LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

April 30, 2017

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **SB1505** by Hinojosa (Relating to the application of and allocation of revenue from certain taxes imposed on certain tobacco products.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1505, As Introduced: a negative impact of ($10,880,000) through the biennium ending August 31, 2019.

Additionally, the bill will have a direct impact of a revenue gain to the Property Tax Relief Fund of $15,220,000 for the 2018-19 biennium. Any gain to the Property Tax Relief Fund will result in equal amount of savings in General Revenue used to fund the Foundation School Program.

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	($4,180,000)
2019	($6,700,000)
2020	($6,550,000)
2021	($6,280,000)
2022	($6,070,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from General Revenue Fund 1	Probable Revenue (Loss) from State Highway Fund 6	Probable Revenue Gain from Permanent Fnd Supporting Grad Ed 179	Probable Revenue Gain from Property Tax Relief Fund 304
2018	($4,180,000)	($2,170,000)	$1,080,000	$7,090,000
2019	($6,700,000)	$0	$1,240,000	$8,130,000
2020	($6,550,000)	$0	$1,110,000	$7,260,000
2021	($6,280,000)	$0	$1,230,000	$8,050,000
2022	($6,070,000)	$0	$1,100,000	$7,200,000

Fiscal Year	Probable Revenue Gain from *Nursing Faculty Loan Repayment Assistance Program*	Probable (Cost) from *Nursing Faculty Loan Repayment Assitance Program*	Probable Revenue (Loss) from *Cities*	Probable Revenue (Loss) from *Transit Authorities*
2018	$2,200,000	($2,200,000)	($420,000)	($140,000)
2019	$2,510,000	($2,510,000)	($470,000)	($160,000)
2020	$2,250,000	($2,250,000)	($440,000)	($150,000)
2021	$2,490,000	($2,490,000)	($420,000)	($150,000)
2022	$2,230,000	($2,230,000)	($400,000)	($140,000)

Fiscal Year	Probable Revenue (Loss) from *Counties & Special Districts*
2018	($80,000)
2019	($90,000)
2020	($80,000)
2021	($80,000)
2022	($70,000)

Fiscal Analysis

The bill would amend the Education and Tax Codes to dedicate certain cigar and tobacco products revenue collections to the existing Permanent Fund Supporting Graduate Education (PFSGE) and the new Nursing Facility Repayment Assistance Program Account (NFRAP) as created by the bill. The bill would define "little cigars" and tax them as cigarettes. The General Revenue Fund portion of any cigarette tax revenue increase resulting from the inclusion of little cigars would be deposited to the PFSGE (two-thirds) and the NFRAP account (one-third).

NFRAP would be an account in the General Revenue Fund, and money in the account would be appropriated to provide loan repayment assistance to eligible nursing faculty. The bill would direct 2 percent of collections from the portion of cigar and tobacco products taxes above what would be collected if the rate was 40 percent of the manufacturer's list price, not including little cigars, to the NFRAP account.

The bill would repeal Sections 61.9823(b) and 61.9826 of the Education Code, which limit nursing faculty loan repayment assistance to $7,000 per year and allow for the allocation of funds in the GR Dedicated Account - Physician Education Loan Repayment exceeding need to the Nursing Faculty Repayment Assistance Program.

The bill's provisions would not apply to loan repayment assistance awarded before the 2017-18 academic year.

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.

The bill would take effect September 1, 2017.

Methodology

This analysis was based on the *2018-19 Biennial Revenue Estimate*. The bill's changes for little cigars would significantly increase their tax rate-from the current 2 or 15 cents per pack to $1.41 per pack-and will result in a reduction in consumption of these products in Texas. Lowered consumption will reduce sales tax collections accruing to the General Revenue Fund, the State Highway Fund, and local jurisdictions. The reclassification of little cigars as cigarettes would result in reduced *cigar* tax revenue to the General Revenue Fund. However, the reclassification and effective tax rate increase of little cigars will result in increased *cigarette* tax revenue to the Property Tax Relief Fund, the Permanent Fund Supporting Graduate Medical Education, and the proposed Nursing Faculty Loan Repayment Assistance Program account. Potential revenue collections were adjusted for consumption and tax avoidance effects and for collections lags.

Although the bill does not make an appropriation, this estimate assumes that money deposited to the NFRAP will be used to provide loan repayment assistance to eligible nursing faculty.

Pursuant to Proposition 7 (2015), any sales tax collections in excess of $28 billion and less than $30.5 billion will be deposited into the State Highway Fund. Because total 2018 collections are projected to fall in that range, the 2018 revenue loss is from the State Highway Fund instead of General Revenue.

Local Government Impact

There would be a loss of sales and use tax revenue from units of local government. Estimated losses to cities, transit authorities, counties, and other special districts are displayed in the above tables.

Source Agencies: 304 Comptroller of Public Accounts
LBB Staff: UP, KK, SD