

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 2, 2003

TO: Honorable John Whitmire, Chair, Committee of the Whole Senate

FROM: John Keel, Director, Legislative Budget Board

IN RE: **SJR1** by Shapiro (Proposing a constitutional amendment to provide financial support for public education by creating the Texas education fund, authorizing a state property tax, increasing the state general sales and use tax rate, expanding the general sales and use tax base to include certain services, increasing the state motor vehicle sales and use tax rate, abolishing the school district property tax for maintenance and operations purposes, and authorizing a school district property tax for the purpose of educational enrichment.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SJR1, As Introduced: a positive impact of \$16,412,431,574 through the biennium ending August 31, 2005.

The cost for publication of the resolution is \$85,275.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	\$634,703,180
2005	\$15,777,728,394
2006	\$16,282,455,427
2007	\$16,829,681,507
2008	\$17,396,305,970

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from GENERAL REVENUE FUND 1	Probable Revenue Gain/(Loss) from New Texas Education Fund 193	Probable Revenue Gain/(Loss) from STATE HIGHWAY FUND 6	Probable Revenue Gain/(Loss) from School Districts
2004	(\$89,938,973)	\$729,426,211	(\$76,269)	\$0
2005	(\$956,123,981)	\$16,742,285,801	(\$936,978)	(\$15,849,000,000)
2006	(\$986,754,573)	\$17,276,652,879	(\$960,733)	(\$16,165,980,000)
2007	(\$1,032,530,724)	\$17,869,651,245	(\$985,739)	(\$16,489,299,600)
2008	(\$1,078,896,015)	\$18,482,640,999	(\$1,010,495)	(\$16,819,085,592)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from <i>Cities</i></b>	<b>Probable Revenue Gain/(Loss) from <i>Counties</i></b>	<b>Probable Revenue Gain/(Loss) from <i>Transit Authorities</i></b>	<b>Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND 1</i></b>
2004	\$0	\$0	\$0	(\$4,784,058)
2005	(\$72,981,000)	(\$9,005,000)	(\$26,500,000)	(\$8,433,426)
2006	(\$75,009,000)	(\$9,256,000)	(\$27,236,000)	(\$7,442,879)
2007	(\$78,359,000)	(\$9,669,000)	(\$28,453,000)	(\$7,439,014)
2008	(\$81,843,000)	(\$10,099,000)	(\$29,718,000)	(\$7,439,014)

<b>Fiscal Year</b>	<b>Change in Number of State Employees from FY 2003</b>
2004	56.2
2005	130.0
2006	131.0
2007	131.0
2008	131.0

### Fiscal Analysis

The resolution would propose an amendment to Article VII of the Texas Constitution to: 1) create the Texas Education Fund; 2) authorize a state property tax; 3) increase the sales and use tax rate and expand the state sales and use tax base; 4) increase the state motor vehicle sales and use tax rate; 5) abolish the school M&O tax and 6) authorize a school district enrichment tax.

The resolution would authorize a local school district enrichment property tax rate not to exceed \$0.10 per \$100 of valuation to provide an enriched educational program—with voter approval. The proposed accompanying enabling legislation would limit this enrichment rate to \$0.05 for the 2005-06 school year.

The resolution would define the Texas Education Fund (TEF). (The proposed enabling legislation would establish it within the General Revenue Fund 0001.) The TEF would consist of the new statewide property tax, certain proceeds from the sales tax and motor vehicle tax, funds from the Available School Fund 0002, and other funds.

The resolution would allow the levy of a state property tax, not to exceed \$0.75 per \$100 of valuation for the support of the public free schools. It would authorize the Legislature to provide for appraisal of property, equalization of values, and collection of the state ad valorem taxes authorized by the proposed amendment. It would provide that the freeport exemption and the goods-in transit property tax exemptions would apply to state ad valorem taxes in school districts that adopted the exemptions, and it would provide that the constitutional requirement that tax bills originate in the House does not apply to the imposition of a state ad valorem tax. It would provide that appraisals for a state ad valorem tax would be performed by local appraisal districts using generally accepted appraisal standards and practices. This provision would expire at the end of the 2004 tax year.

The proposed amendment would amend Article VIII, Texas Constitution, to add sections specifying the state sales tax rate would be 7.75 percent and the motor vehicle sales tax rate would be 8.75 percent. The Legislature by general law could raise or lower these rates or modify or repeal the taxes. The state would also impose the sales tax on all services unless the Legislature by general law provided exemptions from the tax. The net revenue derived from the increased sales tax rate and the increased motor vehicles sales tax rate as well as the net revenue derived from the taxation of services as added by the proposed amendment would 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 4, 2003.

### Methodology

Enactment of this resolution replaces local maintenace and operations collections with a statewide

property tax rate of \$0.75. This produces a net property tax reduction of \$7.4 billion in 2005.

Analysis of the sales and motor vehicle sales tax changes is provided by the Comptroller of Public Accounts, except for the analysis of the Lone Star Card exemption as described below.

The fiscal implications of increasing the motor vehicle sales and use tax rate to 8.75 percent were estimated using current motor vehicle state sales tax revenue projections. Included are both the general motor vehicle sales and use tax and the seller-financed sales tax. The impact to the general revenue fund is the consequence of the current tax base contracting somewhat in response to a rise in the general price of taxable vehicles. The fiscal 2004 impacts reflect an effective date of July 1, 2004.

The fiscal implications of increasing the state limited sales and use tax rate to 7.75 percent were estimated using current state sales tax revenue projections. The impact to the general revenue fund is the consequence of the current tax base contracting somewhat in response to a rise in the general price of taxable items. The fiscal implications of expanding the sales tax base to include all services except for health care were estimated using data from the Comptroller's January 2003, *Tax Exemptions and Tax Incidence* report. The fiscal 2004 impacts—for both the rate increase and base expansion—reflect an effective date of July 1, 2004. The fiscal impacts on units of local government were estimated proportionally.

With respect to the sales tax exemption for purchases made by individuals receiving financial or nutritional assistance and utilizing an electronic benefits card (as included in SB2), the estimated fiscal implications were compiled as follows: data on the number of persons receiving assistance was obtained from the Texas Department of Human Services. This number was adjusted to reflect families and multiplied by average amount of sales tax paid per family estimated using the Comptroller's *Tax Exemption and Tax Incidence* report. The total value of sales tax paid by families receiving assistance was adjusted for the 40 percent application of the exemption, the tax exempt purchases made by or for persons not receiving assistance, and the expanded amount of sales tax (rate and base) which would be collected under the provisions of SJR 1.

Revenue gains from the sales tax base expansion to cities and counties/special districts is, according to provisions included in SB2, to be rebated in the form of property tax rate reduction. Revenue gains from the sales tax base expansion to metropolitan transit authorities (MTAs) is, according to provisions included in SB2, to be rebated in the form of an MTA sales tax rate reduction. Sales tax losses to cities, counties/special districts and MTAs reflected in the above table is due only to the response to a rise in the general price of taxable sales.

The estimated fiscal implications to general revenue reflect estimated dynamic tax feedback effects created by the increase/decrease in industry and/or individuals' tax burdens. In addition, the loss in federal income tax deductions for individuals' payments of property taxes on their homesteads was taken into account. The dynamic tax feedback effects are shown only with respect to the gain/loss incurred by the General Revenue Fund 0001.

Comptroller estimates of administrative costs are reflected in the above tables.

**Local Government Impact**

The impact to local governments is reflected in the above tables.

**Source Agencies:** 304 Comptroller of Public Accounts, 701 Central Education Agency  
**LBB Staff:** JK, SD, UP, WP