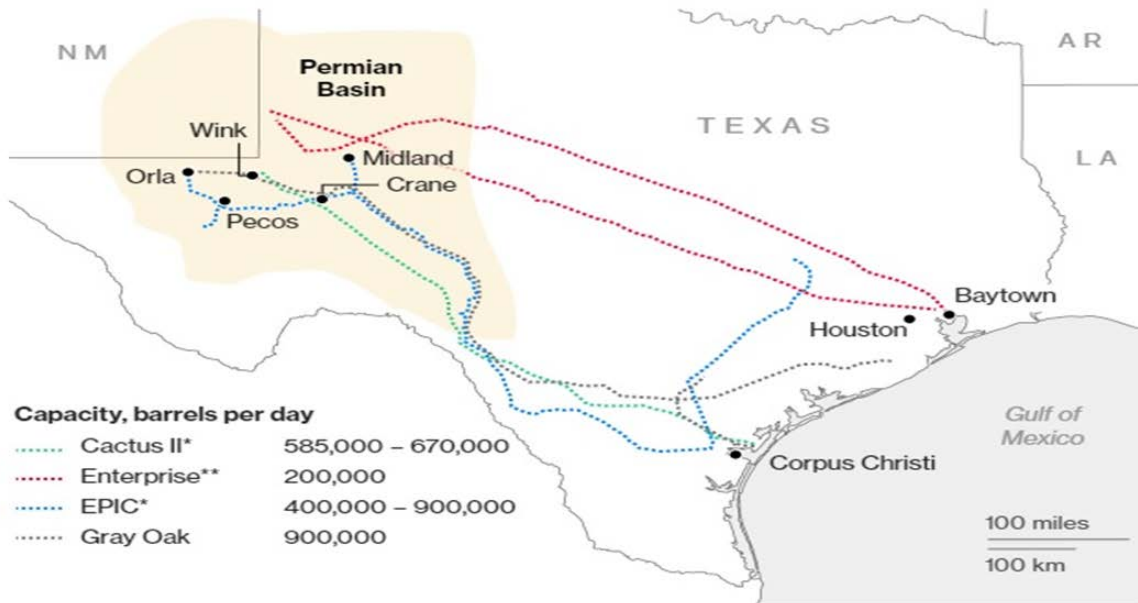
4. Divide Recapture payments evenly among three constituencies:

- (1) School districts
- (2) Taxpayers
- (3) State of Texas
- (4) The results would be to:
 - Improving funding, improving equity and reducing recapture
 - Reduce M&O tax rate for homeowners and businesses
 - Do what the state is already doing – plug it in where it’s needed within the state budget

5. Redirecting a portion of severance taxes currently designated for the Economic Stability Fund (also known as the “Rainy Day Fund”) given the growing size of the ESF due to unprecedented energy activity in the state, particularly in the Permian Basin.

- (1) Permian Basin production continues to expand
- (2) New pipeline capacity in 2019 of 2 million barrels per day
- (3) Additional 2 plus million barrels per day pipeline capacity in 2020

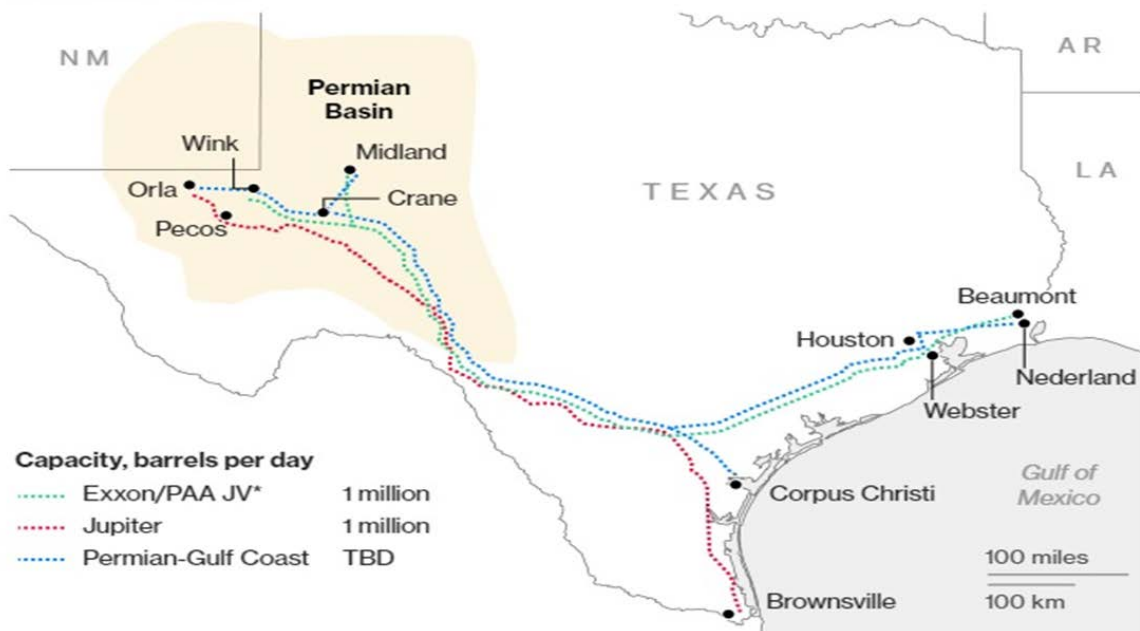
Oil Pipelines Set to Open in 2019...



Source: Pipeline companies

* Early flows to start in 2019, with full service planned for 2020. ** Enterprise Products Partners plans to convert one of the NGL pipes in those two routes

...And in 2020



Source: Pipeline companies

* Exxon Plains All American joint venture pipeline path is notional. No route has been announced

(4) Use this increase in production severance taxes as a source to fund public education

Chart 5
Permian Pipeline Capacity

Million barrels per day (mb/d)



NOTE: Years followed by "P" indicate projections. The dashed line represents the Permian Basin production forecast, assuming production growth of 0.75 mb/d in 2018 and 2019.

SOURCES: Energy Information Administration; company reports; calculations by the Federal Reserve Bank of Dallas.

(5) This is a potentially a long-term multi-billion dollar funding source.

The five recommendations above were approved by a 4 to 1 vote of the Revenue Workgroup on November 27, 2018. The 86th Legislature should begin the revenue discussion based on these five proposals. There is likely to be sufficient revenue available from these sources to accomplish the goals and recommendations of the Commission. The Legislature always has the ability to make any changes it deems necessary to any current tax law or exemption.