

May 2, 2003

Invited Testimony
Senate Committee of the Whole
SB 2 / SJR 1

By Shapiro

I am Scott McCown, Executive Director of the Center for Public Policy Priorities. Thank you for inviting my testimony today. I applaud Lt. Governor Dewhurst, Senator Shapiro, and the Senate for proposing a specific school finance plan. I am particularly proud of you for developing a plan that continues the state's commitment to equity—an equal educational opportunity for all Texas children.

My concern about the plan is on the revenue side. A state can tax only three things—what we earn, through an income tax; what we spend, through a sales tax; and what we invest, through a property tax. If the income tax is off the table, and if we constitutionally limit the school property tax to 75 cents per 100 dollars of value, then the only pot of money left to fund the state is the sales tax.

Frankly, I do not think this one pot is big enough or will grow fast enough to fund 1) the increasing cost of public education, particularly with 70,000 new students a year, 2) our unmet needs in health and human services, and from the budget debate you know how deep those needs are, and 3) general government. Under this plan, all three will be competing for the few extra sales tax dollars we may have from biennium to biennium.

This competition will be fierce. Start with public education. This plan provides little new money for public education, in a context where we already spend too little, ranking only 27th in per pupil spending in the nation. If the rate of inflation were to return to 3% a year, and the

Legislature did not adjust state school funding for this inflation, it would take a property poor school district under this plan about 8 of the 10 cent local enrichment tax to make up the inflation in a single biennium, which puts our schools right back where they are now, capped out.

How are we going to pay for health and human services? How are we going to pay for general government? In two to four years, under this plan, I foresee the state being totally revenue starved with nowhere to go.

It is fashionable to seek to run government only from the sales taxes; not only is this unwise, it is also unfair. The sales tax is very regressive. You can see that in this plan, under which the top 10% of earners, people who make almost \$176,000 a year, get a tax savings of over \$248 million, while the middle class pay more. Low-income Texans are said to pay less, and I am excited about the idea of a tax break for those low-income residents using the Lone Star card and the renter rebates, and hope that you do not abandon these features, which may mitigate the tax regressivity. This issue needs further study. The bill needs a tax equity note.

One last point, all across our state, our counties and cities are running shortfalls of their own as they struggle with the state's unfunded mandates and unmet needs; yet, this plan does not authorize them to use the revenue from the sales tax base expansion, but makes authorization turn on a one-time-for-all-time popular local vote. Given that the state may be broke going forward, we need to let our counties and cities use the revenue from the expanded sales tax base to meet their needs.

Again, I applaud you for tackling this issue, I applaud you for your creativity, and I thank you for this opportunity to share my views.