

**SUBJECT:** Dedicating new tax revenues to school property tax reduction

**COMMITTEE:** Ways and Means — favorable, without amendment

**VOTE:** 7 ayes — J. Keffer, Edwards, Grusendorf, Paxton, Ritter, Smithee, Woolley  
2 nays — Villarreal, Luna

**WITNESSES:** For — None  
Against — Dick Lavine, Center for Public Policy Priorities

**DIGEST:** HB 2 would create a property tax relief fund outside of general revenue for the collection of monies generated by certain taxes. Revenue deposited to this fund could be appropriated only to reduce school district maintenance and operations (M&O) tax rates to rates below those in effect January 1, 2006.

The revenue earmarked for the new fund would include the amount of revenue from any new business tax collected by the state in excess of the amount that the comptroller estimated the current franchise tax would have generated. The revenue generated from the computation of the tax on the standard presumptive value of motor vehicles and from cigarette and tobacco taxes higher than the current rates also would be deposited in this fund.

The bill would exempt the property tax relief fund from Government Code, sec. 403.095, which "sweeps" into general revenue money in state funds left unappropriated at the end of the fiscal biennium for purposes of certifying the state budget. The fund also would be exempt from Government Code, sec. 404.071, which credits to general revenue the interest earned on most statutory funds. Interest and income derived from the fund would have to be allocated monthly to the fund.

HB 2 would take effect September 1, 2006. If the Legislature did not enact during the third called session bills levying the taxes specified, the provisions creating the fund and dedicating revenue from these taxes would not take effect.

**SUPPORTERS  
SAY:**

HB 2 would ensure that the revenue raised by the new broad-based business tax and taxes on the sale of motor vehicles and certain tobacco products went toward property tax relief. By creating a special fund outside of general revenue, the bill would assure that all revenue from any new or expanded taxes was put to its intended use – property tax reduction – and not spent for other purposes in the future.

Because the broad-based business tax is the largest component of the proposed tax reform package designed to create new state revenues, business taxpayers in particular deserve some certainty that all revenues generated by this tax, including any revenue that exceeds the amount currently projected to be raised, will go toward reducing school property taxes. The new business tax and property tax cuts are two sides of an equation – as revenues increase from the business tax, businesses should benefit from further reductions in the property tax. If future business tax revenues instead were spent for other purposes, businesses would shoulder a disproportionate tax burden.

Additional limitations on the use of these funds are not needed because the intent is clear that all revenue from the tax bills enacted during this special session should be used to reduce school property taxes. Many funding priorities endure and bind future legislatures despite competing demands for state spending at the time. For example, the funding of the Children's Health Insurance Program from the state's first tobacco settlement proceeds has continued even as other state priorities have competed for funding. Statutory dedication of these revenues should be sufficient to establish school property tax reduction as a permanent priority.

**OPPONENTS  
SAY:**

Additional revenue generated by new or expanded taxes should not necessarily go toward continued property tax reduction if they generate more revenue than currently projected. Future budget writers may find the new taxes have raised more revenue than is required for the proposed property tax reduction. Instead of being automatically earmarked for additional property tax reduction, the additional revenue should be placed in general revenue to allow the Legislature to more fairly evaluate spending priorities in the future. Ensuring that public education is funded adequately is at least as important a priority as further school property tax reductions.

OTHER  
OPPONENTS  
SAY:

This bill should be more stringent in limiting the use of revenue generated by any new taxes approved during this special session. Past state budgets are littered with examples of dedicated funds being swept into general revenue. Future legislatures could amend this bill and use the revenue for purposes other than school property tax relief. Spending from the rainy day fund requires a two-thirds vote of each house before funds may be appropriated, and a similar restriction would make the future of the property tax relief fund more secure, as would placing the fund in the Constitution rather than just in statute.

The additional revenue from tobacco taxes should be dedicated to meeting health care needs, not property tax relief. Smoking and other tobacco use causes over \$10 billion in health care costs to the state every year. The money raised by the higher tobacco tax would offset a portion of that cost. Another worthy tobacco-related expense would be funding smoking prevention programs.

NOTES:

On April 21, the House adopted a Calendars Committee rule barring floor amendments to HB 2 that would seek to remove or alter the dedication of new revenue to a purpose other than reduction of school maintenance and operations tax rates.

A related measure, HJR 23 by Otto, would amend the Texas Constitution to dedicate to school property tax rate reduction the revenue from the franchise tax and the cigarette tax that exceeded the revenue generated by those taxes during fiscal 2006. HJR 23 has been referred to the Ways and Means Committee. Another related measure, SJR 10 by Shapiro, would amend the Constitution to dedicate to public education purposes increases in revenue from franchise tax revisions (HB 3 or similar legislation), state motor vehicle sales and use taxes (HB 4), and cigarette and tobacco products taxes (HB 5) enacted by the 79th Legislature during the third called session. The Senate Finance Committee is scheduled to consider SJR 10 in a public hearing today.