



FISCAL FACTS



BOB BULLOCK, TEXAS COMPTROLLER

FEBRUARY 1985

Taxes--Mixed Bag For States

Texas has traded places with many states this year by having a projected budget short fall of \$1 billion while other states are dealing with budget surpluses.

Other states' economies suffered more than Texas in the U.S. recession in 1981-82--and conversely are benefiting more from the economic recovery than Texas.

High energy costs, unemployment and the national recession led 38 states to increase taxes and the same number to cut budgets in 1983.

Today, the healthy U.S. economy and drops in unemployment have left many states with extra money in their pockets.

Texas has not benefited as much from the U.S. economic recovery primarily because Texas depends so heavily on oil and gas revenue. Low energy prices have meant reduced revenues for the State Treasury leaving Texas to face a spending gap that the renewed national economy cannot close.

Also, Texas' population has continued to increase--due in part to an influx of workers who could not find jobs in other states during the recession. These new Texans increase the demand for government services. The cost of providing these additional services is not met

by increased revenue generated from new citizens.

Texas now is looking for ways to cut spending and maintain current service levels without raising taxes. Meanwhile states that cut budgets and raised taxes in 1983 are considering tax reductions or tax rebates today.

These considerations come on the heels of several propositions that were on the November 1984 ballot. Several states had measures to limit revenue-raising activities or spending on the ballot in November.

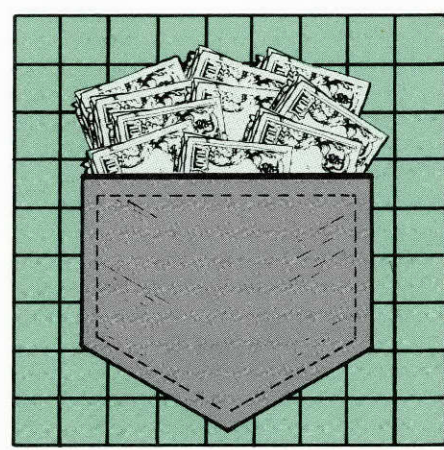
Voters passed a proposition limiting spending in South Carolina and turned down most tax increases. And, although tax-cutting initiatives

were turned down in several states, state legislatures received a message from voters.

Most of the 1983 tax hikes were passed to maintain existing programs--meaning taxpayers were paying more for the same amount of service. Now that states are in better fiscal condition, those tax increases are generating surplus revenue. Citizens now want expanded service for their money, such as improved education systems--or their money returned.

South Carolina voters approved a constitu-

Continued





Straight Facts

Consider Texas' financial dilemma.

Revenues from oil and gas have dropped significantly after more than a decade of putting billions of extra dollars into the state treasury.

Even with no change in the amount of money spent on services, the state will have a shortfall of about \$1 billion during the next budget period.

This has left you and me, as state employees, stuck in a briarpatch of thorny problems--problems that have grown up around the need to do more with less.

The Comptroller's Office is reevaluating its programs in light of the department's primary mission of collecting taxes.

One move resulted in the closing of more than a dozen Comptroller field offices and reducing the agency's workforce substantially. We had to let go good employees whose dedication and service to this office and the state were not in question.

We are eliminating functions that do not directly contribute to raising state revenues. We have no choice. The state budget situation has deteriorated to that point.

These changes will not impair the effectiveness of the Comptroller's Office as the state's tax collector, bookkeeper and paymaster.

We are eliminating services such as bookkeeping assistance to local governments; research for other state agencies, cities and chambers of commerce; and some taxpayer publications. We are also combining as many jobs as possible so that employees who remain will be able to work more efficiently.

The goal is increased productivity at the lowest cost.

These efforts are being set in motion despite the fact that the state's next budget doesn't start for another seven months.

Why?

Because the state's revenue pattern can no longer support growth in state government at the pace of the past decade. Future income projections demand that spending levels be reduced.

Today, Texas can approve only those public services essential to governing the state.

Taxes--Mixed Bag For States *Continued*

tional amendment establishing a limit on spending and on the growth of state employment. The provision also reduces the state's reserve fund from five percent to four percent of the previous year's revenue.

In Hawaii, voters decided to keep a requirement that tax refunds be sent if the state has a budget surplus of more than five percent for two consecutive fiscal years. And, various tax-increasing measures were turned down in West Virginia, Oklahoma, Arkansas and Louisiana.

Although major tax initiatives were voted down in several states, legislatures are responding to voter concerns that placed those

issues on the ballot.

Arizona, Minnesota, Rhode Island, New York, Wisconsin, Ohio and Pennsylvania all are considering tax cuts--mainly through lower income tax rates.



In Michigan, "Voters' Choice" would have reduced personal income tax rates, taxes and fees, and required a popular vote on any new (or changed) tax, fee or license. While voters rejected the proposal, the legislature has accelerated a provision of its 1983 tax-increase legislation that will phase out the 1983 increases.

Oregon voted on a citizen initiative that would have limited property taxes and property tax increases and tied fee or license increases to the actual cost of a service. The proposal included tax relief for renters. The Oregon legislature responded by a tax shift--proposing to institute a state sales tax using the proceeds to reduce property taxes.

In California, though, the feeling is that voters have had enough tax reduction. California voters turned down a measure which limited state and local fee increases, banned the use of state-collected fees to fund state employee pension plans and clarified the 1978 tax rollback (Proposition 13).

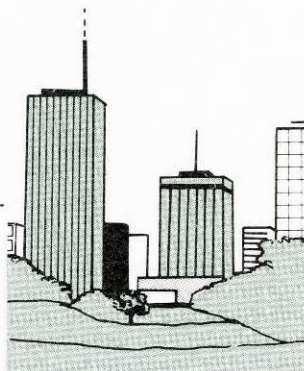
Since the election, California Governor George Deukmejian has proposed a decrease in the number of state employees. The governor also has proposed increases in educa-

tion, mental health and corrections spending.

And, in Nevada voters decided to take the state sales tax off food. They decided not to limit annual property tax increases or require a vote for new or changed state or local taxes, fees or debt authority.

A Matter of Space

Upcoming budget shortfalls and the curtailment of state building construction programs are likely to focus attention on the cost of renting office space.



Some state agencies already rent office buildings and other space. In 1984, the state accounting system shows about \$41.9 million was spent by agencies to rent space.

Nine agencies accounted for 68.5 percent of the total spent on rental space in fiscal 1984

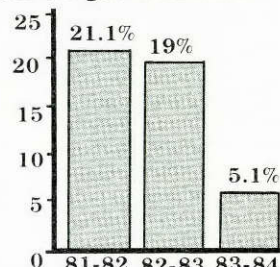
The rate of spending for these rentals has grown in recent years. From 1983 to 1984, the growth rate was 17.8 percent--up from 12.4 percent between 1983 and 1984.

The Cost of Keeping Warm

Growth in state spending for natural gas and electricity has slowed in recent years.

But, according to a study by the Energy Management Group at Texas A&M's Engineering Experiment Station, the state could save even more money with a comprehensive energy management program.

Texas spent \$207.5 million on gas and electricity in fiscal 1984. The combined cost increased 5.1 percent between 1983 and 1984, down from increases of 19 percent between 1982 and 1983 and 21.1 percent between 1981 and 1982.



The study showed that state buildings are using more energy than they should--mainly because state law regulating building conservation standards is complex and not very strict.

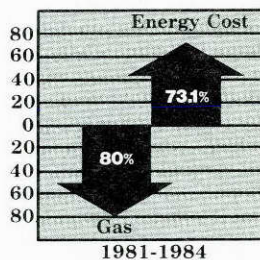
According to the study, an average modern building should consume 40,000 to 75,000 Btus per square foot per year. State agency consumption levels varied from 80,000 Btus per square foot to as much as 500,000 Btus per square foot.

Energy costs for a building at the 50,000 Btu level should run around 60 cents a square foot a year according to the study. More than 25 agencies were found to exceed \$2 a square foot and some exceeded \$4 a square foot.

Not surprisingly, state agencies with the most buildings were the largest energy users.

The University of Texas at Austin had the biggest electric bill, spending more than \$27 million last year on electricity.

However, UT ranked far down the list in payments for gas. The university cut gas expenses by more than 80 percent between 1981 and 1984. Over the same period, its overall energy costs rose by 73.1 percent. UT at Austin uses cogeneration--burning natural gas to produce electricity, steam and chilled water.



Spending on Rental Space Fiscal Year 1984

Agency	Amount Spent In Fiscal Year 1984 (Amount in Millions)	Percentage of Total
Department of Human Resources	\$12.8	30.5%
Texas Rehabilitation Commission	3.0	7.2
Texas Employment Commission	2.9	6.9
Comptroller's Department	2.7	6.4
Texas Department of Health	2.2	5.3
Board of Pardons and Paroles	1.4	3.3
Railroad Commission	1.3	3.1
Attorney General	1.2	2.9
Highway Department	1.2	2.9
All Other	13.2	31.5
Total	\$41.9	100.0%

SOURCE: Comptroller of Public Accounts.

REPLAYS REPLAYS REPLAYS REPLAYS REPLAYS

Summary of Recent Comptroller Notices

Year--End Deferred Compensation Reports

If year-end deferred compensation reports have not been received from vendors, or have been received in an improper format, agencies should notify the Deferred Compensation Section of the Comptroller's Fiscal Management Division at 475-3694 or STS 822-3694.

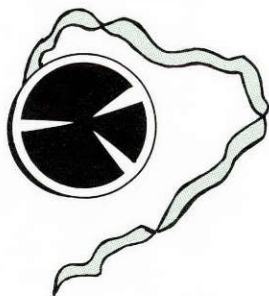
Failure to report or reporting in an improper format could constitute a breach of contract with the state.

This year, vendors were asked to send a copy of agency reports to the Comptroller's Department. Agency totals will be matched with Comptroller totals as reported on agency payroll tapes. The Comptroller's Department will contact agencies if totals don't match.

Some Deferred Compensation participants, unaware that their accounts had been invested in life insurance, will be notified that they can get full policy refunds.

Refunds will be payable to the State of Texas and must be reinvested into another deferred compensation account, according to IRS regulations. Issuing personal refunds

makes the entire Deferred Compensation plan ineligible for tax sheltered status--meaning that all funds deferred under the plan would be subject to current income tax.



Purchased Utilities

Institutions of higher education that used, or will use, the "purchase utility" line item for any utilities other than electricity, gas, water and nuclear power--so called raw product utilities--should have submitted a request to the State Comptroller to approve these expenditures.

As of January 15, 1985, the purchased utility appropriation may only be used for raw product utility payments and other appropriate costs.

Beginning September 1, 1985, all payments from the purchased utility line items for fiscal years 1986-87 will be restricted to raw product utility expenses only.

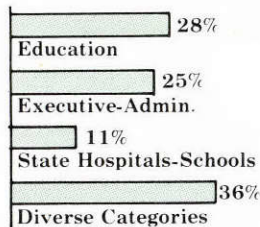
The Birth of State Agencies

During the 1983 legislative session lawmakers created 18 new state agencies--more than any other Legislature since 1971.

These new agencies generally are small and represent a variety of functions--from the Board of Tax Professionals Examiners to the Office of Public Utility Council to the Houston Psychiatric Hospital.

Of the agencies created in 1983, six are executive-administrative, five are state hospitals or schools, five are educational and two deal with parks and monuments.

Texas has created 75 new state agencies since 1971. Of the total, 28 percent are educational. About 25 percent are executive-administrative and 11 percent are state hospitals and schools. The rest are scattered among such diverse categories as legislative, judicial, highways, natural resources and parks.

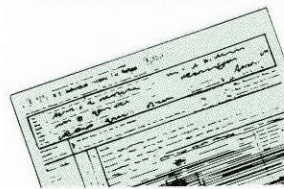


Reporting Requirements

Employees and consultants to the state received new information with IRS W-2 and 1099 forms this year reflecting mileage reimbursements and payments of more than \$600 made to anyone other than a corporation for services and rentals.

In order to help agencies comply with IRS reporting requirements, the Comptroller's Department issued reports in January listing total mileage paid to each state agency employee to be recorded on W-2 Forms for 1984.

Agencies also received reports showing payments made to consultants, lessors, service providers, etc., of more than \$600 during 1984 to prepare 1099 Forms--used to report income not recorded on W-2 Forms.



Other large users of electricity in 1984 were Texas A&M (\$10.7 million), the Department of Corrections (\$7.8 million) and the University of Houston (\$7.7 million).

The Department of Corrections topped the list for gas consumption--spending \$9.8 million in fiscal 1984. Texas A&M came in second as a gas user, spending \$7.1 million. The University of Houston and Texas Tech University were third and fourth, spending \$4.8 million and \$4.2 million respectively.

The General Land Office has actively encouraged agencies to use state-owned gas. Often, power companies have reduced rates to state agencies to match the price of state-owned gas--resulting in a net savings to the state.

According to the A&M study, the state could save tens of millions of dollars through the use of state-owned gas, cogeneration and construction of energy-efficient buildings.

Computing the Cost of Computers

Computer-related expenditures by state agencies in 1984 increased 24.3 percent to \$92 million from the previous year. An analysis by the State Auditor indicated total spending could be even higher.

This spending figure does not include data services salaries. The Auditor's study found that



Computer-Related Spending for Top Ten Agencies 1983 vs. 1984 (Amounts in Millions)

Agency	1983	1984
Highway Department	\$18.5	\$12.2
Comptroller's Department	7.3	5.1
Human Resources	6.5	5.1
UT Medical		
Branch-Galveston	3.5	3.7
Texas Employment		
Commission	3.2	3.3
UT System	1.6	6.9
Department of Public Safety	1.5	4.6
Legislative Council	0.1	4.4
MHMR	1.2	3.7
Texas A&M System	2.7	3.4

SOURCE: Comptroller of Public Accounts.

Computer-Related Spending 1983 vs. 1984 (Amounts in Millions)

	1983	1984	Percentage Change
Equipment	\$60.4	\$73.8	22.2%
Software	4.5	8.3	84.4
Professional Services	5.8	5.5	-5.2
Other Expenses	3.3	4.4	33.3
Total	\$74.0	\$92.0	24.3%

SOURCE: Comptroller of Public Accounts.

6,061 state employees worked directly in the data processing field (including exempt and some support positions) as of Aug. 31, 1984, with wages and salaries totaling \$118.7 million. This doesn't reflect the many employees who use computers every day to help with their work.

Comptroller records show the State Highway Department, the Department of Human Resources and the Comptroller's Department spent the most on computer equipment and services during the past two years.

These three agencies accounted for 44 percent of total state computer-related spending in 1983 and 24 percent in 1984.

Expenses for computers fluctuate widely from year to year depending on whether an agency is buying expensive new hardware or installing software systems.

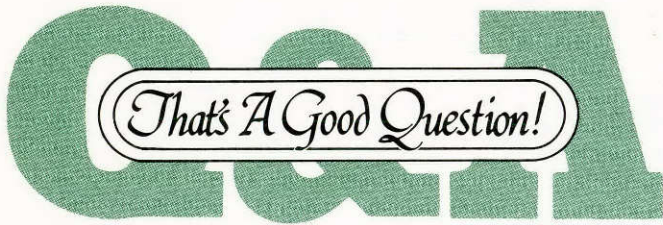
Accounting Statement Issued

The Governmental Accounting Standards Board (GASB) has okayed an interim set of state and local government accounting guidelines.

In its first statement since replacing the National Council on Governmental Accounting last year, the GASB directs state and local governments to follow statements and interpretations of the National Council.

The Board's statement also allows state and local governments to follow the American Institute of Certified Public Accountants' *State and Local Government Industry Audit Guide*.

GASB publications are available from the Order Department, Governmental Accounting Standards Board, High Ridge Park, P.O. Box 3821, Stamford, Conn. 06905-0821.



Q. When should state agencies submit annual reports?

A. Annual reports should be submitted to the Governor's Office, the State Auditor's Office, the Legislative Budget Board and the State Comptroller's Office 100 days after the close of the fiscal year, or December 9.

Institutions of higher education, excluding junior colleges, must file annual reports by Jan. 1 following the close of the fiscal year.

Q. Who should interpret or clarify the General Appropriation Act?

A. Your Appropriation Control Office in the Fiscal Management Division at 475-3694 or STS 822-3694.

Q. When must an agency prepare a budget revision?

A. An agency must prepare a budget revision when it needs to:

1. Obtain additional appropriation authority
2. Transfer appropriation authority
3. Correct budget object codes
4. Lapse or reinstate appropriations
5. Reallocate budget funding.

Questions concerning accounting, appropriations and the state Deferred Compensation Plan should be directed to the Fiscal Management Division of the Texas Comptroller's Office at 475-3694 or STS 822-3694.

For answers to questions about state vouchers, public information requests, payment information and Direct Deposit, call the Claims Division at 475-1923 or STS 822-1923.

AVERAGE CLASSIFIED SALARY BY STATE*

*This table should have been labeled Average Classified Salary by State in the December issue of Texas Fiscal Facts.

<u>State</u>	<u>Salary</u>
Michigan	\$24,053
California	23,844
New York	21,471
New Jersey	20,767
Pennsylvania	20,224
Illinois	19,687
Ohio	19,194
Texas	18,659
Massachusetts	17,802
New Mexico	17,604
Oklahoma	17,250
Louisiana	16,068
North Carolina	16,009
Arkansas	14,488
Florida	14,000

SOURCE: State Auditor's Office and Comptroller of Public Accounts survey.

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