

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 30, 2007

TO: Honorable Harvey Hilderbran, Chair, House Committee on Culture, Recreation, & Tourism

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

IN RE: HB3949 by Swinford (Relating to the transfer of the Texas Commission on the Arts to the office of the governor and the dedication of certain sales and use tax and franchise tax revenue to the Music, Film, and Arts Office operating fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3949, As Introduced: a negative impact of (\$50,795,000) through the biennium ending August 31, 2009.

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
2008	(\$24,907,000)
2009	(\$25,888,000)
2010	(\$26,930,000)
2011	(\$27,895,000)
2012	(\$28,901,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Revenue (Loss) from <i>ARTS OPERATING ACCOUNT 334</i>	Probable Revenue Gain from <i>New General Revenue Dedicated Music, Film, and Arts Office Operating Fund</i>
2008	(\$24,907,000)	(\$468,000)	\$25,375,000
2009	(\$25,888,000)	(\$468,000)	\$26,356,000
2010	(\$26,930,000)	(\$468,000)	\$27,398,000
2011	(\$27,895,000)	(\$468,000)	\$28,363,000
2012	(\$28,901,000)	(\$468,000)	\$29,369,000

Fiscal Analysis

The bill creates the Texas Advisory Council on the Arts (council). The bill permits the council to make grants to promote the arts and requires the council to develop and implement policies identifying the criteria for funding recommendations.

The bill abolished the Texas Commission on the Arts and transfers the commission's powers, duties, and appropriations to the Music, Film, and Arts Office (office) within the Governor's Trusteed Programs.

The bill repeals Chapter 444, Government Code that establishes the Texas Cultural Endowment Fund (outside of the state treasury) and recreates the fund in Chapter 485, Government Code. The bill establishes the Music, Film, and Arts Office Operating Fund as a special fund within the state treasury. The bill requires interest and income earned on money deposited in the Texas Cultural Endowment Fund be transferred by the council on September 1 of each year to the Music, Film, and Arts Office Operating Fund. The bill requires sales tax amount on the purchase of taxable musical instruments be deposited to the Music, Film, and Arts Office Operating Fund. The bill requires franchise tax on revenue received from the sale of musical instruments in Texas be deposited to the credit of the Music, Film, and Arts Office Operating Fund.

The bill requires the office to develop a cultural and fine arts district program to designate districts that significantly contribute to the culture and fine arts of this state, and implement a Texas music compact disc project to promote and distribute a series of compact discs that feature the work of established and emerging Texas music artists. The bill requires all proceeds from the sale of these compact discs be deposited to the Texas Cultural Endowment Fund.

The bill permits the office to solicit donations for the Texas Cultural Endowment Fund and the Music, Film, and Arts Office Operating Fund. The bill authorizes the office to license, for a fee, the use of its name, logo and any other artwork or graphics developed by the office and requires such fees be deposited in the Music, Film, and Arts Office Operating Fund. The bill requires the director of the office to appoint investment managers for the management and investment of the Texas Cultural Endowment Fund.

Methodology

According to the Comptroller's Office, the fiscal impact of the sales tax provisions of the bill were estimated based on data of the sale of musical instruments in Texas gathered from the U.S. Census Bureau. Sales of musical instruments were multiplied by the sales tax rate and extrapolated through fiscal year 2012 to determine the loss to the General Revenue Fund. The fiscal impact of the franchise tax provisions were based on Texas musical instrument gross receipts data and application of the franchise tax calculation at a 0.5 percent tax rate. Sales tax and franchise tax loss to the General Revenue Fund is estimated at \$24.9 million in fiscal year 2008 and \$25.9 million in fiscal year 2009. This also results in a corresponding gain to the Music, Film, and Arts Office Operating Fund from the sales tax and franchise tax provisions in the bill. The bill abolishes the General Revenue-Dedicated Arts Operating Account, however it is estimated that the revenue loss to this account of \$384,000 per fiscal year from the sale of "State of the Arts" license plates and \$84,000 per fiscal year in deposits from the Cultural Endowment Fund would be reflected as a gain to the Music, Film, and Arts Office Operating Fund. Any other fees or interest earnings deposited to the Music, Film, and Arts Office Operating Fund cannot be estimated.

This analysis assumes 2008-09 amounts and FTEs appropriated to the Commission on the Arts would be transferred to the Trusteed Programs within the Office of the Governor to perform the duties associated with the implementation of the bill. However, some savings could be realized due to possible reductions in administrative costs associated with the abolishment of the Commission on the Arts and transfer of duties to the Trusteed Programs within the Office of the Governor.

The bill 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. Therefore the fund, account, or revenue dedication included in the bill would be subject to funds consolidation review by the current Legislature.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 301 Office of the Governor, 304 Comptroller of Public Accounts, 308 State Auditor's Office, 813 Commission on the Arts

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