

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: HB358 by White (Relating to supporting public education funding through an increase in the state sales and use tax rate and requiring a reduction in school district maintenance and operation ad valorem taxes; making an appropriation; increasing the rate of a tax.),
As Introduced

Estimated Two-year Net Impact to General Revenue Related Funds for HB358, As Introduced: a negative impact of (\$1,513,300,000) through the biennium ending August 31, 2019.

Additionally, the bill would result in a positive impact to General Revenue Related Funds of \$1,469,300,000 through the biennium ending August 31, 2021.

Appropriations:

Fiscal Year	Appropriation out of <i>New General Revenue Dedicated</i>
2018	\$0
2019	\$7,098,600,000

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	(\$1,842,000,000)
2019	\$328,700,000
2020	\$1,479,400,000
2021	(\$10,100,000)
2022	(\$10,200,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from General Revenue Fund 1	Probable Revenue Gain/(Loss) from New General Revenue Dedicated	Probable Savings/(Cost) from New General Revenue Dedicated	Probable Revenue Gain/(Loss) from State Highway Fund 6
2018	(\$1,842,000,000)	\$2,540,000,000	\$0	\$1,840,600,000
2019	\$328,700,000	\$4,558,600,000	(\$7,098,600,000)	(\$340,500,000)
2020	\$1,479,400,000	\$4,763,500,000	(\$4,763,500,000)	(\$1,491,400,000)
2021	(\$10,100,000)	\$4,977,600,000	(\$4,977,600,000)	\$7,000,000
2022	(\$10,200,000)	\$5,201,300,000	(\$5,201,300,000)	\$7,000,000

Fiscal Year	Probable Revenue Gain/(Loss) from Property Tax - School Districts	Probable Revenue Gain/(Loss) from Sales Tax - Municipalities	Probable Revenue Gain/(Loss) from Sales Tax - Transit Authorities	Probable Revenue Gain/(Loss) from Sales Tax - Counties and Special Districts
2018	\$0	(\$43,600,000)	(\$15,000,000)	(\$8,000,000)
2019	(\$7,098,600,000)	(\$91,100,000)	(\$31,500,000)	(\$16,600,000)
2020	(\$4,763,500,000)	(\$95,300,000)	(\$33,000,000)	(\$17,300,000)
2021	(\$4,977,600,000)	(\$99,600,000)	(\$34,500,000)	(\$18,100,000)
2022	(\$5,201,300,000)	(\$104,000,000)	(\$35,900,000)	(\$18,900,000)

Fiscal Analysis

The bill would increase the sales tax rate from 6.25 percent to 7.25 percent.

The bill would require the Comptroller to deposit an amount of revenue equal to the proceeds attributable to the portion of the tax rate in excess of 6.25 percent of the sales price of the taxable item sold to the credit of an account in the general revenue fund. The bill would require that money credited to that account may be appropriated only to the Texas Education Agency for use by the Commissioner of Education to provide property tax relief by reducing the state compression percentage under Section 42.2516 of the Education Code.

The bill would appropriate all money credited to the newly formed account for the state fiscal year beginning September 1, 2018 to the Texas Education Agency to be used by the Commissioner of Education to reduce the state compression percentage for the 2018-19 school year.

The bill would take effect January 1, 2018.

Methodology

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 7.25 percent tax rate proposed by the bill in conjunction with an expectation of reduced taxable expenditures in face of the higher tax rate, and adjusted for the effective date of the bill.

Based on information provided by the Comptroller of Public Accounts, an increase in the sales tax rate from 6.25 percent to 7.25 percent is anticipated to generate additional revenue of \$2.5 billion in fiscal year 2018, \$4.6 billion in fiscal year 2019, \$4.8 billion in fiscal year 2020, \$5.0 billion in fiscal year 2021, and \$5.2 billion in fiscal year 2022. Based on the provisions of the bill, the Comptroller would deposit this additional revenue into a newly created account within the General Revenue Fund, and the Commissioner of Education would have the appropriation

authority to use the revenue available from that account to reduce the state compression percentage.

The \$7.098 billion that the CPA projects would be transferred in fiscal years 2018 and 2019 for the fiscal year 2019 compression would reduce the compression percentage for the 2018-2019 school year from 66.67% to 43.0%. Under this assumption the compressed rate for a district that was taxing at \$1.50 in 2005 would drop from \$1.00 to \$0.645, and the maximum tax rate calculated per 45.003(d), Education Code would decline from \$1.17 to \$0.815. The ongoing cost of maintaining the 43.0% compression percentage in fiscal year 2020 and subsequent years would exceed projected revenue from the sales tax increase by approximately \$3.0 billion each year.

The increase in state sales tax revenue in fiscal 2018 and 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.

Note: 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 a 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, AM, AH