

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

April 3, 2013

TO: Honorable Tommy Williams, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB101 by Patrick (Relating to the constitutional limit on the rate of growth of appropriations and the use of surplus state revenues.), **As Introduced**

No significant fiscal implication to the State is anticipated in the upcoming biennium. The provisions of the bill would only apply to appropriations made for the 2016-17 biennium and subsequent biennia.

The bill would amend the Government Code and the Tax Code with regard to the constitutional limit on the rate of growth of certain appropriations and the use of surplus state revenue.

The bill, in conjunction with a proposed constitutional amendment, would limit the biennial growth of appropriations from all sources of revenue other than the federal government to the sum of 1) the estimated rate of increase or decrease in the state's population during the preceding state fiscal biennium, expressed as a percentage, and 2) the estimated rate of inflation or deflation during the preceding state fiscal biennium in the prices of a set of goods determined by the Legislative Budget Board to be representative of this state's economy as a whole in that biennium, expressed as a percentage.

The bill would amend Chapter 171 (franchise tax) of the Tax Code to add new Subchapter K (surplus revenue: rebate of franchise taxes) to direct the Comptroller, if there is an unencumbered positive balance of general revenues from a preceding biennium (i.e., a surplus), to provide a rebate to each payer of this tax during that preceding biennium. Each taxpayer would be entitled to a share of that surplus, in proportion to their share of all franchise taxes paid in the biennium. SJR 10, a proposed constitutional amendment, would establish the aggregate amount of rebates available to franchise taxpayers.

Currently, Article VIII, Section 22 of the Texas Constitution 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. Section 316.002 of the Government Code, instructs the Legislative Budget Board to determine the growth of the state's economy by estimating the growth in Texas personal income.

The fiscal impact of expanding the application of the limit to appropriations from all sources of revenue other than the federal government would depend on the composition of state revenue in those biennia and appropriation decisions by the Legislature.

The change from a limit applying the growth of personal income to one applying the sum of the

estimated rate of increase in the state's population in the preceding biennium and the estimated rate of inflation during that preceding biennium in this state in the prices of a set of goods determined by the Legislative Budget Board to be representative of this state's economy as a whole would likely 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 2014-15 spending limit was 10.71 percent. The 2014-15 growth rate proposed by the bill, based on population growth plus inflation growth during 2012-13, would be 6.82 percent based on population and inflation estimates in the Comptroller's Winter 2012-13 Economic Forecast.

The Comptroller's office estimates that implementing the franchise tax rebate portion of the bill would require a one-time technology cost in fiscal year 2014 for programming maintenance and project management. Computing the fractional share of the franchise taxes to be rebated would require the hiring of two FTEs beginning in fiscal year 2015.

The provisions of the bill would only apply to appropriations made for the 2016-17 biennium and subsequent biennia.

The bill would take effect on the date on which the constitutional amendment proposed by the 83rd Legislature concerning the limitation on the rate of growth in appropriations and the use of unencumbered surplus state revenues to provide for a rebate of state franchise taxes, to reduce public school district property taxes, and to fund the state's rainy day fund takes effect. If the amendment is not approved by the voters, this bill has no effect.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS