

79th LEGISLATURE: SPECIAL SESSION

Big surplus, calls for further tax cuts

Perry says there's money to cut more than a third

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An \$8.2 billion state surplus greeted lawmakers when they returned to town Monday, prompting Gov. Rick Perry to call for even larger property tax cuts than the ones he's pushed in recent weeks.

The surplus could tempt lawmakers to put Perry's plans for a tax overhaul aside and, instead, use the extra money to pay for property tax cuts, although that idea seems to be struggling to catch fire.

Perry wants lawmakers to use their new 30-day special legislative session to cut school property taxes by \$6 billion a year and replace that money with an expanded business tax, higher tobacco taxes and more than \$1 billion from the state surplus.

He unveiled that plan last month when the surplus was estimated at \$4.3 billion. When Comptroller Carole Keeton Strayhorn updated the surplus projection Monday morning, Perry's office called for an even larger cut in school property taxes than the one-third reduction he has pitched.

"With the comptroller's announcement today that the surplus has nearly doubled in just two months, the governor's preference would be for legislators to use a portion of the additional surplus to lower taxes even more," Perry spokeswoman Kathy Walt said.

Walt said the size of the tax cut would be up to the Legislature.

Strayhorn attributed the higher surplus estimate to a healthy state and national economy that has boosted sales and franchise tax collections, as well as high oil and gas taxes — and warned against using most of it to

lower taxes today.

"My estimate reflects the current strength of the Texas economy," said Strayhorn, who is running for governor as an independent. "I expect this strength to continue over the coming months. But it won't continue forever. The economic engines will cool eventually, and using all the money for a temporary school finance fix will only set us up for a massive tax increase down the road."

Former Democratic Comptroller John Sharp, who headed the commission that wrote Perry's tax plan, agreed. "If you do all of it, that's about the stupidest thing you could do," he said.

The Texas Supreme Court has ruled the state's school finance system unconstitutional because school districts lack meaningful discretion over setting their tax rate. The court set June 1 as the deadline to fix the system.

Perry's plan calls for a "margins" tax on businesses that is based on gross receipts, with deductions for payroll or production and manufacturing costs and a tax rate of 1 percent. It would help pay for a property tax cut that would save the owner of a \$100,000 home about \$425 per year after it is fully phased in, allowing school districts to cut their tax rates for school operations from \$1.50 per \$100 in assessed property value to \$1.

The plan picked up its most notable supporter yet Monday in Republican House Speaker Tom Craddick of Midland.

"Most (House) members that you talk to out there want to see some kind of permanent change to the system," Craddick said.

The margins tax would replace the corporate franchise tax as the state's main business tax. About 50,000 businesses that now avoid the franchise tax, often by structuring themselves as tax-exempt partnerships, would have to pay the margins tax.

Voting for such a tax overhaul could be difficult for lawmakers to explain back home with such a large surplus on hand.

"The way you go home and do that is for members to say, 'You know, we fixed the system and made the tax broader, where everybody's paying,' " Craddick said.

He said the Perry tax plan will be broken into several pieces of legislation that the full House could vote on by the end of the week.

Perry's plan cleared another hurdle Monday when Attorney General Greg Abbott opined that the business tax should not be considered a personal income tax. The state constitution requires a vote of the public for an income tax to take effect, and some critics of Perry's plan have said it is an income tax on business owners.

Lt. Gov. David Dewhurst, who presides over the Senate, has not yet come out for or against Perry's tax plan.

Some fiscal conservatives say that instead of overhauling the business tax and making more companies pay it, lawmakers should use the surplus to pay for property tax cuts. Monday's news of a growing surplus could bolster that argument.

"The \$8.2 billion surplus would provide approximately 35 cents in property tax rate cuts for Texans for two years, taking the school property tax rate from \$1.50 to \$1.15," said Brooke Rollins, president of the Texas Public Policy Foundation, which is an advocate for smaller government. "This could be done without any new taxes."

House Appropriations Committee Chairman Jim Pitts, R-Waxahachie, said there are items other than property tax cuts that could use the surplus funds, such as recovery costs from last year's hurricanes.

"There are a lot of demands on that \$8.2 billion," he said.

The Perry proposal does not increase education funding, although it would give local school boards room to inch their tax rates back up to generate more money.

Sen. Florence Shapiro, R-Plano, is working on legislation to put about \$1.5 billion into education, including a \$2,000 raise for all teachers, as well as money for teacher incentive plans and high school programs.

It also would measure schools' college readiness programs and require districts to make their financial data easier for the public to see.

Perry sets the agenda for special sessions, and he has said he'll open it up to education reforms such as teacher raises if the House and Senate can agree on them and if they can agree on a tax plan. Craddick said he and Dewhurst have been working together on the education measures.

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Additional material from W. Gardner Selby.

What would \$8.2 billion buy?

Property taxes: A 23 percent cut in school taxes for Texans for two years.

Teacher pay raises: \$4,200 raises for Texas' 320,000 teachers, librarians, nurses and counselors for each of the next three years.

Rebates: A check for \$361.57 for every man, woman and child in Texas.

Highways: Build the Trans-Texas Corridor from San Antonio to Oklahoma, with \$2.2 billion to spare.

Health Insurance: Pay the state's share of the Children's Health Insurance Program for 40 years.*

* Based on \$206 million budget, the highest annual state expenditure ever for CHIP.

Sources: Texas Public Policy Foundation, Center for Public Policy Priorities, staff research

Where the surplus came from

The comptroller's office raised the surplus revenue estimates by about \$4 billion Monday. Most of that money comes from higher than expected tax collections generated by Texas' strong economy.

Sales tax...\$1.681 billion

Franchise tax...\$719 million

Oil production taxes...\$524 million

Natural gas tax...\$1.799 billion

Other taxes...\$188 million

Fees, interest and other nontax revenue...\$761 million

(Money legally required to go to the Rainy Day Fund...\$1.628 billion)

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