

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 24, 2019**

**TO:** Honorable Dustin Burrows, Chair, House Committee on Ways & Means

**FROM:** John McGeady, Assistant Director    Sarah Keyton, Assistant Director  
Legislative Budget Board

**IN RE: HB297** by Murr (Relating to the elimination of certain property taxes for school district maintenance and operations and the provision of public education funding by increasing the rates of certain state taxes.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB297, As Introduced: a positive impact of \$23,977,700,000 through the biennium ending August 31, 2021. This impact reflects only the increased state tax revenue in fiscal year 2021. The increased state costs associated with elimination of the Foundation School Program Tier 1 local share beginning in fiscal year 2022 would lower the positive impact to \$745,600,000 through the biennium ending August 31, 2023.

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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2020	\$0
2021	\$23,977,700,000
2022	\$384,800,000
2023	\$360,800,000
2024	\$552,100,000

**All Funds, Five-Year Impact:**

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>	<b>Probable Revenue Gain/(Loss) from School Districts</b>	<b>Probable Revenue Gain/(Loss) from Foundation School Fund - New State Tax Revenue 193</b>	<b>Probable Revenue Gain/(Loss) from Property Tax Relief Fund 304</b>
2020	\$0	\$0	\$0	\$0
2021	\$0	\$0	\$23,977,700,000	(\$1,914,500,000)
2022	(\$28,451,200,000)	(\$28,248,000,000)	\$28,836,000,000	(\$1,954,000,000)
2023	(\$30,017,600,000)	(\$29,377,920,000)	\$30,378,400,000	(\$2,094,100,000)
2024	(\$31,231,000,000)	(\$30,846,816,000)	\$31,783,100,000	(\$2,077,300,000)

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from Foundation School Fund - PTRF Revenue</b>	<b>Probable Revenue Gain/(Loss) from Municipalities</b>	<b>Probable Revenue Gain/(Loss) from Transit Authorities</b>	<b>Probable Revenue Gain/(Loss) from Counties and Special Districts</b>
2020	\$0	\$0	\$0	\$0
2021	\$1,914,500,000	(\$736,100,000)	(\$252,500,000)	(\$148,600,000)
2022	\$1,954,000,000	(\$889,600,000)	(\$305,600,000)	(\$179,800,000)
2023	\$2,094,100,000	(\$941,900,000)	(\$323,200,000)	(\$190,500,000)
2024	\$2,077,300,000	(\$989,000,000)	(\$339,600,000)	(\$199,900,000)

**Fiscal Analysis**

**ARTICLE I - School Finance and Property Tax**

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 make conforming changes in the truth-in-taxation provisions of the Tax Code to reflect the elimination of Tier 1 and make numerous other conforming changes in the Education Code, Tax Code and other codes.

ARTICLE I of the bill would take effect January 1, 2021.

**ARTICLE II - State Tax Revenues**

Section 151.051(b) would be amended to increase the rate of the limited sales and use tax to 12 percent, and Section 151.801 would be amended to provide that the amount of sales tax revenue attributable to the portion of the tax rate in excess of 6.25 percent be deposited to the credit of the Foundation School GR-Account 0193.

Chapter 152, Tax Code would be amended to increase the rate of the motor vehicle sales and use tax to 12 percent, and the rate of the motor vehicle rental tax to 19 percent. The allocation of motor vehicle sales and rental tax revenue attributable to the current tax rates of 6.25 percent and 10 percent would be to the general revenue fund, and the revenue attributable to the increases in tax rates would be for deposit to the credit of the Foundation School GR-Account 0193.

Chapters 154 and 155, Tax Code would be amended to reallocate portions of cigarette tax and cigar and tobacco tax revenue from the Property Tax Relief Fund - 0304 to the Foundation School GR-Account 0193.

Chapter 171, Tax Code would be amended to reallocate a portion of franchise tax revenue from the Property Tax Relief Fund - 0304 to the Foundation School GR-Account 0193.

Section 403.109, Government Code, providing for the Property Tax Relief Fund - 0304, would be repealed. The fund would be abolished and the unencumbered balance transferred to the Foundation School GR-Account 0193 October 1, 2020.

ARTICLE II of the bill would take effect October 1, 2020.

## **Methodology**

### ARTICLE I

The bill's elimination of the Foundation School Program (FSP) Tier 1 local share would create a cost to school districts and the state by lowering the maximum maintenance and operations tax rate (identified as "enrichment rate" by the bill) to \$0.17. The school district levy loss was estimated by applying the weighted average compressed (Tier 1) school district tax rate to taxable value information from appraisal districts. The Texas Education Agency (TEA), estimated the cost to the FSP of eliminating the Tier 1 local share to be an increase of state aid of \$28,451,200,000 in fiscal year 2022, \$30,017,600,000 in fiscal year 2023, and \$31,231,000,000 in fiscal year 2024.

### ARTICLE II

The estimated revenue gains to the state due to increased tax rates for the limited sales and use tax, motor vehicle sales and use tax, and motor vehicle rental tax are based on the forecast of revenues from those taxes as adopted for the Comptroller's 2020-21 Biennial Revenue Estimate adjusted for the higher tax rates and for declines in consumption of taxable items subject to the higher rates of tax.

Reallocation of certain motor vehicle sales tax, cigarette tax, cigar and tobacco products tax, and franchise tax revenues from the Property Tax Relief Fund - 0304 to the Foundation School GR-Account 0193 is based on amounts of those allocations as estimated for the Comptroller's 2020-21 Biennial Revenue Estimate.

The unencumbered balance of the Property Tax Relief Fund - 0304 is estimated to be zero as of October 1, 2020.

References in the bill to the foundation school fund are interpreted to refer to the Foundation School GR-Account 0193.

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 in, 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**

Shifts in consumption from taxable to nontaxable items in response to the higher state sales tax rate would result in declines in sales tax revenue for units of local government.

**Source Agencies:** 304 Comptroller of Public Accounts, 701 Texas Education Agency

**LBB Staff:** WP, KK, SD, SJS, AH