Texas Public Policy Foundation

Center for Fiscal Policy

84th Texas Legislature in Review

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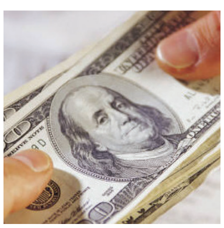
Advocates of fiscal reform will find that the 84th Texas Legislature made substantial progress regarding their push for a conservative Texas budget, historic tax relief, spending-limit reform, the sales tax reduction (STaR) fund, and transportation funding.

Conservative Budget

On the budget, an effort by a coalition (the Conservative Texas Budget Coalition) consisting of the Texas Public Policy Foundation (TPPF) and 14 other member organizations paid off, as the 2016–17 budget increased by less than 6.5 percent in all funds (federal and state funds) and state funds alone. Specifically, all funds increased by 3.6 percent to $209.4 billion, and state funds increased by 5.8 percent to $141.4 billion. The increase in the total budget, $7.3 billion, is more than sufficient to meet the needs of the state for transportation, education, health care, and border security.

The Legislature did make some headway on spending-limit reform with SB 9, which covers general revenue and general revenue-dedicated funds, about 50 percent of the budget, calculated based on population growth and inflation. Though it died in conference committee, this progress should carry forward to the next session to strengthen the spending limit by applying it to all funds, or at least state funds, and basing it on the lowest of the following rates of growth: population plus inflation, personal income, or gross state product.



Tax and Fee Relief

The Legislature passed a historic tax and fee relief package while meeting the needs of the state and still leaving money on the table for a rainy day.

The Senate's initial package of $4.6 billion included business franchise tax and property tax relief. The House's plan consisted of a $4.9 billion tax reduction. The final package provided a substantial $4 billion in tax and fee relief. The largest portion follows TPPF's peer-reviewed research on the economic benefits of eliminating the franchise tax. The franchise-tax rates were permanently cut by 25 percent and the maximum revenue for a business to be eligible to file the E-Z form was raised to $20 million at a lower 0.331 percent tax rate for a total value of $2.6 billion.

Another component of the final package was property tax relief of $1.2 billion. This was achieved by permanently raising the $15,000 homestead exemption for school property taxes by $10,000, pending voter approval in November 2015. To safeguard against possible erosion of this relief, the Legislature also passed legislation that requires local governing bodies to meet a 60 percent supermajority in voting to pass any rate increase above the effective rate.

Beyond property taxes and franchise taxes, the Legislature reduced or eliminated fees of $200 million. This will decrease the reliance on dedicated accounts for the comptroller to certify the state budget as fewer of these dollars will be available. The tax relief and reduced ability to use dedicated accounts reduced the amount of money available for spending and most likely played a role in reducing the growth of the budget.

STaR Fund

However, the Legislature did not pass, or even give a hearing on, the STaR fund. The STaR fund would provide a mechanism to allow legislators to transfer dollars, either from the budget or excess above the rainy day fund cap, to the comptroller, who would use the funds to temporarily lower the state's sales tax rate. It is a response to the numerous legislators who stated that, during floor debate, dollars cut from one area of the budget do not actually reduce the bottom line of the budget; instead, they are spent elsewhere. The STaR fund is primarily designed to reduce the size of the budget, while also providing temporary sales tax relief.

Though STaR Fund bills (HB 2307 and SB 743) themselves did not get a hearing, certain features did at least make their way into the following resolutions and bills: HJR 8, which would have retired state debt early, did not pass; HB 31, which would have brought

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down the sales tax, did not make its way to the governor; and HB 32, which originally had a similar provision that would have phased out the franchise tax, made its way to the governor without that provision.

Finally, the Legislature maintained a dedicated source of transportation funding by ending diversions from the State Highway Fund. But it also provided additional funding by constitutionally dedicating certain sales taxes to transportation and further restricted design-build contracts by capping them at three per biennium with a $150,000,000 floor.

Despite shortcomings, overall this was a very successful session on the fiscal front, as it provided the most conservative budget in years and historic tax relief that advanced the goal of eliminating Texas' franchise tax.

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