



THE FLYNN REPORT

May 19, 2006

Greetings constituents, supporters and friends:

With a vote of 136 ayes and only 8 nays in the House of Representatives and 31 ayes and zero nay votes in the Senate, the Texas Legislature reflected the state wide acceptances of Gov. Rick Perry's plan designed by the Perry/Sharp Commission that will change the state's school finance system. This historical legislation addresses the Court's mandates and answers the constitutional school finance questions and will allow schools to continue to operate without interruption this fall.

It is believed this plan meets the requirements of the Court and will resolve the lawsuits that several school districts brought against the state's taxpayers. The Commission set the framework but it was the courage of the leadership that was the key to success in this special session. Most believe that the economy will be fueled by the tax cuts provided in this plan and it will continue to replenish funds with surpluses even as projected surpluses are used to provide immediate property tax relief.

The session ended a day early with the House approving final bills of the package that will increase cigarette taxes in January and one that would dedicate most new tax revenue to property-tax cuts. Governor Perry has signed the plan into law, and it is believed this plan will avert a threatened cutoff of school funding by the Texas Supreme Court. It allows taxpayers, teachers and schools to win big. Most fair minded and knowledgeable observers of the legislative system are saying this was truly the *most* productive Legislature in memory and one that passed record tax cuts and significant school funding in a 30-day special session. The Legislature defied the pundits and critics by passing bipartisan legislation benefiting teachers, taxpayers and schools.

These tax relief and school funding reforms were supported by unprecedented business support. Over 70 of the major business associations that represent nearly 5 million members endorsed this plan along with numerous state leaders, business, education and civic associations. Those who supported the Perry/Sharp Plan included the Texas Association of Business, Texas Manufacturer's Association, Texas Medical Association, Texas Hospital Association, the major Houston, Dallas and San Antonio Chambers of Commerce, Texas Association of Mexican-American Chambers of Commerce, American Electronics Association, Texas Oil and Gas Association, Texas Realtors Association and many others.

With all of this support there has only been a very small limited number that have disagreed with the facts of this plan. The simple facts are these bills passed the Texas Legislature by a total of 167 ayes to 8 nays reflecting the strong statewide and bi-partisan support. They will bring about the largest property tax relief in the history of the state. The opposition did not take into consideration that the projected "surplus" is not real and it would be very unwise for the Legislature to make public policy by spending something no one knows is real. You may recall this "surplus" was a different number just a few weeks ago. Two years ago a projected deficit doubled within a 30 day time period. Dealing with real numbers is a wiser option when making public policy.

The questions of spending the "surplus" and reforming the Franchise Tax will continue to be subject to debate. It was believed that spending some of the projected surplus on tax relief would be wise and responsible. Trying to spend the entire projected surplus to meet the bare bones requirements of the Supreme Court ruling is simply bad public policy. By doing this it would lead to deficits that would have to be dealt with by tax increases in the next regular session. What was needed is a long-term solution to the public school finance challenge. A tax cut that is paid for using only surplus funds is temporary because if there is no new mechanism to sustain the relief when the surplus runs out, the courts will likely step in again and Texas will be back at square one. A surplus-only tax cut provides less relief to homeowners and employers for a shorter period of time. Exclusively using projected surplus funds will deliver a smaller tax cut for just one year. The Texas Tax Reform Commission Plan delivers a 33 percent tax cut that is paid for in the years ahead. The plan also includes a provision to take proposed property tax raises straight to the electorate, giving local control over the tax rates themselves.

House Bills 1, 2, 3, 4 and 5 make up the package that passed during this special session of the Legislature and listed below is a thumbnail of the provisions of The Texas Tax Reform Commission Plan better known as the Perry/Sharp Commission.

THE LARGEST PROPERTY TAX CUT IN TEXAS HISTORY: *Record \$15 billion (over three years) property tax relief* for home and business property owners. The Texas Legislature passed this record \$15 billion property tax cut phased in starting this year, including an overall net tax cut along with nearly \$1.7 billion in new state public education funding in 2007.

11% TAX CUT THIS YEAR AND A 33% SCHOOL PROPERTY TAX CUT BY 2008. A net *overall tax cut* that will cut the \$1.50 property tax rate by 17 cents to \$1.33 per \$100 valuation in 2007 and \$1 per \$100 valuation in 2008. The school property tax liability for a home with a taxable value of \$150,000 will drop from \$2,250 to \$1,500 – a \$750.00 annual savings.

LOWER BUSINESS TAX RATES AND TAX CHOICE: A *fairer business tax with lower rates* and choice of exemptions for business taxpayers. For the first time, businesses will have a choice of deducting labor or cost of goods sold as part of their tax calculations. Business tax rates are cut from the current 4.5% franchise tax rate, to 1% for the manufacturing and service sector and .5% in for the retail and wholesale sector. Business tax rates will be lower, flatter and fairer for all businesses.

INCREASES SMALL BUSINESSES TAX EXEMPTION: A doubling of the *small business tax exemption* all sole proprietors of any size and all small businesses earning less than \$300,000 are

exempt from business taxes. This is a doubling of the current \$150,000 exemption. Businesses who owe \$1,000 or less are also exempt from filing.

ELIMINATES CORPORATE TAX LOOPHOLES: This legislation fixes the unfair and broken business tax system. Today, only one in sixteen Texas businesses pays the franchise tax. As a result, the school funding burden falls disproportionately on homeowners and some employers while many paid nothing. Legislators eliminated corporate tax loopholes so that all Texas corporations and business partnerships earning more than \$300,000 per year (less cost of goods sold or labor costs) will pay 1% or less.

FULLY FUNDED \$2,000 PER TEACHER PAY RAISE AND EXCELLENCE INCENTIVES: A \$2,000 *teacher pay raise* and up to \$1,000 in additional performance-based teacher pay The Legislation includes a fully funded \$2,000 state funded pay increase for teachers, counselors, librarians and nurses. To encourage and reward teaching excellence, local school districts may create incentive plans to increase teacher performance, for teachers who go to work in hard-to-staff schools, or teach understaffed subjects.

REVENUE CAPS AND PROTECTIONS TO KEEP TAXES DOWN: *Stronger caps and for the first time taxpayer protections.* Higher academic standards and school accountability with Legislators making sure that taxes stay cut. The absolute school property tax rate is cut from \$1.50 per \$100 of value to a \$1.17. It will be harder for school districts to raise tax rates without voter approval. Today, districts may raise rates 6 cents without a vote. Under the tax cut plan, school districts are limited to raising tax rates 4 cents this year with school board approval, and an additional 2 cents in two years only if voters approve. There's also an effective revenue cap triggering lower school tax rates or rollback elections, if appraisal or value increases generate more than the equivalent of a 4-cent tax increase.

STRONGER ACCOUNTABILITY AND ACADEMIC STANDARDS By cutting property taxes and increasing the amount of school district property wealth needed to trigger Robin Hood recapture; the bill reduces the number of school districts in the Robin Hood system. The new 4-cent local enrichment tier is not subject to Robin Hood recapture. Any further tax increases require voter approval and would be subject to recapture. New school reforms include:

- Increases financial transparency by requiring districts to post detailed budget statements online.
- Establishes a new dropout prevention program with \$275 per high school student.
- Requires high school students to take four years of science and math starting in 2007.
- Aligns the public school curriculum to improve student performance in college.
- Increases efficiency and improves dropout tracking with an electronic student records system to expedite the transfer of student records.

PENALTIES FOR HIRING ILLEGAL IMMIGRANTS: For the first time, the Texas House voted to *penalize employers in the agriculture and timber sectors who hire illegal immigrants* by prohibiting those Texas businesses from deducting from their taxable revenue the costs of salaries and benefits for

undocumented workers. This in itself is historical and reflects the Texas Legislatures desire to show the U. S. Congress the concern of a majority of Texans that we must secure our borders.

Various other issues were included in the called special session and one of those provisions especially important to House District 2 was the approval of Tax Revenue Bonds which will allow Texas A&M – Commerce the ability to continue their efforts to improve the University with much needed funds for a new music building.

Another item of interests was a letter signed by myself along with 141 Members of the House of Representatives calling for support of fully funding the Teachers Retirement System of Texas (TRS) pension fund in the upcoming legislative session of 2007.

My staff and I welcome your input and questions. You can reach us in our offices located in Austin at the State Capitol in the capitol extension: E1.324. The Canton District office located in The American National Bank Building on Highway 243: The Greenville District office is located in The Paul Mathews Exchange Building, Suite 802, 2500 Stonewall Ave. Phone: 1-800-734-9515 Mailing address: P. O. Box 2910, Austin, TX 78768. Email District2.Flynn@house.state.tx.us

God bless you and God bless Texas,

**Dan Flynn
State Representative, District – 2**

If your name is on this email list in error, please respond and say UNSUBSCRIBE