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WHERE DID ALL THE MONEY GO?
(A CONTINUING SERIES)

REVENUE DRAIN FROM FUTURE BUDGETS HAS ALREADY BEGUN

Two weeks ago we listed the bills that threaten to reduce the revenue needed to support public structures—including public education, child health services, and transportation infrastructure—that help Texans maintain their quality of life ("Where Did All the Money Go: Tax Cuts, Abatements, and Subsidies," http://www.cppp.org/research.php?aid=883&cid=7). This Policy Page updates that information as almost all of these bills continue to progress through the legislative process. *Caution: bills that do not pass in their current form may reappear as amendments to other legislation.*

The total drain of these bills on the 2012-13 budget, which will be written by the next Legislature, could be as high as $220 million, based on the most recently available fiscal notes. Other bills are calculated to delay their effect on state revenue until 2015 or later, obscuring their impact. The long-term cost of these bills could run into the billions of dollars in the next ten years. The cumulative effect of all these bills would be to reduce the ability of the State of Texas to invest in our future.

Largest potential costs

School property tax abatements

School districts may grant property tax abatements to wind farms, nuclear plants, manufacturers and certain other businesses that make the required level of investment and meet certain wage and benefit requirements. The cost of the property tax revenue lost to these abatements is borne by the state through the school finance system

HB 3676 by Representatives Heflin, Swinford, and Strama would extend the expiration date of this program by four years, from Dec. 31, 2011 to Dec. 31, 2015.

UPDATE: The Senate Economic Development Committee on Saturday amended the bill to shorten the extension to three years. The bill is expected to be debated by the Senate on Tuesday or Wednesday of this week.

The total cost to the state over the lifetime of long-term agreements expected to be signed under the current program $5.7 billion. The Comptroller has estimated that <u>a four-year extension would increase the cost of the program by another $2.4 billion; a three-year extension would cost $1.8 billion.</u>

For more information, see: http://www.cppp.org/files/7/POP%20290%20School%20Property%20Tax%20Abatements.pdf.

Franchise tax cut

On May 5 the House passed HB 4765 by Representative Rene Oliveira, which would <u>reduce franchise tax revenue available to fund the 2010-11 budget by $172.1 million.</u> The bill would exempt a business with total revenue of less than $1 million from the franchise tax. Currently, businesses with total revenue of less than $300,000 are exempt, and tax liability is phased in for businesses with up to $900,000 in total revenue.

Bills that reduce franchise tax revenue, which is dedicated to replacing school property tax revenue lost to the tax cuts enacted in the 2006 special session, could endanger the state's receipt of federal stimulus money that is intended to restore state support for education by signaling that the state does not need the federal aid for this purpose.

UPDATE: On Monday, May 25, the bill was voted out of the Senate Finance Committee with a two-year, $1 million exemption, and a permanent $600,000 exemption. The Senate is likely to hear this bill before its Wednesday deadline for considering House bills. The bill would reduce revenue in 2010-11 by $172 million. The fiscal note on the permanent $600,000 exemption is not yet available, but will likely reduce revenue available to fund the 2012-13 budget by roughly $85 million.

For more information, see:
http://www.cppp.org/files/7/389R_nofranchise.pdf

Nuclear plant subsidy

HB 4525 by Representative Parker and Senator Ellis would give nuclear plants and other large manufacturing projects a payment equal to 5 percent of the project's investments, up to $50 million per project, per county. The fiscal note reports that "there are several nuclear power plants meeting the eligibility criteria that are well into planning and one nearing the construction phase." It is difficult to understand why these ongoing projects need additional subsidies that will total $135.5 million over four years.

UPDATE: The Senate Economic Development Committee on Saturday amended the bill to tighten the eligibility standards and voted it out of committee. The Senate is likely to consider HB 4525 by the Wednesday deadline.

Carbon sequestration projects

HB 469 by Representative Phil King would grant tax breaks to "clean energy projects" – coal-burning power plants that capture and sequester the greenhouse gas carbon dioxide produced by the plant. Up to three projects could receive franchise tax credits of up to $100 million each. Oil produced by using the captured CO_2 would pay a much reduced oil production tax. If land owned by the Permanent University Fund were used by a project–making it unavailable for oil and gas exploration–the PUF would lose $33.5 million per project over 5 years.

UPDATE: HB 469 was approved by the House on May 5 and voted out of the Senate Natural Resources Committee on Saturday. The Senate may hear this bill by Wednesday.

Warehouse inventory exemption

SB 947 by Senator Duncan would exempt goods stored in a public warehouse. Since this is a modification of a bill that passed last session, but was not generally implemented due to a technical error, the fiscal note does not estimate a cost to the state. However, the 2007 version of this bill indicates that the Foundation School Fund would lose $63.6 million in the 2010-11 biennium. Cities would lose $20 million and counties $14 million over the biennium. Local governments could tax these goods only be taking action to eliminate the exemption.

UPDATE: The Senate passed SB 947 on April 21. The bill is currently awaiting action on the House calendar.

CAPCO tax credits

Certified Capital Companies (CAPCOs) are venture capital funds registered with the state that invest solely in certain small businesses and start-up operations. By investing in CAPCOs, insurance companies receive tax credits against their state premium tax liabilities.

HB 1582 by Representative Flynn and SB 2585 by Senator Averitt would add a new CAPCO program, at a cost to the state of $200 million over 2015-18.

UPDATE: Although neither bill is still active, their provisions have been proposed by Representative Flynn as a floor amendment to SB 1007, the Texas Department of Insurance (TDI) sunset bill, which is awaiting action on the House Major State Calendar.

Other costly changes

Immediate homestead exemption

Taxpayers who buy a home and qualify for the over-65 or disabled homestead exemption must wait until the next January 1 to become eligible for the statewide $15,000 school-district homestead exemption and any local optional percentage exemption.

HB 1037 by Representative Paxton would make these exemptions immediately available.

The bill would cost the Foundation School Fund $11.47 million in 2011, the first year it would affect revenue, and $60.8 million over the first four years of implementation. School districts would lose an additional $3.8 million in 2011 and $15.4 million over four years.

UPDATE: HB 1037 was not acted upon by the House before the deadline for considering House bills. It is not known whether its provisions may be attached to another bill.

Sales-tax holiday for school supplies

HB 1801 by Representative Bohac would exempt from sales taxes school supplies with a sales price under $100 that were purchased by elementary and secondary school students during the current three-day sales tax holiday in August.

This new exemption would reduce General Revenue by $40.25 million over 2009-14. Cities, counties, and transit authorities would lose $10.7 million in 2010-14.

UPDATE: HB 1801 passed the House on May 13. It is currently on the Senate Intent Calendar.

Internet hosting

HB 3927 by Representative Oliveira would change the franchise-tax apportionment of receipts by Internet-hosting businesses. The bill would reduce revenue to the Property Tax Relief Fund by $2 million per year, starting in 2015.

UPDATE: HB 3927 was not acted upon by the House before the deadline for considering House bills. The Senate companion, SB 1315 by Senator Wentworth, was left pending in the Senate Finance Committee on May 11. It is not known whether its provisions may be attached to another bill.

Sales-tax exemption for media production

SB 1929 by Senator Watson would create a sales-tax exemption for items used to construct, maintain, or equip a media production facility. Because the number of Media Production Development Zones that could be created under this bill is unknown, the fiscal note concludes only that "there could be an indeterminate fiscal impact to the state," which, of course, does not mean that the cost to the state is zero.

SB 1929 has passed both chambers and was sent to the Governor on May 22.

How to get more information

Bills are moving fast in the final days of the session. You can track each bill's progress at http://www.legis.state.tx.us/BillLookup/BillNumber.aspx