LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

August 2, 2017

TO: Honorable Dennis Bonnen, Chair, House Committee on Ways & Means

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB285** by Murr (Relating to elimination of certain property taxes for school district maintenance and operations and providing public education funding through an increase in the state sales and use tax rate.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB285, As Introduced: a positive impact of $11,024,600,000 through the biennium ending August 31, 2019.

Additionally, there would be a negative impact of ($5,089,700,000) through the biennium ending August 31, 2021 when the provisions of the bill would be fully implemented.

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
2018	$0
2019	$11,024,600,000
2020	($1,744,700,000)
2021	($3,345,000,000)
2022	($3,843,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Property Tax - Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *Sales Tax - Foundation School Fund* 193	Probable Revenue Gain/(Loss) from *Sales Tax - State Highway Fund* 6
2018	$0	$0	$0	$0
2019	($1,509,800,000)	$0	$12,534,400,000	$1,520,200,000
2020	$1,474,400,000	($25,673,600,000)	$22,454,500,000	($1,460,400,000)
2021	($25,100,000)	($26,784,900,000)	$23,465,000,000	$38,200,000
2022	($26,200,000)	($28,337,700,000)	$24,520,900,000	$38,600,000

Fiscal Year	Probable Revenue Gain/(Loss) from *Property Tax - School Districts*	Probable Revenue Gain/(Loss) from *Sales Tax - Counties and Special Districts*	Probable Revenue Gain/(Loss) from *Sales Tax - Municipalities*	Probable Revenue Gain/(Loss) from *Sales Tax - Transit Authorities*
2018	$0	$0	$0	$0
2019	$0	($71,200,000)	($392,000,000)	($135,700,000)
2020	($22,926,000,000)	($148,900,000)	($819,900,000)	($283,600,000)
2021	($23,779,300,000)	($155,900,000)	($856,500,000)	($296,400,000)
2022	($24,662,200,000)	($162,300,000)	($895,000,000)	($309,200,000)

Fiscal Analysis

The bill would repeal Chapter 41, of the Education Code eliminating Foundation School Program (FSP) wealth equalization provisions including recapture of local school district revenue. The bill would eliminate the FSP Tier 1 local share as governed by Section 42.252 of the Education Code. The bill would eliminate Additional State Aid for Homestead Exemption and Limitation on Tax Increases, as governed by Section 42.2518 of the Education Code. The bill would eliminate the FSP State Compression Percentage. The bill would eliminate FSP Tier 1 basic allotment proration for districts with compressed rates less than the maximum compressed rate as governed by 42.101(a), Education Code.

The bill would apply beginning with the 2019-20 school year.

Additionally, the bill would amend Chapter 151 of the Tax Code, regarding limited sales, excise, and use tax, to replace school district maintenance and operations taxes reduced by the bill with the revenue from an increase in the sales tax rate to 12 percent of the sales price of the taxable item sold. The proceeds derived from the sales and use tax in excess of 6.25 percent of the sales price of the taxable item sold would be deposited to the credit of the Foundation School Fund.

The bill would make conforming amendments and repeals in the Education Code, Government Code, Insurance Code and Tax Code.

The bill would take effect January 1, 2019.

Methodology

Eliminating local school district maintenance and operations (M&O) property taxes for Tier 1, and other adjustments to the Foundation School Program made under the provisions of the bill would have a significant fiscal impact, both in terms of total entitlement generated by school districts and charter schools under the Foundation School Program, and in terms of the total amount of state aid which would be required under the provisions of the bill.

For the purpose of this analysis, the following effects to the Foundation School Program were assumed: 1) the elimination of the Tier 1 local share as governed by Section 42.252 of the Education Code; 2) the elimination of recapture revenue and all wealth equalization provisions of Chapter 41 of the Education Code; 3) the elimination of Tier 1 basic allotment proration for districts with compressed rates less than the maximum compressed rate as governed by 42.101(a), Education Code; and 4) the elimination of Additional State Aid for Homestead Exemption and Limitation on Tax Increases, as governed by Section 42.2518 of the Education Code.

Based on an analysis of the Foundation School Program model, the anticipated cost to the state of the provisions of the bill related to the Foundation School Program would be $25.7 billion in fiscal year 2020, $26.8 billion in fiscal year 2021, and $28.3 billion in fiscal year 2022.

To estimate the effect of the proposed change in state sales tax rate, the Comptroller's current estimate of sales tax revenue was adjusted to reflect the 12 percent tax rate proposed by the bill in conjunction with an expectation of reduced taxable expenditures in response to the higher tax rate, and adjusted for the effective date of the bill.

The increase in state sales tax revenue in fiscal 2019 would alter the current law estimate of Proposition 7 sales tax transfers from General Revenue to the State Highway Fund. These changes are reflected in the General Revenue and State Highway Fund columns of the above table. Additionally, there is a gain to the SHF in all years after the state sales tax rate increase attributable to sales tax collections from sales of motor lubricants. Finally, a decline in taxable expenditures in face of the higher state tax rate would result in reduced local sales tax revenue and a resulting reduction in the 2 percent fee for local sales tax collection retained by the state as General Revenue.

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

Local Government Impact

A decline in taxable expenditures in face of the significantly higher state tax rate would result in reduced local sales tax revenue. The estimated fiscal implication to units of local government is reflected in the table above.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: UP, KK, SD, SJS, AG, AH