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Texas Fiscal Facts

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State government revenue was hard hit by the economic slowdown in 1983, and the state actually had less to spend in 1983 than in the previous year. In 1984 state revenue again was up partly due to the legislature accelerating the payment of certain taxes. The largest ever state tax increase boosted the level of revenue in 1985.

While the economic recession forced many private companies to lay off employees, encourage early retirement, or cut salaries, Texas local governments rolled right along with double-digit increases in taxes and other revenues that far exceeded the population growth.

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Property Taxes \$8.2 billion; Up \$945 million

Local property taxes in 1984-85 were up by almost a billion dollars—\$945 million. As inflation has subsided, even turning to deflation in some areas, tax rates have been increased by many jurisdictions to produce greater amounts of revenue (see pages 2-3).

State-Local Spending \$29.8 billion

Spending by Texas' state and local governments averaged \$1,861 per person in fiscal 1984. Over the past decade, Texas government spending has increased more than twice as fast as population growth (see pages 4-5).

Local Governments Outpace State

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Despite the economic slowdown in 1983, local government income continued to grow at a steady clip to a 1984 level of \$850 per capita. Texas' 4,000 local governments now raise more in general revenue than the state and, with the receipt of state and federal aid, directly expend almost two-thirds of total state-local spending (see page 6).

State Taxes Up \$1.6 Billion

State tax revenue in the fiscal year 1985 totaled \$11.5 billion. A major portion of the \$1.6 billion increase resulted from the \$1.2 billion of tax hikes enacted by the legislature. While state tax revenue grew by 16.3%, the tax base grew by only 4.9% (see pages 7-8).

Mark Your Calendar— 1986 League Meeting Dates:

- May 8—Executive Committee Meeting
- May 9—Board of Directors Meeting
- Nov. 13—Exec. Comm. and Board Meeting
- Nov. 14—Annual Meeting

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Local Property Taxes Total \$8.2 Billion —Up \$945 Million

Ad valorem taxes imposed by Texas local governments upon property totaled \$8.2 billion in 1984–85. The property tax produced 3 1/3 times as much as the \$2.5 billion levied ten years ago.

Tax Rates Soar as Inflation Subsides

The local property tax is based upon the market value (selling price) of real estate and personal property, as determined by appraisers in 253 central appraisal districts (one in each county, except for Potter and Randall counties which combined into one district). However, the size of the tax bill that is sent to each taxpayer ultimately is determined by the city council, school trustees, county commissioners, etc. who set the tax rate and some of the exemptions that are applied to the taxable value fixed by the appraisal district.

To distribute state aid to the 1,069 school districts in Texas, the state began sampling studies in 1975 to measure the accuracy of tax appraisals by comparing them with state agency estimates of the market value of property. The results of these studies show that while the creation of appraisal districts with professional appraisers has resulted in substantial improvements, the mass valuation of millions of parcels of property is not perfect.

In 1984–85 local governments in Texas levied \$8.2 billion in property taxes upon taxable property values totaling \$720 billion as determined by the State Property Tax Board (SPTB). Dividing those two figures gives an average “true” tax rate of \$1.135 per \$100 of market value. As shown in Table 1, that rate was up significantly from the \$1.092 the previous year. However, that average “true” tax rate was less than the \$1.209 per \$100 a decade ago.

The rapid growth of property tax revenue during the 1970s primarily

was due to double-digit inflation of market values. Tax rates actually declined from \$1.209 in 1975–76 to \$1.007 in 1981–82.

As inflation has subsided, even turning to deflation of real estate values in some areas, tax rates have been increased by many governing bodies of local taxing jurisdictions to produce greater amounts of local revenue.

Tax rates set by governing bodies are applied to the appraised value of the property, whereas the “true” tax rate applies to the market value (selling price). An average “true” rate of \$1.135 would produce \$908 of property taxes on a house or other property selling for \$80,000. A homeowner would pay less if eligible for various homestead exemptions. Property taxes are levied by a variety of different local governments and the tax bill varies widely in different locations in the state.

School Districts Account for Half

Local property taxes levied by school districts accounted for half of the total or \$4.1 billion (see Table 2). Over the last decade, however, the proportion levied by school districts has not changed appreciably, although the

total is 3 1/3 times the \$1.3 billion total a decade ago.

Tax Increases Exceed Growth of Tax Base

School district property taxes levied on single-family houses increased by 16.2% last year while the SPTB's estimate of the market value or selling price of those houses grew only 10.8%. That growth includes new houses built during the year as well as inflation (or deflation) of the selling price of existing houses. The 16.2% increase in school taxes occurred despite a variety of homestead exemptions that are offered homeowners and despite a tax freeze on the taxes of homes owned by persons age 65 and older.

School taxes on agricultural and other land were up 12% last year as compared to a 1.3% increase in the tax base. The base is a combination of productivity value of qualifying agricultural land and market value for other open-space land.

School taxes on commercial and industrial real property were 18.7% higher in 1984–85 as compared to growth of 12.9% in the market value of stores, shopping centers, and factories. Taxes on oil and gas reserves were up 8.9% compared to a 1.2% growth of the tax base.

Table 1
Average Local Property Tax Rates
1975 to 1984

Year	Property Tax Levy (millions)	Market Value of Property (millions)	“True” Tax Rate Per \$100
1975–76	\$2,812	\$232,586	\$1.209
1977–78	3,505	297,573	1.178
1979–80	4,212	407,129	1.035
1981–82	5,753	571,198	1.007
1983–84	7,222	661,168	1.092
1984–85	8,168	719,820	1.135

Data on property taxes by type of property is readily available only for school districts, not for cities, counties, and special districts.

Municipal Taxes Up

Texas cities and towns levied property taxes totaling a little over \$1.6 billion as compared to \$599 million ten years ago. The municipal proportion of the total property tax levy has dropped from 24.1% in 1975 to 20.0% in 1985.

County & Special District Taxes Up More

Property taxes levied by the 254

Texas counties totaled \$1.4 billion as compared to \$343 million a decade ago—4.1 times as much. Tax levies by special districts (hospital, junior college, water supply, navigation, drainage, road, etc.) also were 4 times as much as a decade ago. Such special districts sent tax bills in 1984–85 totaling \$980 million as compared to \$238 million in 1974–75.

The Other Half

Excluding state and federal aid to local governments, the property tax actually provides less than half of the revenue for local government services. In FY 1984, local property taxes ac-

counted for 49.2% of own-source local revenue with 9.7% from other taxes such as sales taxes for cities and motor vehicle taxes for counties. Current charges ranging from hospital fees and junior-college tuition to various filing fees provided 22.7% of local revenue. Interest earnings accounted for 7.4%, and other miscellaneous revenue provided 10.9%.

Local property taxes provided 55.8% of own-source revenue of counties in FY 1984, 29.5% of city funds (excluding utility revenues), 9.6% of special district revenue, and 80.8% of the funds for school districts excluding state and federal aid.

Table 2
Property Taxes Levied by Texas Local Governments 1975–1985
 (millions of dollars)

Year	Total	State	Counties	Cities	School Districts	Special Districts
1974–75	\$2,488	\$48	\$ 343	\$ 599	\$1,261	\$238
1975–76	2,812	39	388	665	1,434	286
1976–77	3,158	45	439	734	1,619	321
1977–78	3,505	47	522	794	1,767	375
1978–79	3,846	53	578	856	1,939	420
1979–80	4,212	60	650	944	2,088	470
1980–81	4,948		821	1,052	2,481	595
1981–82	5,753		1,008	1,204	2,864	677
1982–83	6,548		1,166	1,359	3,282	741
1983–84	7,222		1,291	1,466	3,627	838
1984–85	8,168		1,409	1,636	4,143	980

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State-Local Governments Spent \$29.8 Billion in 1983-84

State and local governments in Texas spent \$29.8 billion in 1983-84, \$2.6 billion or 9.4% more than the previous year. Both state and local spending grew at about the same rate—a 9.2% increase at the local level and 9.7% at the state level.

The combined 9.4% growth rate was down sharply from the 13% increase recorded in 1982-83, which included a 17% jump in spending by Texas local governments.

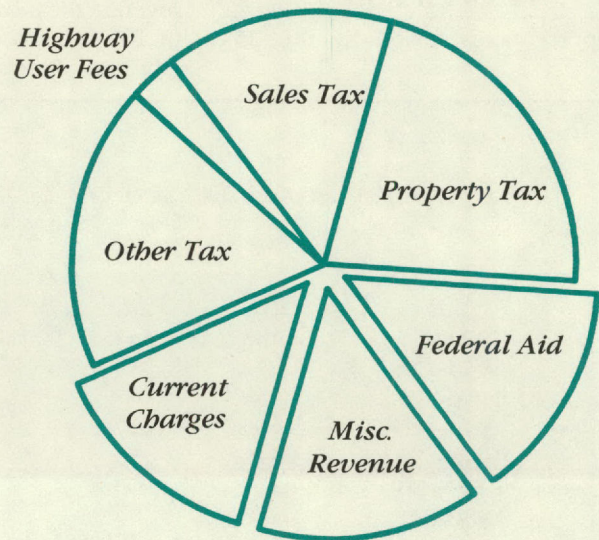
Government spending in 1983-84 equaled \$1,861 for each person in the state, up \$131 from a year earlier. During the past decade per capita spending has more than doubled, indicating that Texas government expenditures have increased more than twice as fast as population growth.

The figures were reported by the Governments Division, U.S. Bureau of the Census based upon reports from state agencies and units of local government. Obviously among nearly 4,000 counties, cities, school, and special districts there was a variety of different spending patterns. (The table on page 5 summarizes the state-local data.)

\$30.9 Billion of Revenue Came From

Dominated by the sales tax at the state level and the property tax at the local level, taxes comprised 57.7% (\$17.8 billion) of the \$30.9 billion of revenue received by Texas governments. (See related stories in this issue on

Figure 1
Source of Funds



state taxes, page 7, and on local property taxes, page 2.) Fees and charges (\$4.3 billion, 13.8%), other miscellaneous income (\$4.4 billion, 14.3%) and federal aid (\$4.4 billion, 14.2%) made up the remainder.

Looking at the revenue on an intergovernmental basis, the breakdown was as follows:

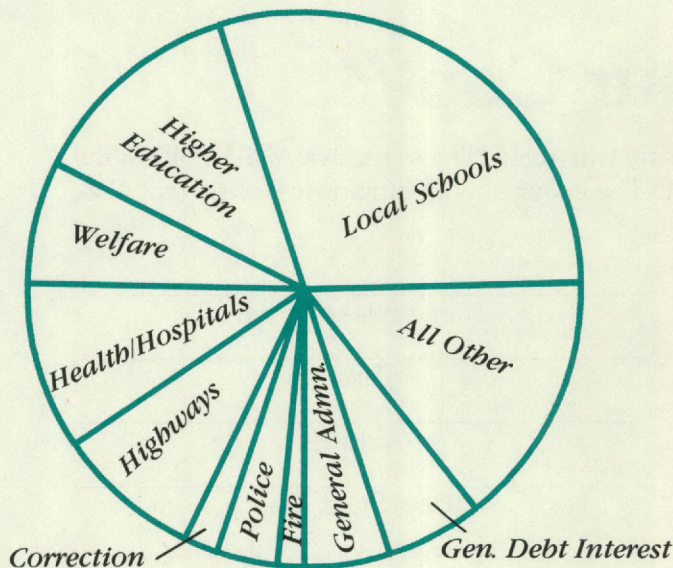
• Federal aid	\$4.4 billion or	14.2%
• State revenues	12.9	41.9
• Local revenues	13.6	43.9
• Total	\$30.9 billion	100.0%

Federal aid in 1984 was up by \$282 million or 6.9% from the previous fiscal year (although local governments received \$30 million less federal aid than in 1983). State revenue increased by \$1.2 billion (10.0%) primarily as the result of a hefty tax increase. Local government taxes, fees, charges, etc. grew by \$1.6 billion or 13%.

. . . \$29.8 Billion was Spent

- Education expenditures accounted for \$12.7 billion of state-local budgets in 1984. Governmental spending for education has grown from \$3.8 billion ten years ago and from \$6.9 billion five years ago. However, the proportion of the total applied to education has decreased slightly from 43.6% ten years earlier to 42.8% in 1984. Reflecting steady enrollment in the public schools, as

Figure 2
Expenditures



contrasted to increasing numbers of students in colleges and universities, the percentage expended for public schools dropped from 30.2% to 29.5% during the last decade, while the proportion spent for higher education increased from 12.1% to 12.6%.

- Highways and street spending totaled \$2.5 billion in 1984, up from \$996 million a decade ago. But the proportion of state-local budgets accounted for by highways and streets has fallen significantly from 11.5% in 1974 to 8.4% in 1984. Most of that change occurred over the past few years. In 1982, for example, highway spending equaled 11.6% of Texas governmental budgets.
- Health and hospitals cost \$2.9 billion in 1984, quadruple the \$674 million spent ten years ago. The proportion spent on this function increased from 7.8% to 9.8% during the past decade. This spending category includes hospitals operated by state universities, but excludes vendor payments for medical service, which are counted as public welfare.
- Public welfare is the fourth largest expenditure category, amounting to \$2.1 billion in 1984. Welfare spending was up from \$813 million ten years ago, but the proportion of the total has been cut from 9.4% to 7.1% largely because the federal government took over full responsibility for certain cash assistance programs that had been partly state-financed before 1973.

Balancing Accounts

The revenue and expenditure figures indicate a \$1.1 billion surplus in 1984 (\$30.9 billion raised; \$29.8 billion spent). In addition, state-local debt grew by \$6.0 billion. The accounts balance when cash and securities held by state and local governments are included. Such holdings grew by \$7.5 billion last year. Of that increase \$2.7 billion went into insurance trust funds, primarily employee retirement accounts. Another \$710 million was added to the state's permanent school and university funds. Finally, other operating funds grew by \$4.1 billion last year.

Total cash and security holdings at the end of fiscal year 1984 totaled \$26.8 billion for the state and \$15.4 billion for local governments.

Table 3
Texas' General Government Operations in 1983-84
(Millions of Dollars)

	Total	State	Local
REVENUE			
Revenue from Own Sources			
Taxes:			
Property	\$ 6,681	\$ 0	\$ 6,681
General Sales	4,546	3,804	742
Motor Fuels	516	516	0
Motor Vehicle License	436	349	87
Other Taxes	5,655	5,161	494
Current Charges:			
Education	1,459	898	561
Hospitals	1,205	223	982
Other	1,621	77	1,544
Miscellaneous Revenue:			
Interest Earnings	1,821	810	1,011
Other	2,602	1,121	1,482
Subtotal Own Source Revenue	26,542	12,959	13,584
Intergovernmental Revenue			
From Federal Government:			
Public Welfare	1,311	1,307	4
Education	1,021	906	115
General Revenue Sharing	243	0	243
Other	1,814	1,247	567
From State Government:			
Education	0	0	4,913
Public Welfare	0	0	41
Other	0	0	397
From Local Governments	0	10	0
Subtotal Intergovernmental	4,389	3,470	6,280
GENERAL REVENUE TOTAL	30,931	16,429	19,864
Exhibit: state government revenue after transfers to local governments			
		11,067	
EXPENDITURE BY FUNCTION			
Education Services:			
Local Schools	\$ 8,779	\$ 83	\$ 8,696
Higher Education	3,759	3,055	704
Other Education	200	200	0
Libraries	121	5	116
Social Services & Income Maintenance:			
Public Welfare	2,113	2,048	65
Health & Hospitals	2,907	1,316	1,591
Social Insurance Adm.	169	169	0
Veterans' Services	6	6	0
Transportation:			
Highways	2,506	1,484	1,022
Airports	356	0	356
Other	134	0	134
Public Safety:			
Police Protection	1,061	131	930
Fire Protection	459	0	459
Corrections	587	355	232
Protective Inspec. & Reg.	161	110	51
Environmental & Housing:			
Nat. Resource, Parks & Rec.	969	315	654
Sewage	723	0	723
Other Sanitation	305	0	305
Housing & Urban Renewal	251	2	249
General Administration:			
Financial Administration	600	197	403
General Control	646	129	517
General Public Buildings	250	53	197
Interest on General Debt	1,676	264	1,412
Other General Expenditures	1,017	515	502
GENERAL EXPENDITURE, TOTAL	\$29,755	\$10,437	\$19,318

Source: U.S. Bureau of the Census, *Governmental Finances in 1983-84* (Series GF84, No. 5, Issued October 1984)

*Total excludes transactions between state and local governments to avoid double-counting.

Local Governments Ignore Economic Slowdown

Texas' private sector was hard hit by the economic slowdown in 1983; many companies laid off employees, encouraged early retirement or cut salaries as budgets had to be tailored to sliding incomes. The state government was also impacted as state revenue growth slowed in 1983, forcing the legislature and state agencies to adjust to budget realities.

But Texas' local governments rolled right along maintaining steady revenue growth—even more than enough to offset an increasing population. In the aggregate, local governments had tax and other income equal to \$475 per capita in 1979, and that income grew at a steady clip right thru the 1983 decline to a 1984 level of \$850 per capita—a 79% increase (see Figure 3). The fact that many taxpayers were not able to keep pace apparently made little difference.

State government income, in contrast, rose 47% from 1979 to 1984 (\$553 per capita to \$810), with a significant 1983 drop and a 1984 rebound. (That rebound reflected a speedup in the collections of several taxes, so the growth in the base was less than Figure 3 indicates.)

Local Government Revenue Exceeds State

Texas' 4,000 local governments raise more in general revenue than does the state. In 1984, \$13.6 billion was raised at the local level; \$13.0 billion at the state level. The federal government provided another \$4.4 billion. These figures exclude local utility system receipts, but the state number includes income constitutionally dedicated to the permanent school and university funds.

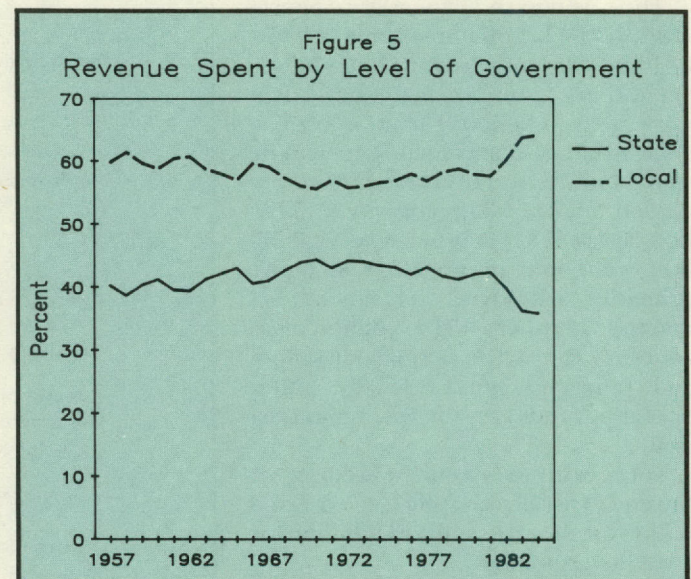
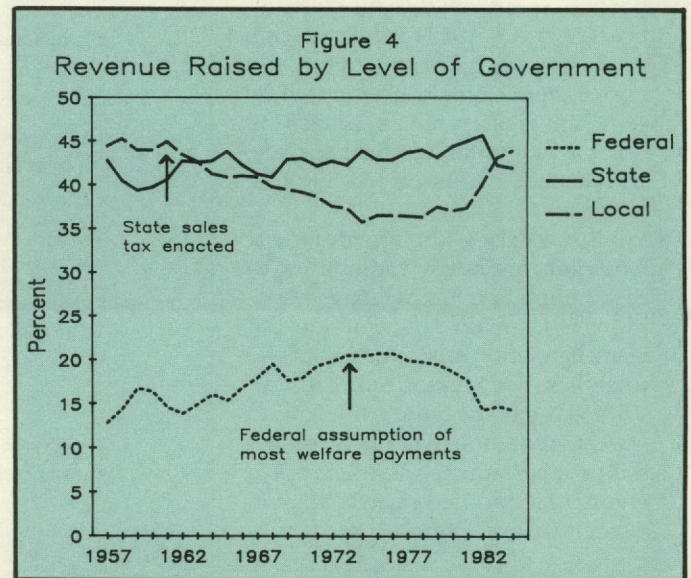
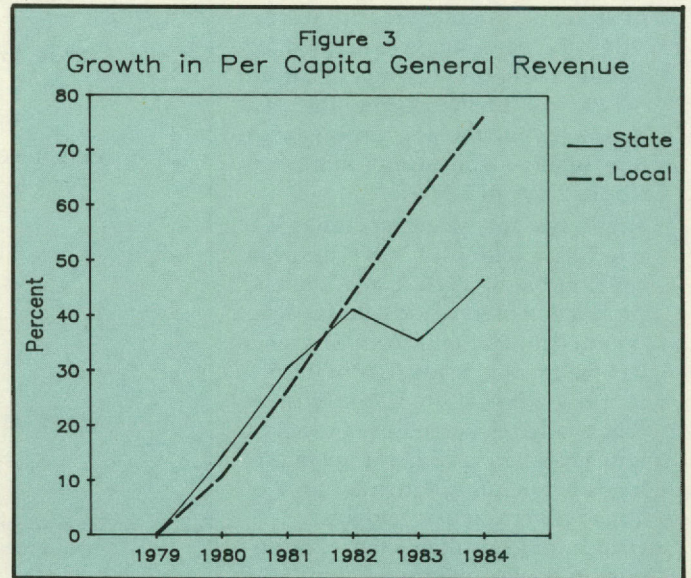
Before 1964, local funds traditionally exceeded state general revenues. Enactment of a state sales tax combined with severance tax growth brought state revenues above the local government total where they remained until 1983 (see Figure 4). During the 1980s recession, state revenue sources were severely affected, and local revenue again exceeded state totals in 1983 and in 1984.

Spending Decisions Increasingly Local

Local governments, in addition to their own revenue sources, receive both state and federal aid. In 1984, for example, local governments received \$5.4 billion from the state (mostly to local school districts) and \$929 million from federal sources. This means that local governments control most of the total state-local spending (see Figure 5).

The combination of slowed state revenue growth, rising local government income, and increased state aid to local governments, means that the gap between funds directly expended by the state and those disbursed locally has widened. In 1984, the split was 64.9% local and 35.1% state.

The bottom line is that taxpayers concerned with increasing government expenditures can start close to home with trying to find ways to bring local spending under control.



State Taxes Up \$1.6 Billion After Tax Increase

Texas state tax revenue in fiscal year 1985 totaled \$11.5 billion, a \$1.6 billion increase over FY 1984. A major portion of that increase resulted from the \$1.2 billion of tax hikes enacted by the special session in 1984 to fund public schools and highways. The raw figures also are misleading because the laws were changed to accelerate the collection of \$313.5 million in FY 1984 instead of 1985 and to collect \$125.8 million in FY 1985 instead of FY 1986.

Adjusting for these changes, the state tax base increased 4.9% last year and tax revenue grew 16.3%. The 4.9% increase in the state tax base compares with 6.5% growth in FY 1984 and with a 1.7% decline in FY 1983.

Stability of state revenue is aided by the use of a variety of different tax resources. While most individual taxes recorded growth in 1985, there were a few declines (severance taxes and hunting-fishing licenses).

- Revenue from the oil severance tax in 1985 was down by 7.2% or \$80 million from the previous year. The tax is imposed at the rate of 4.6% of the value of production. Although

production continued to decline, the revenue loss primarily resulted from lower oil prices. The drop in revenue was about the same as the \$70 million decline the previous year but is in sharp contrast to the 1981 growth of more than one half billion dollars that resulted from rapid escalation of oil prices.

- Natural gas severance tax revenue was up slightly in 1985, growing by 2.5% or \$27 million.

Oil and gas severance taxes, nevertheless, accounted for 18.9% of total state tax revenue in 1985. While that percentage was down slightly from the peak of 26.8% in 1981, the proportion contributed by severance taxes in 1985 is the same as the percentage a decade ago. The overall impact of severance tax revenue upon the state's budget is even less because 40% of total general-governmental revenue is provided by nontax sources.

- Motor fuels tax revenue was up by \$455 million in 1985 or 85.6%. The doubling of the tax rate from 5 cents to 10 cents a gallon provided \$420 million of the additional revenue.

- Revenue from the general sales tax was up by \$407 million or 10.8%. The tax rate was increased from 4% to 4 1/8% on October 2, 1984, which provided an additional \$84 million in 1985. The tax base also was enlarged to include cigarettes, amusements, repairs, laundry, etc. to provide another \$219 million in 1985.
- Motor vehicle license tax revenue increased by \$179.5 million or 50.7%. Motor vehicle license fees also were increased by the legislature in 1984, and the higher fees accounted for \$154 million of the total increase in 1985.
- The motor vehicle sales and rental tax grew by \$177.5 million, producing a total of \$895 million, 24.7% more than 1984. The rate was increased from 4% to 5%, yielding an additional \$160 million in 1985.
- Insurance tax rates and the tax base were changed and an estimated \$141 million of revenue ordinarily due in FY 1985 was accelerated and paid in FY 1984. The tax increase itself was estimated to

Table 4
Revenue From Major State Taxes
(Millions of Dollars)

Source	Tax Revenue		Increase		% Growth of Tax Base
	1984	1985	Amount	Percent	
General Sales Tax	\$3784.8	\$ 4191.8	\$ 407.0	10.8%	6.6%
Gas Production	1095.5	1122.8	27.3	2.5	-6.1
Oil Production	1118.6	1038.5	-80.1	-7.2	-7.6
Motor Fuels	531.7	986.9	455.2	85.6	5.7
Motor Vehicle Sales	717.5	895.0	177.5	24.7	3.7
Corporation Franchise	630.1	877.5	247.4	39.3	14.7
Motor Vehicle License	354.3	533.8	179.5	50.7	7.3
Insurance Companies	376.3	381.2	4.9	1.3	29.6
Tobacco Products	340.7	374.1	33.4	9.8	5.8
Alcoholic Beverage	305.8	358.8	53.0	17.3	5.5
Utilities Tax	300.0	325.6	25.6	8.5	12.4
Inheritance	97.5	147.7	50.2	51.5	51.4
Hotel and Motel	44.6	60.7	16.1	36.1	10.6
Driver's License	32.9	36.3	3.4	10.3	10.4
Hunting-Fishing Lic.	24.6	22.2	-2.4	-9.8	-9.5
Other Taxes	103.3	111.7	8.4	8.1	5.7
Total	\$9,858.2	\$11,464.6	\$1,606.4	16.3%	4.9%

Source: Compiled by Texas Research League from revenue reported by state comptroller and using Census Bureau's definition of taxes.

produce an additional \$26 million. Finally, \$45 million of \$100 million paid under protest in earlier years was transferred to the total 1985 revenue.

- The franchise tax that corporations pay for doing business in Texas was increased from \$4.25 to \$5.25 per \$1,000 of capital and surplus. The minimum tax was raised from \$55 to \$68. The corporation franchise tax produced \$877.5 million in 1985, an increase of 39.3%, which primarily was due to the rate increase. The tax base is estimated to have grown 14.7%.
- The hotel & motel occupancy tax registered an increase of \$16.1 million, or 32.1%, \$11.4 million of which was attributable to the rate increase from 3% to 4%.
- Inheritance tax revenue was up 51.5% or \$50.2 million without any change in rates or tax base.
- Tax rates on alcoholic beverages, which were increased by 20%, pro-

duced \$358.8 million in 1985, up 17.3% over the prior year.

State Taxes Pass \$11 Billion Level

As detailed in Table 4, Texas state tax revenue in 1985 totaled \$11.5 billion. During the last decade, tax receipts have grown more than three-fold from \$3.6 billion in 1975.

State governments impose a wide variety of taxes, fees, and charges. The Census Bureau defines taxes as "Compulsory contributions exacted by a government for public purposes. . . ." Taxes imposed by other states can be compared under this common definition, and the figures used in this article follow the Census Bureau's classification.

The state comptroller's annual report tends to rely upon whether or not the legislature called the charge a "tax" in the statute. Consequently, a variety of licenses and fees, such as motor vehicle licenses, are counted as taxes by

the Census Bureau but not by the comptroller. Under that legalistic definition, the comptroller reported state taxes totaling \$ 10.7 billion in 1985—an increase of \$1.4 billion from the previous year.

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