



From the office of Texas Workforce Commission

Chairman Tom Pauken

Opinion/Editorial

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The Impact of Declining Sales Tax Revenues in Texas By Tom Pauken

This past week, the Texas Comptroller's office released the latest sales tax collection figures. December sales tax collections in Texas were down 11.6 percent compared to the same period last year. This follows ten straight months of declines in sales tax revenue statewide since February 2009. Sales tax revenues are not only an important indicator of the health of Texas' energy, retail and construction industries, but also are an important source of revenue for state and local governments in Texas. They provide \$44 billion, or 57 percent, of state tax revenue and about a quarter of the overall funding of state government.

With much of the federal stimulus dollars going to increased government spending, a part of that has trickled down to state and local governments. In 2009, federal funds comprised a little more than 30 percent of our state government's budget. In this fiscal year, this is expected to rise to 41.9 percent, then fall back to 29.9 percent when \$12.1 billion in federal stimulus funds are removed in 2011.

Fortunately, Texas has been fiscally prudent in recent years, unlike other large states which went on spending sprees during the boom years and now face massive budget deficits. Gov. Perry and Texas' legislative leaders worked together in the 2009 session of the Texas Legislature to pass a balanced budget while setting aside money for a "rainy day fund" just in case the national economy worsened. And, it turned out that we needed that rainy day fund as Texas feels the effects of the worst national recession since the Great Depression.

Just two months into our 2010 fiscal year, Texas is more than \$1 billion behind Comptroller Susan Combs' original budget estimate. If this trend continues, there will not be sufficient funds set aside in the rainy day fund to make ends meet in 2011. That's why Gov. Perry and our state legislative leaders are asking agency heads to come up with plans to cut five percent of their budgets in order to make sure the state budget is balanced in 2011.

That is a process we are currently engaged in at the Texas Workforce Commission (TWC). It is not an

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impossible task. In 2003, Gov. Perry and our Texas legislators faced a \$10 billion prospective deficit. They cut spending and successfully balanced the budget without raising taxes.

Many local governments in Texas have not been as prudent as our state leaders in preparing for these difficult economic times. The City of Houston spent \$1.5 billion more than it brought in from 2004 to 2008. It made up that difference by issuing long-term revenue bonds and borrowing from its employee pension funds, endangering their future solvency. The problem is that the high debt levels in Houston were accumulated during good economic times. With tax revenues declining, it is likely that Houston's fiscal problems will get worse over the next few years, and Houston's municipal employees could be left holding the bag. The City of Dallas faces a similar problem as it overspent during the boom years. It has had to furlough employees, among other measures taken, in order to balance its budget this year.

I recently was in New York where the state government is refusing to write checks to local school districts because the Governor says that the state is insolvent. The governor of California has admitted that his state is effectively bankrupt and has gone to Washington looking for yet another bailout. Many municipalities across the country are, for all practical purposes, bankrupt.

Texas and our local communities are in much better financial shape than comparable governments in most of the rest of the nation. However, we need to heed the lessons of what is happening elsewhere and tighten our belts before we wake up to a set of unpleasant surprises.

With national unemployment continuing to be at double-digit levels and the American consumer worried about what the future holds, don't expect a sudden reversal of these trends of declining sales tax revenues and lower property values. It is a time for our elected officials at every level of government to figure out how to do "more with less."

Tom Pauken is the Chairman of the Texas Workforce Commission

Media Contact: Ann Hatchitt (512) 463-8556

The Texas Workforce Commission is a state agency dedicated to helping Texas employers, workers and communities prosper economically. For details on TWC and the programs it offers in unison with its network of local workforce development boards, call (512) 463-8556 or visit www.texasworkforce.org.