

BILL ANALYSIS

Senate Research Center

Senate Committee Substitute H.J.R. 4
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Tax Reform & Public School Finance
5-7-97
Committee Report (Substituted)

DIGEST

Recently, the Governor submitted a constitutional proposal to the legislature which provided for the creation of the Texas School Trust Fund, increased residential homestead exemptions on maintenance and operations of school districts, and excluded the business activity tax from Article VIII, Section 24 and Article VII, Section 3 of the Texas Constitution. The Senate Select Committee on Tax Reform and Public School Finance developed a plan to provide additional property tax relief and create a reliable stream of public revenue for public education. This legislation provides for a constitutional amendment providing for certain priority and minimum funding for public schools, dedicating certain lottery proceeds to public education, authorizing certain taxes on entities, authorizing the creation of a Texas Grace Commission to study efficiency in state government, and establishing the transfer or further reduction of a limitation of school tax on homesteads of the elderly.

PURPOSE

As proposed, S.C.S.H.J.R. 4 requires the submission to the voters of a constitutional amendment providing for certain priority and minimum funding for public schools, dedicating certain lottery proceeds to public education, authorizing certain taxes on entities, authorizing the creation of a Texas Grace Commission to study efficiency in state government, and providing for transfer or further reduction of a limitation of school tax on homesteads of the elderly.

RULEMAKING AUTHORITY

This bill does not grant any additional rulemaking authority to a state officer, institution, or agency.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Article III, Texas Constitution, by adding Section 31a, as follows:

Sec. 31a. Authorizes the legislature by general law to create a Texas Grace Commission (commission) to study state agencies, institutions, and programs in the executive department of state government and recommend that certain of those entities or programs be abolished or reduced to make them more cost effective. Requires the legislature, notwithstanding Sections 1, 11, and 31 of this article, to accept or reject, but may not amend, each substantive recommendation presented to the legislature by the commission. Provides that this section expires on September 1, 1999.

SECTION 2. Amends Section 47, Article III, Texas Constitution, by adding Subsection (f), to authorize money received by the state from the operation of lotteries, less amounts paid for lottery prizes and administrative costs, to be spent only as provided by general law for public education.

SECTION 3. Amends Section 1, Article VII, Texas Constitution, to require the financial support of elementary and secondary public school education to be the first priority among state spending and appropriations, subject only to the dedication of revenue otherwise provided by this Constitution and to the payment of lawfully incurred state debt. Prohibits the legislature from appropriating, for any biennium, an amount of state funds for the maintenance and operation of public schools and for the erection and equipment of public school buildings that is less than the amount appropriated for

those purposes in the prior biennium, adjusted for student population growth and inflation in the cost

of educational goods and services.

SECTION 4. Amends Section 1, Article VIII, Texas Constitution, by amending Subsection (c), and adding Subsection (c-1), as follows:

(c) Authorizes the legislature to impose privilege or franchise taxes measured by the income or taxable capital of a corporation, partnership, or other business entity, other than a sole proprietorship. Provides that a sole proprietorship, rather than persons, engaged in mechanical or agricultural pursuits shall never be required to pay an occupation tax.

(c-1) Establishes that the use of income earned or receipts after December 31, 1996, to measure or apportion to this state a privilege or franchise tax authorized by Subsection (c) of this section is not prohibited. Provides that this subsection expires January 1, 2000.

SECTION 5. Amends Section 1-b(d), Article VIII, Texas Constitution, to authorize the legislature, by general law, to provide for the transfer of all or a proportionate amount of a limitation provided by this subsection for a person who qualifies for the limitation and subsequently establishes a different residence homestead. Establishes that if the total amount of a school district's taxes imposed in the 1997 tax year for elementary and secondary public school purposes on a residence homestead subject to a limitation is less than the total amount of the school's district taxes on that residence homestead in the first year that the residence homestead qualified for the limitation, in a subsequent tax year, the total amount of taxes the school district may impose on the residence homestead while it remains the residence homestead of a person entitled to the limitation may not exceed the amount of the 1997 school district taxes, except as otherwise provided by this subsection. Makes conforming changes.

SECTION 6. Amends Section 24, Article VIII, Texas Constitution, by adding Subsection (k), to provide that this section does not apply to a privilege or franchise tax measured by the income of a corporation, partnership, or other business entity, other than a sole proprietorship.

SECTION 7. Requires this proposed constitutional amendment to be submitted to the voters at an election to be held August 9, 1997. Sets forth the required language of the ballot.

SUMMARY OF COMMITTEE CHANGES

Amendment 2: (Luna)

Regarding school finance: Makes the financial support of elementary and secondary public education the first priority among state spending and appropriations, subject only to constitutional dedications of revenue.

Amendment 3: (Shapiro)

Regarding the Texas Grace Commission: Authorizes the legislature to create a Texas Grace Commission to study efficiency in state government.

Amendment 4: (Luna)

Regarding school finance: Prohibits the legislature from appropriating in any biennium, an amount of money for the maintenance and operation of public schools and for new facilities and equipment that is less than the amount appropriated in the prior biennium, adjusted for population growth and inflation.

Amendment 6: (Armbrister)

Regarding franchise tax: Repeals subsection regarding the use of receipts after December 31, 1996 for franchise tax calculation purposes only, instead of entire Franchise Tax section.