

## **BILL ANALYSIS**

C.S.H.B. 2786  
By: Paxton  
Ways & Means  
Committee Report (Substituted)

### **BACKGROUND AND PURPOSE**

Fiscal notes are prepared by the Legislative Budget Board (LBB) for each bill which authorizes or requires the expenditure or diversion of state funds for a purpose other than one provided for in the general appropriations bill. These fiscal notes are based upon an economic modeling that some classify as 'static' scoring. While some behavioral responses are included in the official estimating process, the current state of economic knowledge, including macroeconomic feedback effects, is generally not considered in determining the fiscal impact of proposed legislation. In other words, the projected gain (or loss) of revenue does not recognize the conceivable ramifications of legislation, specifically those changes to law that may increase revenue. For example, tax cuts are consistently scored as having a negative fiscal impact whereas data proves that tax cuts or free reductions generally generate more revenue.

Tax policy has a specific effect on the economic behavior of individuals and companies. Using a 'dynamic scoring' model in determining the fiscal impact of legislation would expand the range of economic impacts to include the pace of economic growth – that is, estimating the change in the aggregate level of economic output and income. The resulting fiscal note would more accurately estimate the true gain or loss of revenue the state could anticipate through enacting various pieces of legislation.

The purpose of CSH.B. 2786 would be to require the LBB to prepare a dynamic fiscal note as well as the existing fiscal note when a bill raises or lowers a tax or fee.

### **RULEMAKING AUTHORITY**

The bill does not expressly grant any rulemaking authority to a state officer, institution, or agency.

### **ANALYSIS**

SECTION 1 inserts a new Section 314.005, Government Code.

Subsection (a) directs the Legislative Budget board to prepare a dynamic fiscal impact statement for each bill or joint resolution or constitutional amendment that raises or lowers a tax or fee by more than \$100,000,000.

Subsection (b) requires the dynamic fiscal impact statement to be prepared for a five year period, be based on dynamic scoring principles, and estimate the impact on receipts and the cost of programs.

Subsection (c) defines 'dynamic scoring principles' to include a number of specific factors.

Subsection (d) provides that the dynamic fiscal impact statement is to be attached to the bill or resolution immediately following the fiscal note attached under Section 314.003.

SECTION 2 amends Section 314.004(c) is amended by providing for the fiscal note under that Section to be attached immediately behind the fiscal note attached under Section 314.003 or, if it is prepared, behind the fiscal note prepared under Section 314.005.

SECTION 3 is the enacting clause.

C.S.H.B. 2786 80(R)

**EFFECTIVE DATE**

September 1, 2007

**COMPARISON OF ORIGINAL TO SUBSTITUTE**

The Substitute makes corrections to the form and exact wording of the original for the purposes of technical clarity and also stipulates a \$100,000,000 floor under which dynamic analyses would not be required.