LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 10, 2007

TO: Honorable Warren Chisum, Chair, House Committee on Appropriations

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **HB3533** by Isett, Carl (Relating to the limit on the rate of growth in appropriations and to the authority of the comptroller to reduce the state sales tax rate for designated periods.), **As Introduced**

No fiscal implication to the State is anticipated in the upcoming biennium.

Currently, Article VIII, Section 22, Texas Constitution, and Chapter 316, Government Code, limits the biennial growth of appropriations from state tax revenue not dedicated by the constitution to the estimated rate of growth of the state’s economy. The bill, in conjunction with a proposed constitutional amendment, would limit the biennial growth of appropriations from all sources of state revenue except federal funds to the average rate of growth in population during the three previous fiscal biennia adjusted by the average rate of monetary inflation.

The change from a limit using the growth of personal income to one using the average rate of growth in population during the three previous fiscal biennia adjusted by the average rate of monetary inflation would be likely to reduce the allowable growth rate in appropriations for subsequent biennia. For the purpose of illustration, the estimated rate of growth of personal income used to set the 2008-09 limit was 13.11 percent, while the Comptroller's estimate of the average rate of growth in population during the three previous fiscal biennia adjusted by the average rate of monetary inflation for 2008-09 is estimated to be 9.56 percent. The fiscal impact of expanding the application of the limit to all funds, except federal funds, in subsequent biennia would depend on the composition of state revenue in those biennia.

The bill would amend Section 151.051 of the Tax Code to require the Comptroller to determine, each odd-numbered year, whether the amount of undedicated unencumbered anticipated revenue would be sufficient to permit a reduction of the sales tax rate by at least one-tenth of one percent for a period of two calendar years. If the Comptroller determined that the rate could be reduced, no later than November 1 of that year, the Comptroller would have to declare a reduced sales tax rate for the next two calendar years. The reduced rate would apply beginning January 1 of the following year through December 31 of the second following year. The Comptroller would have to monitor the revenue and, no later than November 1 of the first year of the reduced rate, determine whether to rescind the reduced rate for the second year or to allow the reduced rate to continue through the second year. For illustrative purposes, if this provision had been in effect in the current biennium given the Comptroller's forecasted unencumbered balance of approximately $1.2 billion, the sales tax rate could have been reduced 2/10ths of a percent to 6.05 percent.

The bill would take effect on the date on which the constitutional amendment proposed by the 80th Legislature, Regular Session (2007), concerning the restriction on the rate of growth of state appropriations; establishing and funding a disaster fund; funding the property tax relief fund; requiring a declaration of an emergency; and authorizing the legislature to appropriate money for tax rebates were approved by the voters. If that amendment were not approved by the voters, the bill would have no effect.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: JOB, SD, SJS