

State can't be tardy on school tax plan

Lawmakers, Perry must meet June deadline or face funding cutoff

By **Jason Embry**
AMERICAN-STATESMAN STAFF
Sunday, November 27, 2005

Lawmakers knew when they struggled to create a new school finance system this year that they would not have to comply with an Austin district judge's order that they finish their work by Oct. 1.

Now that the Texas Supreme Court has weighed in, deadlines aren't so flexible.

Although state District Judge John Dietz's timetable was put aside when the state's school-finance lawsuit was appealed to the Supreme Court, lawmakers must take seriously the Supreme Court's ruling last week that they have until June 1 to change the tax system that pays for public schools. Otherwise, the court said, the state must cut off funding for education.

But for now the spotlight is on a panel of business leaders, led by former Comptroller John Sharp, that Gov. Rick Perry appointed to study the state's tax structure and suggest ways to cut property taxes in exchange for other tax increases. The panel does not have a deadline, but it is expected to make recommendations by early spring.

The high court ruled that local school boards have lost control over the tax rates they set, violating a ban in the Texas Constitution on a statewide property tax.

So the Legislature, which is expected to return to Austin for a springtime special session, will be looking for ways to reduce school property taxes and replace that revenue with other taxes, such as new or expanded taxes on sales, cigarettes or business income.

Sharp rules out a personal income tax and little else.

"We're looking at exemptions in all the taxes and whether or not all those exemptions, from sales taxes to franchise taxes, make sense," Sharp said. "Before we look at increasing any existing taxpayers' taxes, we're going to look at those folks that are not paying taxes and try to make a judgment as to whether or not they ought to be paying taxes."

Comptroller Carole Keeton Strayhorn's office estimates that exemptions in state taxes — everything from the exemption of sales taxes on haircuts and bottled water to the small-business exception in the corporate franchise tax — add up to \$26 billion a year.

Staff members working for Perry's tax commission told the panel at its first meeting that one in 16 businesses pays the franchise tax, which is the state's general business tax.

A plan Perry proposed this year to bar corporations from setting up partnerships to avoid the franchise tax would have brought in about \$430 million a year, his office said.

Lawmakers tried to swap lower property taxes for other tax increases during their regular session and two special sessions this year.

But they faced intense lobbying from businesses that would have seen their taxes increase, and House and Senate leaders could not agree on how to split new taxes among businesses and consumers.

Knowing that the Supreme Court had not weighed in, lawmakers let the clock run out without reaching consensus.

The tax panel plans to hold hearings across the state over the next few months, then make recommendations to the Legislature.

Perry has not said when he will call a special session.

More than 300 school districts sued the state to change the funding system, and the Supreme Court agreed with those that said the taxing system is unconstitutional. It ruled against districts that claimed that the system was underfunded or that districts did not have equal access to education money under the state's share-the-wealth system.

But as part of the tax debate, lawmakers will have to confront the question of how much money the school system needs.

The Supreme Court also warned that significant change will be needed for schools to continue to improve but didn't say money is the only answer.

"Mainstream Texans understand that if we want to build the best public schools in the country, we're going to need to invest more in public education," Democratic gubernatorial candidate Chris Bell said.

Others pointed to the Supreme Court's statement that additional spending does not guarantee better schools.

"It is critical that legislators address the systemic inefficiencies plaguing Texas schools, not spend more money," said Brooke Rollins, president of the Texas Public Policy Foundation, which advocates for smaller government.

Sharp's tax panel will talk about ways to produce money for schools but will not weigh in on how much the Legislature should spend, he said.

"Our job is to build a platform that is fair but will produce the kinds of revenues to do what the Legislature wants to do in terms of school funding in the future," Sharp said.

jembry@statesman.com; 445-3654

Find this article at:

<http://www.statesman.com/hp/content/metro/stories/11/27schools.html>