



LEGISLATIVE BUDGET BOARD

Modeling a Comparison of Texas Sales, Franchise, and Property Tax Reduction Proposals with REMI Tax-PI

September 2015

Fiscal Background

- Texas bi-annual budget: Legislature meets January – May of odd numbered years to establish appropriations for following 2 years.
- January 2015: Beginning of 84th Legislative Session
 - State Revenue Collections > Forecast for 4 consecutive fiscal years, 2011- 2014
 - 2014-15 Estimated Ending Certification Balance = \$7.5 billion (~7.2% of estimated biennial General Revenue collections)
 - Numerous proposals for various tax reductions

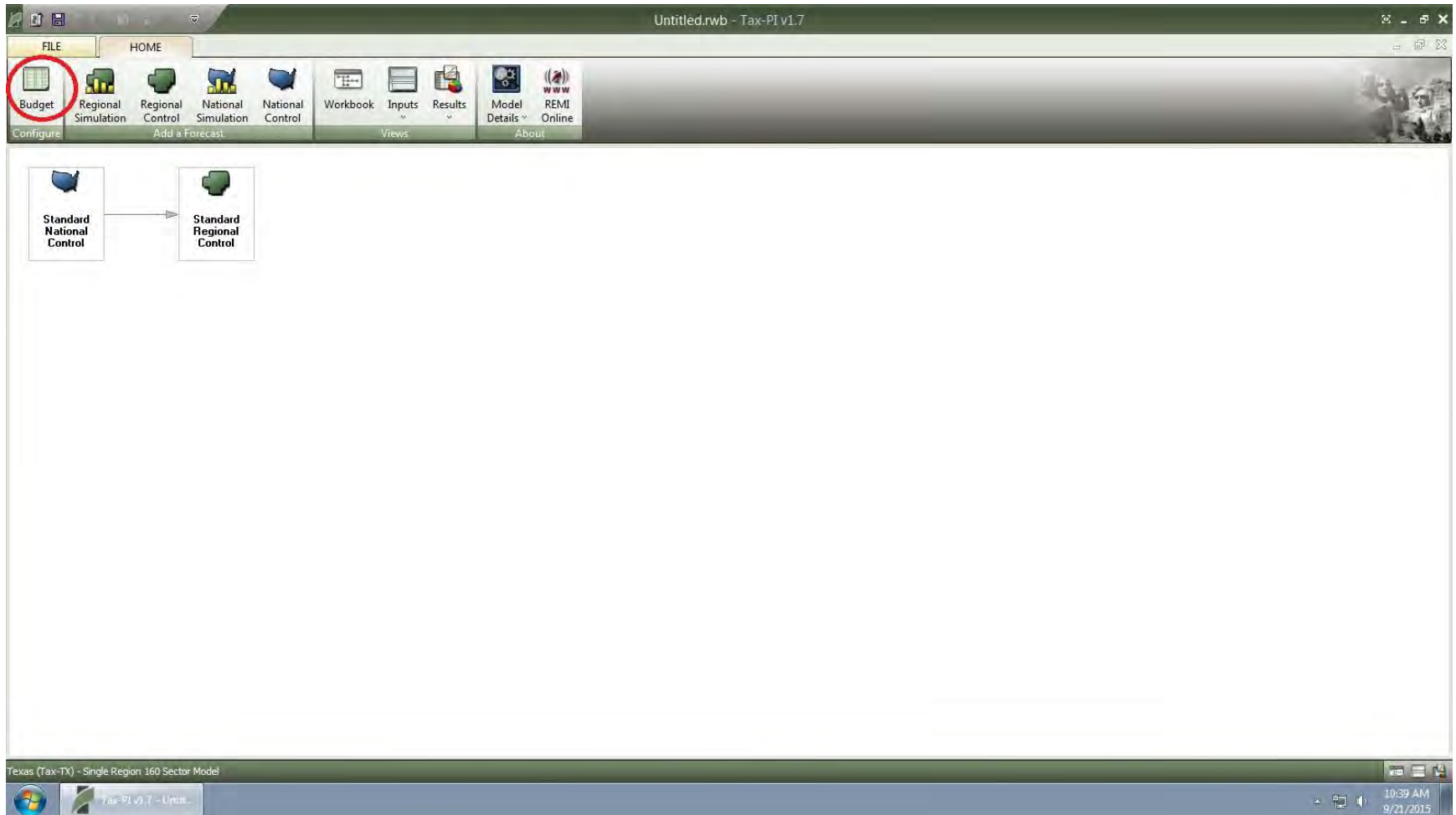
LBB Dynamic Analysis

Texas Government Code:

“The (LBB) shall prepare a dynamic fiscal impact statement (DFIS) for each bill... that raises or lowers the rate or amount of a tax or fee... (by) at least \$75 million annually.”

“The DFIS must, based on dynamic scoring principles, project for (a) five-year period... the estimated fiscal and economic impacts of raising or lowering the rate or amount of the tax or fee...”

REMI Tax PI



REMI Budget Calibration

Budget Calibration - 84R CS HB 1 Budget with FSP and Surplus

Options
 Start of Fiscal Year: September
 Units: Nominal \$ (000s)
 Expenditures Determined By: Demand

Economic Indicator
 Select an economic indicator for the budget item. The growth rate of the economic indicator will be used to forecast the budget item.

Revenues
 Display Years: 2014 to 2017

Revenue Name	FY2014	FY2015	FY2016	FY2017
Sales Taxes - Consumer	16020640	17152118.33	17579714.93	18694482.76
Sales Taxes - Business (Agriculture)	54771	58142.774	59592.254	63371.128
Sales Taxes - Business (Mining)	2108700	1715211.833	1757971.493	1869448.276
Sales Taxes - Business (Utilities and Transportation)	1533600	1598926.285	1638786.985	1742706.02
Sales Taxes - Business (Construction)	1506214	1744283.22	1787767.62	1901133.84
Sales Taxes - Business (Manufacturing)	1122814	1308212.415	1340825.715	1425850.38
Sales Taxes - Business (Trade)	1259743	1482640.737	1519602.477	1615963.764
Sales Taxes - Business (Information)	848957	872141.61	893883.81	950566.92
Sales Taxes - Business (FIRE)	876343	755856.062	774699.302	823824.664
Sales Taxes - Business (Other Services)	2053928	2383853.734	2443282.414	2598216.248
Motor Vehicle Rental Taxes	256626	265892	275733	287569
Motor Vehicle Sales Taxes	3953327	4356499	4622686	4922763
Motor Fuels Taxes	3315952	3402711	3480567	3538919
Insurance Taxes	1947908	2040579	2086243	2205775
Natural Gas Production Taxes	1899582	1613458	1585004	1647091
Cigarette and Tobacco Taxes	1342455	1409728	1260697	1355901
Alcoholic Beverage Taxes	1053231	1125767	1181047	1244533
Oil Production Taxes	3874071	2763386	2741471	2947852
Utility Taxes	478189	470400	479144	490035
Hotel Occupancy Tax	485385	530870	559000	592000
Other Taxes	267854	243954	203036	208547
Federal Income	34266043	37451318	37973530	34963049
Licenses, Fees, Fines, and Penalties	8497084	9502872	9669675	7117780
Interest and Investment Income	1463131	1265690	1320905	1449256
Lottery	1878112	1892673	1896265	1899864
Sales of Goods and Services	262341	631702	431945	410490
Settlement of Claims	575202	541295	538737	534685
Land Income	1863364	1367876	1297711	1349488
Contribution to Employee Benefits	87	87	87	87
Other Revenue Sources	5144365	5272993	5403958	5701639
Franchise Tax - Agriculture	14204.33	13504.13002	14233.53857	14490.51411

Revenue Details
 Sales Taxes - Consumer
 Economic Indicator: Personal Consumption Expenditures

	Units	All Years
Personal Consumption Expenditures	Percent	0
Property Income	Percent	0
Personal Dividend Income	Percent	0
Personal Interest Income	Percent	0
Rental Income of Persons	Percent	0
Net Earnings by Place of Residence	Percent	100
Personal Consumption Expenditures	Percent	100
Demands	Percent	100
Furniture and furnishings	Percent	100
Household appliances	Percent	95
Glassware, tableware, and household utensils	Percent	100
Tools and equipment for house and garden	Percent	100
Video, audio, photographic, and information processing equipment and media	Percent	10
Sporting equipment, supplies, guns, and ammunition	Percent	100
Sports and recreational vehicles	Percent	42
Musical instruments	Percent	100
Jewelry and watches	Percent	100
Therapeutic appliances and equipment	Percent	100
Books, educational and recreational	Percent	100
Luggage and similar personal items	Percent	100
Telephone and facsimile equipment	Percent	100
Food and nonalcoholic beverages purchased for off-premises consumption	Percent	8
Alcoholic beverages purchased for off-premises consumption	Percent	100
Food produced and consumed on farms	Percent	0
Men's and boys' clothing	Percent	95
Women's and girls' clothing	Percent	95
Children's and infants' clothing	Percent	95
Other clothing materials and footwear	Percent	95
Motor vehicle fuels, lubricants, and fluids	Percent	88
Fuel oil and other fuels	Percent	100
Pharmaceutical and other medical products	Percent	0
Recreational items	Percent	100
Household supplies	Percent	100

OK Cancel

REMI Budget Calibration

Budget Calibration - 84R CS HB 1 Budget with FSP and Surplus

Options

Start of Fiscal Year: September
 Units: Nominal \$ (000s)

Expenditures Determined By: Revenues Demand

Policy Variable: Select a policy variable to associate with the budget item. When a policy variable change is made to this budget item, the associated model variable will automatically be changed. Select a variable that best represents how this budget category works. For example, a sales tax on consumer goods would be well represented by the Consumer Price policy variable.

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Revenue Details

Sales Taxes - Consumer

Policy Variable: Consumer Price (amount)

Indicator	Policy Variable	Rate Info	Units	All Years
	Consumer Price (amount)			
	Production Cost (amount)			
	Capital Cost (amount)			
	Personal Taxes (amount)			
	State Taxes with Federal Offset (amount)			
	State Taxes with Marginal Propensity to Consume (amount)		Percent	0
	State Taxes with Federal Offset and Marginal Propensity to Consume (amount)		Percent	0
	Electricity (Commercial Sectors) Fuel Cost (amount)		Percent	100
	Furniture and furnishings		Percent	100
	Household appliances		Percent	95
	Glassware, tableware, and household utensils		Percent	100
	Tools and equipment for house and garden		Percent	100
	Video, audio, photographic, and information processing equipment and media		Percent	10
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Expenditure Name	FY2014	FY2015	FY2016	FY2017
Business & Workforce Development & Regulation	2206982.074	1804955.54	1965305.559	1520025.638
Employee Benefit Services	5662263.354	7010665.629	6494198.252	6767571.34
Family & Nutrition Services	5632454.839	5830367.847	6089776.572	6157492.14
Health Care - Acute Care Services	22546251.154	25848733.05	27544060.85	27786161.56
Health Care - Disease Prevention, Treatment, & Resea	2682759.876	2640136.867	2666601.45	2655964.303
Health Care - Rehabilitation, Disability, and Long Term	6511162.589	5204977.516	4549892.2	4613717.956
Higher Education Instruction, Financial Aid, & Research	7024497.417	6978565.709	7459224.169	7391086.141
Incarceration & Supervision	2717257.252	2715936.892	2926552.171	2923833.791
K-12 Education Instruction	23391580.051	23161751.76	24635386.98	24473527.61
Legal Services and Law Enforcement	1169516.953	1272598.053	1329459.923	1299956.454
Local Government & Community Service	2162686.651	1634029.864	1493571.483	1109600.315
Natural Resources Management & Regulation	1130227.05	1220197.425	1193618.633	1136483.32
Service Eligibility & Coordination	1385851.139	1449534.734	1451531.355	1456723.89
State Government Administration & Support	4471092.675	4387829.25	4292584.716	4116292.496
Transportation Infrastructure & Support	10580194.559	12194729.73	12318771.69	12018774.79
Economic Stabilization Fund	3480160	2432548	2394787	2596138
FSP Hold Harmless	0	0	0	0

Expenditure Details
 K-12 Education Instruction
 Economic Indicator: Population (1 Year Age Cohorts)
 Time Series Include All

Details	Units	All Years
Age 0	Percent	0
Age 1	Percent	0
Age 2	Percent	0
Age 3	Percent	0
Age 4	Percent	0
Age 5	Percent	100
Age 6	Percent	100
Age 7	Percent	100
Age 8	Percent	100
Age 9	Percent	100
Age 10	Percent	100
Age 11	Percent	100
Age 12	Percent	100
Age 13	Percent	100
Age 14	Percent	100
Age 15	Percent	100
Age 16	Percent	100
Age 17	Percent	100
Age 18	Percent	100
Age 19	Percent	0
Age 20	Percent	0
Age 21	Percent	0
Age 22	Percent	0
Age 23	Percent	0
Age 24	Percent	0
Age 25	Percent	0
Age 26	Percent	0
Age 27	Percent	0

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Tax Reduction Proposals

Compare equal revenue loss (\$2 billion per year) for 4 proposals:

- Increase resident homestead exemption for School District Property Taxes
 - No state Property Tax
 - State reimburses School Districts for lost revenue
- Decrease Franchise Tax rate
- Increase Franchise Tax total revenue exclusion
- Decrease Sales Tax rate

Issue #1: Structural vs Cyclical Surplus

- REMI economic forecast and budget calibration: August 2014
 - 2014 Annualized Q3 Texas GSP ↑ 10.6%
 - Annualized Employment Growth ↑ 3%
 - Oil Prices ≈ \$100 bbl; Texas YoY Oil Production ↑ ≈ 600 Mb/d
 - Tax PI predicts Structural Surplus
- Model Runs on Tax Reductions: February 2015
 - Oil Prices ↓ 50%, Oil Production still growing, but slower pace
 - Effects on Texas economy highly uncertain? Surplus structural or cyclical?
- Solution:
 - National Simulation w/ Output declines in Mining Sector and Consumer/Business Price declines for Petroleum related products
 - Create “Cyclical Surplus” revenue variable

Issue #2: Balanced Budget Requirement

- Texas has “Pay as You Go” balanced budget requirement
 - Legislature cannot appropriate more General Revenue Related funds than Comptroller of Public Accounts forecasts will be available.
- Not the same as requiring Expenditures \leq Revenue
 - Legislature can appropriate \$ amount of fund balances in Dedicated accounts within GR Fund without appropriating the actual fund balances
 - 58% of predicted \$7.5 billion ending balance = dedicated account balances
- Tax PI balanced budget feature does not take balances into account.
- Solution:
 - Create “GR-D Balance” revenue variable (similar to Surplus variable)
 - Allows some level of tax cuts w/o forced spending cuts by Tax PI balanced budget feature.

Issue # 3: State/Local Budget Interaction

- No Local Govt. spending/revenue variables in model.
- Property Tax Reductions:
 - State mandates school districts reduce property taxes
 - State reimburses school districts through school funding formulas
- Local reimbursement = \uparrow State Expenditure
 - However, Δ Total Education Spending = 0
- Solution:
 - Create spending variable w/ no link to economic indicators or policy variables
 - \downarrow Consumer Spending on Imputed rent of owner-occupied housing
 - \uparrow Consumer Reallocation by equal amount (some saved, some spent in other consumption categories)

Issue #4: Alternate Distribution of Benefits

- Requested comparison: Equal amount of revenue loss for 2 different franchise tax reduction proposals.
- Tax benefits of 2 proposals have different distribution across industries, across size of firms, and across types of firms (in-state vs. out-of state and corporations vs partnerships vs sole props).
 - Increase “no tax due” threshold from \$1 million total revenue
 - All of \$ tax benefit to small, mostly in-state taxpayers
 - Decrease franchise tax rate
 - Most of \$ tax benefit to large multi-state firms
- Tax PI: no ability to model alternate distributions of a tax reduction.
- Solution:
 - Create sales and franchise revenue variables for each NAICS industry
 - Use distribution of franchise tax paid by industry size to proportionally allocate tax benefits



LEGISLATIVE BUDGET BOARD

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