

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATURE 4TH CALLED SESSION - 2004

May 1, 2004

TO: Honorable Kent Grusendorf, Chair, House Committee on Public School Finance, Select

FROM: John Keel, Director, Legislative Budget Board

IN RE: HJR1 by Grusendorf (Proposing a constitutional amendment providing for funding public education, providing for school district property tax rate limitation and reduction, authorizing a school district ad valorem tax for educational program enrichment, creating the Texas education fund, dedicating certain sales and use tax revenue to funding public education, authorizing the legislature to establish a five percent limit on annual increases in the appraised value for ad valorem tax purposes of residence homesteads and other owner-occupied residential real property, and authorizing the state to operate video lottery games at racetracks and on Indian lands.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HJR1, Committee Report 1st House, Substituted: a negative impact of (\$85,275) through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2005	(\$85,275)
2006	\$0
2007	\$0
2008	\$0
2009	\$0

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>School Districts</i>
2005	(\$85,275)	\$0
2006	\$0	(\$4,864,412,517)
2007	\$0	(\$5,127,188,081)
2008	\$0	(\$5,344,068,137)
2009	\$0	(\$5,581,344,763)

Fiscal Analysis

The resolution would propose a constitutional amendment relating to the funding of public education. Section 1 would amend the Texas constitution to allow the state to operate video lottery games at racetracks and on Indian lands. Net revenue generated from video lottery terminals at racetracks would be distributed in the proportion of 60 percent to the state and 40 percent to racetracks. Net revenue from video lottery terminals operated by Indian tribes on Indian lands would be distributed with "not less than 25 percent of net revenue" to the state. The revenue generated would be dedicated solely to fund public education.

Section 2 would amend the Texas Constitution to require an amount of general revenue equal to a third of "available state revenue" in excess of Comptroller's previous Biennial Revenue Estimate to be used to reduce the rate of school districts' maintenance tax as provided by general law. Available state revenue would be defined as state revenue from any source other than those constitutionally dedicated or federal funds.

Sections 3 and 4 would amend Article VII to limit the school maintenance tax to \$1.05 per hundred dollars of taxable property and provide that the limitation was not a state ad valorem tax for purposes of Section 1-e, Article VIII. The Legislature could allow schools to impose an enrichment tax of not more than \$0.10. The voters in the school district would have to approve the imposition of the maintenance and enrichment taxes before they could be imposed. In addition, the Legislature would be allowed to create junior college districts, with the specific exclusion of school districts under this authority. The junior college districts could not impose property taxes without the approval of voters. Taxes approved before November 2, 2004 would not be affected.

Section 5 would create the Texas Education Fund, which would consist of certain revenue generated by sales and use taxes imposed by a political subdivision of the state, as well as other funds transferred or dedicated by general law. The new fund could be appropriated only for the purposes of public education.

Sections 6 and 7 would change the percentage by which the Legislature could limit the average annual growth in appraised value for ad valorem tax purposes to 5 percent or greater, from the current limit of 10 percent or greater. In addition, they would expand the type of property subject to the limitation from homesteads to all residential real property used primarily for residential purposes by the owner. The limitation would take effect on January 1 of the year following the year that the owner qualified the property for this purpose and it would expire on January 1 of the year following the year in which the property no longer so qualified. The limitation would take effect January 1, 2005, and the Legislature would be authorized to provide for the continuation of the limitation for surviving spouses.

Section 8 would add a new section to Article VIII of the Texas Constitution to require net revenue derived from the imposition of a sales and use tax by a political subdivision of the state on a taxable item that became subject to the tax after December 31, 2004 to be deposited to the credit of the Texas Education Fund.

The proposed amendment would be submitted to voters at an election to be held November 2, 2004.

Methodology

With the exception of Section 3, this resolution, in and of itself, would have no fiscal impact on the state. If enabling legislation were enacted, however, there would be a fiscal impact on the state and units of local government.

Section 2 would define "available state revenue" in a manner inconsistent with current statute and practice. Current law and practice exclude dedicated revenue sources, trust funds, and certain other sources from revenue available for certification, while including certain federal funds and constitutionally-dedicated sources. Under this section, dedicated sources such as college tuition, court-controlled oil overcharge moneys, bond funds, and lottery prize funds could potentially be drawn into the calculation of the required set-aside.

In Section 3, the reduction of the maximum maintenance and operations (M&O) tax rate to \$1.05 per hundred dollars of taxable property would be self-enacting. Most school district M&O rates would decrease, causing a reduction in property tax revenue to school districts. This estimate is based on 2004 tax collection information school districts reported to the Texas Education Agency and projected for 2005 and beyond based on estimated changes in school district property values.

State revenues from multiple sources designed to replace local school district property tax reductions are reflected in the fiscal note for House Bill 1, 1st Committee Report, Substituted.

Note: This legislation would do one or more of the following: create or recreate a dedicated

account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source.

The cost of publication would be \$85,275.

Local Government Impact

The impact on school districts is described above.

Source Agencies: 304 Comptroller of Public Accounts, 362 Texas Lottery Commission, 701 Central Education Agency

LBB Staff: JK, JO, SD, WP