

**LEGISLATIVE EDUCATION STUDY COMMITTEE
BILL ANALYSIS**

Bill No: CS/HB 346¹

49th Legislature, 1st Session, 2009

Short Title: Education Gross Receipts Surtax

Sponsor(s): Representatives Mimi Stewart and Rick Miera

Analyst: Kathleen Forrer

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**HOUSE APPROPRIATIONS AND FINANCE COMMITTEE SUBSTITUTE
FOR HOUSE BILL 346**

Bill Summary:

CS/HB 346 adds new sections to the *Gross Receipts and Compensating Tax Act* and to the *Tax Administration Act* to:

- add an “education surtax” of 0.75 percent to the state Gross Receipts Tax and to the state Compensating Tax, including both tangible property and services;
- require that the net receipts attributable to the education surtax be distributed to the Public School Fund; and
- appropriate the first \$600,000 of the revenue raised from the education surtax to the Public Education Department (PED) for costs associated with preparing for the implementation of the proposed public school funding formula set forth in HB 331a.²

The effective date of the provisions in CS/HB 346 is July 1, 2009, contingent upon the enactment of legislation of the 1st Session of the 49th Legislature that provides “a new method for determining the state equalization guarantee distribution to public schools.”

Fiscal Impact:

CS/HB 412 designates all but the initial \$600,000 of the net receipts attributable to the proposed education surtax for distribution to the Public School Fund.

\$600,000 is appropriated directly to PED for expenditure in FY 10 and FY 11 to:

- verify and correct public school data;
- make necessary changes to PED’s Student Teacher Accountability Reporting System (STARS);
- beta test the new public school funding formula; and
- provide training to public school personnel as specified in HB 331a.

¹ Version .178281.2

² HB 331, *as amended*, amends and repeals existing sections of and adds new sections to the *Public School Code* to provide for the implementation of a new funding formula for public schools in FY 11.

Of the revenue appropriated to PED, any unexpended or unencumbered balance remaining at the end of FY 11 reverts to the Public School Fund.

Fiscal Issues:

Both the current state Gross Receipts Tax and the current Compensating Tax rates are 5.0 percent.

The Taxation and Revenue Department estimates that, based on the February 2009 consensus revenue forecast, the education surtax would generate an additional \$388.6 million in revenue for FY 10; \$401.7 million for FY 11; \$420.2 million for FY 12; and \$438.3 million for FY 13.

In January 2009, American Institutes for Research (AIR), the contractor for the funding formula study, provided an updated estimate of the additional cost of funding marginal sufficiency³ and the first year of the three-year hold harmless provision for school districts and charter schools that may see their program cost reduced. This estimated additional cost is \$345.3 million.

Issues:

During the 2008 interim, all 89 school districts were invited to work with the Legislative Education Study Committee to examine the potential impact on school district programs and student achievement of the public school funding formula initially proposed during the 2008 legislative session. Part of that discussion centered around potential revenue sources for the additional revenue needed to implement the proposed formula. Most school districts stated that their communities would support an increase in the Gross Receipts Tax if there were assurances that the revenue would be used exclusively to support the sufficiency funding needed to implement the proposed funding formula.

Related Bills:

HB 331a *Public School Funding Formula*
SB 389 *Corporate Tax to Public School Fund*
SB 412 *Education Gross Receipts Surtax (0.75%)*

³ Marginal sufficiency is the difference between the projected statewide cost of providing a sufficient education as determined by the funding formula study and the current statewide program cost.