

Texas Legislature

AUSTIN (06/08/04)

The Senate Finance Committee and the House Appropriations Committee joined forces this afternoon to begin investigations into a new property tax structure and new revenue streams for schools. Senator Ogden and Representative Heflin convened the session at 2:00 p.m.

The Senators and Representatives examined a series of issues that were discussed throughout the hearing.

Chairman Ogden began the session, "Are we going to lower property taxes?"

Senator Armbrister replied, "We lowered property taxes by \$1.1 billion in 1997, but no one thanked us." Representative Hill said, "That amount disappeared before it reached the property owner. They didn't thank you because they didn't notice the difference." Chairman Ogden went on, "The consensus seems to be that

75 cents is substantial enough to offset the pain necessary. So, the opening bid is 75 cents."

Is there a sense of what is adequate for schools?

Senator Barrientos, "The insurance that was taken from teachers and other employees; textbooks that aren't outdated; and increased salaries have all been mentioned. The number seems to be \$2-\$3 billion a year."

Rep. Luna, "The academic programs should be examined first. According to the latest test results, we're making progress. But there's still a gap and we should address all segments of the student population."

Chairman Ogden, "We need a plausible number and we need new, unencumbered money. All together, we're up to \$9-\$10 billion."

Rep. Luna, "The question that must be answered is: will money drive the policy, or will policy drive the money? We cannot make these decisions in isolation. Whatever we do in the coming weeks will affect the next regular legislative session."

Senator Shapiro, "The difference is about \$600 per student."

What are the alternatives to the present tax revenue sources?

Senator Armbrister, "If we tax the same old, tired taxpayers to do this, we're on a sinking ship."

Rep. Keffer, "We cannot look at business as the goose that lays the golden egg. California made that mistake. We have to remember that businesses will leave if the economic climate isn't beneficial. The plan we devise should be fair, simple and broad-based. And, above all, we cannot promise what we can't deliver." Senator Williams, "The best we can do is a dollar-to-dollar property tax. But we also need a sales tax. States that rely on business and personal income taxes fare badly. Places like Florida and Texas that depend more on sales taxes do much better." Rep. Hill, "Our goal is to put together a system with legs. We cannot limit ourselves to the money focus; we also have to devise a way to generate it."

Senator Brimer, "Business taxes are the largest revenue generators we have. We should give businesses a choice as to the taxes they pay. It would be more palatable. We also have to consider the Video Lottery Terminals and an increase in sales taxes." Rep. Keffer, "It's time for businesses to pay into the state. This committee should look at all the options and meld them into an acceptable plan. We could offer a hybrid of all the usual taxes."

Chairman Heflin, "If we have to abide by the old list of funding streams, so be it. According to that list, the Video Lottery Terminals are new money sources." Senator Shapiro, "We cannot nickel and dime education. All committees have examined this issue and business tax is the only sound, ongoing answer. We talked about consensus, not it's time for compromise. Twice the Senate voted for a statewide property tax."

How should the balance of contributions be adjusted? Senator Armbrister, "I'm a proud, recovering, former school board member. The state pays 42 percent of the cost of education and the locals pay 58 percent. Look at the formula: locals pay more because the state refused to." Chairman Heflin, "Let's begin with the state share at 60 percent and the local share at 40 percent. And we'll work our way backward. The question is: how much do we raise and how do we raise it?"

Chairman Ogden, "That involves a \$5 billion shift. The total cost for education is about \$25 billion and the state now pays \$10 billion of that. There's a gap between rich districts and poor, which amounts to about \$600 per student. My goal is to maintain the present equity and improve it, if possible." Senator Armbrister, "I think \$5 billion is low. You have to add the state contribution and the local, then take 60 percent of that."

What will happen to Robin Hood?

Chairman Ogden, "Is there any objection to doing away with Robin Hood?"

Senator Shapiro, "I'm hearing we cannot do away with Robin Hood, entirely. There are a few outlying districts that are very wealthy and they have asked to continue the Robin Hood plan." Senator Armbrister, "We've discussed the current Robin Hood configuration. Districts derive wealth from

different sources. The ones with kids are the ones that drive school costs. We should look for ways to formulas to equalize the cost per student, but not do away with Robin Hood completely."

What do the citizens have to say about this? Senator Brimer, "I want the people to vote on whatever we decide to do.

Voters are confused about constitutional amendments. We need referendums for anything we do, even if they're not required. Confusion ensues when folks vote of these things piecemeal. If they vote down the Education Excellence Plan, we'll do it again." Rep. Luna, "Obviously, some things have to be constitutional amendments. But I'd hate to hold referendums without doing our work first. We cannot dump a laundry list on the ballot." Chairman Heflin, "The problem is, we cannot offer constitutional amendments without tying them to specific legislation.

At the end of the session, Chairman Ogden summarized the afternoon. "Our goals, as we have defined them, include shifting the state contributions to 60 percent; reducing local property taxes to \$1 or less; improving student equity; formulating constitutional amendments, as needed; and adding a minimum of \$1 billion in new money."

The meeting adjourned at 4:50.

Genie Quinn/TLS

Texas – Austin American Statesman (9/11/04)

Judge rules school finance system unconstitutional Dietz gives state a year to come up with new system Advertisement by Jason Embry

An Austin judge declared the Texas school finance system unconstitutional Wednesday and ordered the state to stop paying its share of public school costs by Oct. 1, 2005 unless lawmakers create a new system.

District Judge John Dietz said there is not enough money in the system to provide an adequate education as required by the Texas Constitution. He said school districts are limited by the state-mandated cap on their local property tax rates.

"The key to changing our future is to close the gap in achievement between the haves and the have-nots," Dietz said.

Attorney General Greg Abbott said he would appeal the decision to the Texas Supreme Court.

"Because this is a critical matter of statewide importance, and because the students, parents, school districts and taxpayers need closure on this matter, we will urge the Texas Supreme Court to hear the

school finance case at the earliest possible date," Abbott said.

The lawyers representing about 300 school districts that sued the state argued that a shortage of state funding has caused many school boards to set their tax rates at the state maximum for maintenance and operations, which is \$1.50 per \$100 in property value.

The state pays about 38 percent of public school costs, with the rest coming from local and federal taxes.

The state Constitution forbids a statewide property tax, but district lawyers argued that the cap has become a statewide tax because 48 percent of Texas districts hit the maximum last year and another 19 percent of districts were within 5 cents of the maximum rate.

The districts, which all have low per-student property values, argued that the system allows districts with higher property values to spend as much as \$1,700 more per student.

"The plaintiff school districts have no discretion in their spending,"

George Bramblett, a lawyer for a group of districts including Austin, said during closing arguments Wednesday.

In a 1995 ruling upholding the current system, the Texas Supreme Court said the property-tax cap effectively would be a statewide tax if it became "a floor as well as a ceiling."

Districts also argued that the system does not provide the money needed for some of the state's fastest-growing populations, such as those who speak little English or come from low-income families.

"The current system, for all the good we've done in the past, is constitutionally inadequate to meet the higher needs and expectations the Legislature has set," said school district lawyer David Thompson.

State lawyers argued that the system meets the minimum demands of the Texas Constitution.

They said districts exert considerable control over their budgets and are not forced to tax at the maximum level. They also presented a study from Texas A&M University researchers saying there is enough money in the system to provide an acceptable education, but that some districts are not spending wisely.

Deputy Associate Commissioner Joe Wisnoski of the Texas Education Agency testified earlier this week that school districts could raise about \$300 million more per year if none of them gave optional homestead exemptions.

That amount accounts for almost 1 percent of annual education spending in Texas.

Gov. Rick Perry, who received word of the ruling at his office, said it marks "just the first step in the legal process.

"As I have said all along, a legislative solution is preferable to a judicial mandate, and I will work with legislators to find common ground on property taxes and school finance regardless of how the courts ultimately rule," Perry said.

Texas (9/16/2004)

Craddick: Business tax 'only' solution

Speaker says everyone should pay for schools By JANET ELLIOTT Copyright 2004 Houston Chronicle Austin Bureau

AUSTIN - Texas House Speaker Tom Craddick said Thursday that a broad-based business tax is the "only solution" for ending the burden on local property taxpayers for funding public schools.

"I really believe we've got to find a broad-based business tax in this state, across-the-board that everybody pays," Craddick said during a speech to the Texas Farm Bureau.

His remarks came a day after State District Judge John Dietz ruled that the state isn't putting sufficient money into education in violation of the Texas Constitution.

Dietz gave lawmakers until November 2005 to adopt a constitutional finance law and threatened to close schools if they don't.

Craddick said the state might have to raise as much as \$9 billion to lower property taxes and provide more education funding. He said that amount of revenue couldn't be raised solely through higher sales taxes.

The state now is paying for 38 percent of the \$30 billion school system, with local property taxes making up the rest. Craddick said when the current school finance system was set up; the state was going to pay for 80 percent and 20 percent would be "local enrichment."

But now, with many districts at or near the \$1.50 cap on local school maintenance and operations taxes, and unable to tax higher, the system is "totally broken," said Craddick, R-Midland.

"I also believe that we need to look at where we're spending our dollars in education and making sure we're getting every dollar's worth out of it," he said. "I don't think we are, and I think we need to look at that."

Property tax exemptions

Craddick assured the crowd that he would oppose any efforts to eliminate property tax exemption for land used in agriculture. Exemptions for agriculture, timber and wildlife management take \$91 billion worth of property off the tax rolls statewide.

Craddick also said that the court ruling might make the House more likely to reconsider expanded gambling as a revenue source to replace property taxes.

In an interview after his speech, Craddick said that although a measure to allow video lottery terminals at horse and dog tracks failed in the House during last spring's special session, it might be revived.

"You're kind of under the gun to get it done and if people see we've got a definite plan, it might be (an option now)," he said.

Seeking funding ideas

Lt. Gov. David Dewhurst has previously expressed support for a new business tax to replace an existing franchise tax that most businesses don't pay.

Dewhurst plans to hold conference calls with senators today to get their ideas about school finance.

Gov. Rick Perry has opposed new business taxes, including a 1 percent payroll tax proposed by a House committee during the special session.

Kathy Walt, a spokeswoman for Perry, said "everything is back on the table,"

but that the governor would remain skeptical about a new business tax.

"The governor has not ruled out generating additional business revenues and has in fact recommended closing a loophole in the business franchise tax,"

Walt said. "Bottom line, he's not going to support a tax bill that kills job creation because job creation and economic expansion are the best way to ensure long-term resources for education."

Special session up to Perry

Walt said that Perry would be willing to call a special session if he, Craddick and Dewhurst could agree on a plan.

Craddick said he thinks that lawmakers will need the rest of the year to decide how to address the issue.

He and Dewhurst have asked Perry to make education funding an emergency issue for the regular session that begins in January.

"We've got the election going on between now and November. We could come in during November and December and do it if that's what the governor wants to do," Craddick said.

Also Thursday, state Rep. Garnet Coleman, D-Houston, called on state leaders to drop an appeal of Dietz's ruling and concentrate on finding a new way to fund education.

"Why should we waste more taxpayer dollars defending a school finance system that the state leadership, both parties in the Legislature, and now a state court all agree is broken?" Coleman asked.

janet.elliott@chron.com