POLICY PAGE

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Where Did All the Money Go? How Do We Get it Back?

LBB Budget Would Lock Up $6.9 Billion for Tax Cuts, Leaving Only $2.5 Billion for Other Priorities. But the Lock Can Be Broken.

Although the comptroller has certified $14.3 billion in "new money" available for appropriation, the budget proposed by the Legislative Budget Board leaves only $2.5 billion in uncommitted revenue – not enough to meet our state's needs. Half of the new money, $6.9 billion, would be locked up for property tax cuts – $3.9 billion to fund property tax cuts in the 2008-09 budget, plus another $3.0 billion to continue the tax cuts in 2010-11.

The proposed budget could be changed in two ways to increase the amount available for other priorities. First, property tax cuts could be limited to only the amount that could be funded with the revenue raised by the 2006 special session. This would mean reducing school property tax rates to about $1.20 instead of to $1.00, until revenue from the special-session changes increased to cover additional reductions. Second, another $1.4 billion could be freed up for appropriation by continuing deferrals of certain payments to schools and social-service providers. The deferrals could be continued without harm for another biennium.

Where Did the "Surplus" Come From?

As outlined in a prior Policy Page (*Where Did the Surplus Come From?* http://www.cppp.org/research.php?aid=602&cid=6), the $14.3 billion "surplus" is a comparison between the amount of general revenue expected to be available for the coming biennium and the amount being spent in the current biennium. This is not the same as estimating that the state will take in $14.3 billion more in 2008-09 than in 2006-07. In fact, total net revenue to general-revenue-related funds in the next biennium is projected to increase by only $3.2 billion over the current level.

Not included in GR-related revenue is revenue from bills passed in last year's special session—reforms in the franchise tax (now popularly known as the "margins tax"), an increase in the cigarette tax, and a change in the tax on used car sales. All new revenue from these changes is set aside in the new Property Tax Relief Fund and dedicated to reducing school property taxes. This fund is expected to take in $7.6 billion in 2008-09. Combined with a carry-over balance of $512 million from 2007, there will be $8.1 billion dedicated to fund property tax cuts in 2008-09.

Pay-As-You-Go

Limiting school property tax cuts to the amount that could be funded by the Property Tax Relief Fund would allow school maintenance-and-operations (M&O) rates to drop to about $1.20 per $100 of property valuation, compared to $1.50 in 2006 and $1.33 in 2007.

As revenue from the new margins tax increases with economic growth, property taxes could be further reduced while maintaining general revenue for other state needs.

The school-finance bill passed in the 2006 special session (HB 1) requires a one-third reduction in school M&O tax rates only in fiscal year 2008. In succeeding years the percentage reduction in tax rates will be calculated by the commissioner of education, depending on the amount in the Property Tax Relief Fund "or any other funding source available for school property tax relief." (Education Code, sec. 42.2516)

In other words, after fiscal year 2008, property tax cuts will have to compete with all other state needs for general-revenue appropriations. Only the amount dedicated from the special-session revenue bills is required to be spent on property tax cuts.

The True Cost of Tax Cuts

The total cost to the state for 2008-09 of replacing school property taxes with state revenue is $14.2 billion. This is the amount that would be appropriated by SB 2 to the Texas Education Agency for tax cuts.

$8.1 billion would come from the Property Tax Relief Fund. This consists of $6.1 billion in revenue from reforms to the franchise tax, $1.9 billion from the increase in the cigarette tax (which includes revenue collected in 2007), and small amounts from the changes in the tax on used car sales, other tobacco taxes, and interest.

The rest of the money for property tax cuts—$6.1 billion—would come from general revenue. Only $3.9 billion appears in calculations of uses of the "surplus." However, this masks the true GR costs of the property tax cuts. The remaining $2.2 billion in general revenue is assumed in the base budget, since it reflects the current level of GR spending needed to make the initial tax cut in 2007. When the "surplus" of $14.3 billion—the difference between anticipated GR-related revenue in 2008-09 and current spending—is calculated, the $2.2 billion is assumed to be already spent.

Charts that indicate that the 2008-09 GR cost of property tax cuts would be $3.9 billion are showing only the **incremental** cost of the additional reduction from a school tax rate of $1.33 to a rate of $1.00, not the full GR cost of reducing tax rates from $1.50—$6.1 billion.

Delay in state aid payments to schools

Payments from the Foundation School Fund (FSF) to school districts are made in installments at certain dates throughout the year. In 2003, legislators delayed the payment scheduled for August 25 to September 6. This short delay allowed the state to retain the money through the end of the 2004-05 fiscal biennium, freeing up $800 million for other uses.

HB 1 of the 2006 special session calls for this delay to be eliminated, so that the payment would be made in August 2009—during the 2008-09 fiscal biennium—rather than in September 2009—in the 2010-011 biennium. This change would increase GR spending in the 2008-09 budget by $1.1 billion, but would not actually increase the amount received by school districts to help fund their school year.

Keeping the two-week delay in the FSF payment would increase by $1.1 billion the amount available to meet critical needs in the coming budget, without harming school districts. Preserving similar delays in payments to various health-care and human-service providers would make available another $300 million without reducing services.