



**Educational
Excellence
&
Property Tax
Relief**

Governor Rick Perry

April 2004

Educational Excellence & Property Tax Relief

TABLE OF CONTENTS

I.	Executive Summary	Page 3
II.	Educational Excellence Incentives	Page 7
III.	Property Tax Relief for Homeowners and Employers	Page 11
IV.	Eliminates “Robin Hood” and Improves Equity in School Finance	Page 16
V.	Constitutionally Linked Tax Rates	Page 19
VI.	Finance Components	Page 20
VII.	Revenue Options	Page 21
VIII.	Sustains a Healthy Job Climate	Page 23

Educational Excellence & Property Tax Relief

EXECUTIVE SUMMARY

Education has always been our state's top priority, and it has been Gov. Rick Perry's number one priority since he was lieutenant governor. The importance Texas and its leaders place on education is demonstrated by the \$7.1 billion increase in public school funding since 1999, and it is underscored by the \$1.2 billion in new money that the Legislature -- faced with a daunting \$10 billion shortfall -- appropriated in 2003.

Education Finances in Texas
\$10,400 per student in 2002-2003 ¹
\$40.7 billion in total revenues and bond receipts available in the 2002-2003 school year ²
\$7.1 billion increase in appropriations since 1999 ³ <ul style="list-style-type: none">• \$3.25 billion for enrollment growth• \$3.85 billion for all other costs
Texas is 3rd in the nation for education spending as a percent of total state expenditures ⁴

For years Texas has funded its public schools with a divisive and antiquated "Robin Hood" scheme that has forced homeowners in some communities to send their tax dollars across the state to pay for schools in other communities. And it is a system that, by design, has created the very problem most school districts decry: there has been a decline in the state share of funding.

Recognizing that quality schools produce the educated workforce for a 21st century economy and that job creation and economic expansion help provide the revenues needed to fund our schools and other priorities, Gov. Perry believes it is imperative that Texas develop a solution to school funding that balances those competing needs.

¹ NEA

² NEA

³ Fiscal Sizeup

⁴ NASBO

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Gov. Rick Perry's comprehensive Educational Excellence and Property Tax Relief plan achieves that balance, and it does so through 4 principles:

- Moving the educational focus on schools from meeting minimal standards to achieving maximum achievement.
- Cutting, capping and controlling property taxes.
- Eliminating Robin Hood while increasing funding equity in our public schools.
- Preserving Texas' nationally recognized strong job creation climate.

MOVING THE EDUCATIONAL FOCUS

To help schools achieve excellence, Gov. Perry proposed a series of results-based incentives:

	\$ (millions)
High School Advancement	\$154.4
Commended Performance	\$12.2
Distinguished Achievement	\$14.2
Algebra End-Of Course Exam	\$20
Limited English Proficiency	\$10.3
Teacher Excellence	\$200
Student Progress Initiative	\$100
Total Per year	\$511.1

CUTTING, CAPPING AND CONTROLLING PROPERTY TAXES

Gov. Perry's plan will provide \$3.3 billion in tax savings over the next biennium through his measures to cap and control property taxes. The Perry plan provides an annual tax cut of \$418 for an owner of an average priced home.

THE CUT

Gov. Perry's plan will cut property taxes by \$3.2 billion. Residential school property tax rates will be cut by 25 cents, or 17 percent. The cap on residential rates will be lowered to \$1.25. And business property tax rates will be set and capped at \$1.40, providing up to 10 cents in rate reductions for most employers.

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THE CAP

The Perry plan will cap residential property appraisal increases at 3 percent a year.

THE CONTROL

Gov. Perry's plan will constitutionally limit the revenue that local entities can raise without voter approval from all property taxes to inflation and population growth.

Gov. Perry's plan also provides measures to ensure that property tax rate cuts are real and lasting. Previous experience shows that doing nothing to cap and control taxes will leave homeowners with nothing in their wallets. In 1997, the legislature gave Texas homeowners \$1 billion in property tax cuts, but appraisal creep wiped out the savings.

The Governor's plan offers additional taxpayer protections by:

- Requiring mandatory sales price disclosure for real property.
- Having 5 local officials who will be responsible for certifying appraisal rolls.

ELIMINATING ROBIN HOOD AND INCREASING EQUITY

Through Gov. Perry's constitutionally linked tax base, the divisive and antiquated Robin Hood funding scheme is immediately eliminated, and in a fiscally responsible manner.

But more significantly, the Perry plan will provide \$2.5 billion -- or an average of \$375 per student - in new funding for Texas schools in the next biennium. The Governor also is recommending that the one-time funding of \$1.2 billion passed by the legislature last session will continue to go toward public education.

Gov. Perry's plan also will increase equity in public schools by putting 98 percent of students in the equalized system - a significant increase in equity over the current system. The increased equity includes \$1.2 billion to raise the guaranteed yield to \$29.50 per student by 2007 and \$100 million per biennium to provide additional help for students who speak a language other than English when they enter school.

PRESERVING TEXAS' JOB CLIMATE

Recognizing that the soundest fiscal policy for funding government programs is through economic expansion and job creation, Gov. Perry has made job creation a cornerstone of his administration.

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Gov. Perry's comprehensive plan will take Texas down the pathway to prosperity, a place that balances job creation and education, without harming one in the name of the other.

It is a blueprint for progress that improves our schools, preserves the job climate and protects Texans' wallets.

This plan offers a fine balance of providing tax relief without implementing broad-based job-killing taxes.

Gov. Perry's plan creates the certainty in tax structures that employers need when making crucial decisions on relocating, expanding and starting business ventures.

Gov. Perry funds his plan with revenue sources that focus on tax fairness, unhealthy behaviors or voluntary actions.

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EDUCATIONAL EXCELLENCE PLAN

Gov. Perry's Educational Excellence & Property Tax Relief plan ensures that educational excellence will be the primary focus in every classroom and provides additional resources to assist schools with meeting that standard. Texas schools have performed admirably in meeting the minimum standards established by the accountability reforms of the 1990s. Now it is time to usher in a new era of higher expectations for Texas public schools and the 4.2 million children they serve.

Gov. Perry's plan calls for \$2.5 billion in new funding for public schools, including the \$1 billion per biennium Gov. Perry previously proposed in results-based incentives to schools that demonstrate excellence in the classroom. Gov. Perry also is recommending that the one-time funding of \$1.2 billion passed by the legislature last session continue to be allocated for public education.

RESULTS-BASED INCENTIVES

Gov. Perry's Education Excellence Plan provides \$500 million annually in additional funding for schools with high levels of achievement in the classroom through results-based incentives. School districts will receive incentive funding based on the prior year's student performance in the areas targeted by the incentives and school districts would have significant discretion as to how the additional funds are used. The incentives are:

- **High School Advancement Incentive:** To help secure the future of Texas children, we must ensure that they advance to graduation. This incentive provides schools with an additional \$100 per student who advances from the 9th to the 10th grade, \$200 per student who advances from the 10th to the 11th grade, and \$300 per student who advances from the 11th to the 12th grade.
- **Algebra I Incentive:** Algebra is a critical gateway course in high school and a predictor of success in higher level math courses and in college, yet many of our high school students struggle with this course. To increase the number of students who master Algebra, the Perry plan provides an additional \$100 incentive to schools for each student who passes the Algebra I end of course exam. \$200 will be provided for each at-risk student who passes the exam. Based on 2002-2003 data, Texas public schools would have received \$20 million in results-based performance incentive funding under this proposal.

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- **Distinguished Graduate Incentive:** To further prepare Texas students for success in college and in the workplace, we need to encourage students to take the most challenging high school courses and graduate under the Distinguished Achievement Program. This program requires a student to exceed the Recommended High School Program requirements in several areas. A student must earn three credits in a foreign language and must meet a combination of four other performance measures, including an extensive research project where the students must defend their work before a panel of experts in the area of research; achieving a score of 3 or higher on an Advanced Placement or International Baccalaureate Exam; achieving National Merit competition recognition or be designated a National Merit Scholar; and earning credit in a college course with a grade of B or higher. This incentive provides an additional \$1,000 per student who graduates under the Texas' highest graduation standard – the Distinguished Achievement Program. \$2,000 will be provided for each at-risk distinguished graduate.
- **Limited English Proficiency Incentive:** To provide an incentive for our schools to help students with Limited English Proficiency advance in the mainstream of public education, the Perry plan provides for schools to receive an additional \$100 per LEP student who passes all sections of the TAKS, an amount which is doubled (\$200 total) for each student who achieves commended performance on all sections of the TAKS, which is answering approximately 90% of the tested items correctly. Based on 2002–2003 enrollment data, Texas public schools would have received \$10.3 million in results-based performance incentive funding under this proposal.
- **Commended Performance Incentive:** In 2002–2003, fewer than 116,000 of the 2.5 million students who took the TAKS test achieved the level of “commended performance,” which is given to students who score 90 percent or above on all TAKS tests taken at their grade level. To maximize the number of students achieving the highest level of performance on the TAKS test, the Perry plan would provide schools with \$100 for every student who achieves “Commended Performance on all sections of the TAKS test. An additional \$100 (\$200 total) will be awarded for each at-risk student meeting this level of achievement.
- **Teaching Excellence Incentive:** Rewarding excellence will help attract and retain the most effective teachers and help address the teacher shortage. To help accomplish this, the Teacher Excellence Incentive establishes a \$200 million

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incentive fund dedicated to rewarding teachers who excel in the classroom and to providing \$5,000 stipends to highly effective teachers teaching high need schools.

To participate, school districts must devise a district wide program to reward teaching excellence. Awards will be based on individual campus achievement and flow through the district directly to teachers locally selected for their classroom effectiveness and excellence. A district may also devise a program that will reward additional stipends to teachers who choose to teach or are assigned to struggling schools. The Texas Education Agency will administer the Teacher Excellence Incentive program and will ensure 100 percent of administered funds flow directly to teachers.

- **Student Progress Incentive:** This program establishes a \$100 million incentive fund dedicated to providing grants to school districts that have made substantial improvement toward meeting the standards established by the education excellence incentives. The goal is to provide school districts with additional funds based on improvement toward excellence. The funds would be distributed through a grant program administered by the Texas Education Agency.

Education spending in Texas has increased by \$7.1 billion since 1999 and school districts had revenue and receipts of \$40.7 billion during the 2002-03 school year. Gov. Perry's proposal focuses the future of our system on funding educational excellence and includes important incentives that will reward excellence in the classroom.

The Perry plan will provide an average increase of \$375 per student in funding school districts by the 2006-2007 school year.

	\$ (millions)
High School Advancement	\$154.4
Commended Performance	\$12.2
Distinguished Achievement	\$14.2
Algebra End-Of Course Exam	\$20
Limited English Proficiency	\$10.3
Teacher Excellence	\$200

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Student Progress Initiative	\$100
Total Per year	\$511.1

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FISCAL ACCOUNTABILITY

The Truth in Spending initiative will measure educational results in relation to district financial decisions to ensure that tax dollars are being efficiently spent and students are receiving a quality education. The Texas Education Agency (TEA) will implement an improved financial accountability system to rate school districts based on fiscally responsible management practices. Some factors that should be considered are:

- Properly defined and appropriate administrative costs
- High percentages of funding going directly to the classroom
- Tax burden compared to other similarly situated districts
- Appropriate levels of protection against fraudulent activity
- Strong correlation between school district expenditures and student performance
- Effective personnel management practices
- Transparency in financial reporting, ensuring taxpayers are fully informed about school district financial practices

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PROPERTY TAX RELIEF FOR HOMEOWNERS AND EMPLOYERS

THE CUT:

Gov. Perry's Educational Excellence & Property Tax Relief plan will provide an immediate 25 cent cut in residential property tax rates, reversing nearly a decade's worth of school property tax rate increases. From 1993 to 2002, school property taxes for maintenance and operations increased 26 cents per \$100 in assessed value (**Chart 1**).

The Perry plan provides \$3.2 billion to reduce school property taxes through a new constitutionally-established linked tax base. The \$3.2 billion:

- Provides a school property tax rate reduction of 25 cents per \$100 of valuation for all of the state's **residential** property tax owners. The school property tax bill on the average-priced home (\$167,000) in Texas will drop from \$2,422 to \$2,004 in one year, a savings of \$418 (**Chart 5**).
- Provides as much as 10 cents property tax rate reduction for most **employers** and establishes a statewide \$1.40 business property tax rate.

The plan provides a constitutionally-linked tax roll, with protections for business and residential taxpayers. Residential and business rates will be linked. Under a proposed constitutional dedication of future surplus state revenues, **residential and business property owners will get proportional reductions of school tax rates until both reach 75 cents per hundred dollars of valuation.**

The current \$1.50 cap for school district maintenance and operations taxes will be reduced to \$1.25 for residential property.

School districts will continue to tax residential property. The state will tax business property at a rate of \$1.40 per \$100 in assessed value. The rate cannot be increased without a 2/3 vote of both houses of the legislature and a statewide vote of the people, the highest protection afforded in Texas.

CAP AND CONTROL

Gov. Perry's proposal also protects Texans – both homeowners and employers – from uncontrolled and ever-rising property taxes. School taxes are 60 percent of the property tax pie, but this plan addresses the full 100 percent (**Chart 2**). Without meaningful caps and

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controls, other local taxing jurisdictions will be left to fill the taxing void when school tax rates are cut, and will be able to do so even without raising rates.

This plan controls the excessive growth in property taxes by placing a **3 percent cap on annual appraised value increases** for residential property. Business property is protected through a **property tax revenue cap** which applies to both types of property.

From 2000 to 2002, property tax bills have gone through the roof driven by skyrocketing appraisals. This is true for counties, cities, and school districts. As shown in **Chart 3**, the dark areas represent the portion of tax increases brought about by appraisal creep, and the smaller light areas represent the portion brought about from tax rate hikes. As appraisals rise, Texans' tax bills rise with them, creating property tax increases far above the rate of inflation or property owners' ability to pay.

Gov. Perry's proposed property tax revenue cap will allow local governments to continue to fund services at current levels, by allowing adjustments for population growth and inflation increases, but also ensures that rate reductions are not offset by government growing faster than population and inflation. Voters may approve increases above the cap to meet their local priorities.

Both residential and business taxpayers are protected by capping the amount of property tax revenue local governments can raise without a vote of the people. This protects employers from a shift in the tax burden. If appraisals skyrocket, then tax rates will be lowered comparably to ensure that taxpayers' bills do not rise more than the capped amount.

Chart 4 shows the increase in taxes we can expect six years from now if property taxes are not capped. Under the current system without a meaningful revenue cap, Texans are on pace to pay \$46.6 billion in property taxes by 2010. With the proposed revenue cap tied to growth in population and inflation, they will pay \$1.1 billion less in 2005 and \$7.4 billion less by 2010. This represents a cumulative savings to taxpayers of more than \$24 billion over six years.

The **disclosure of sales price information** and the **barring of prospective unfunded mandates** from the state to local governments are also important taxpayer protections provided under the Perry plan.

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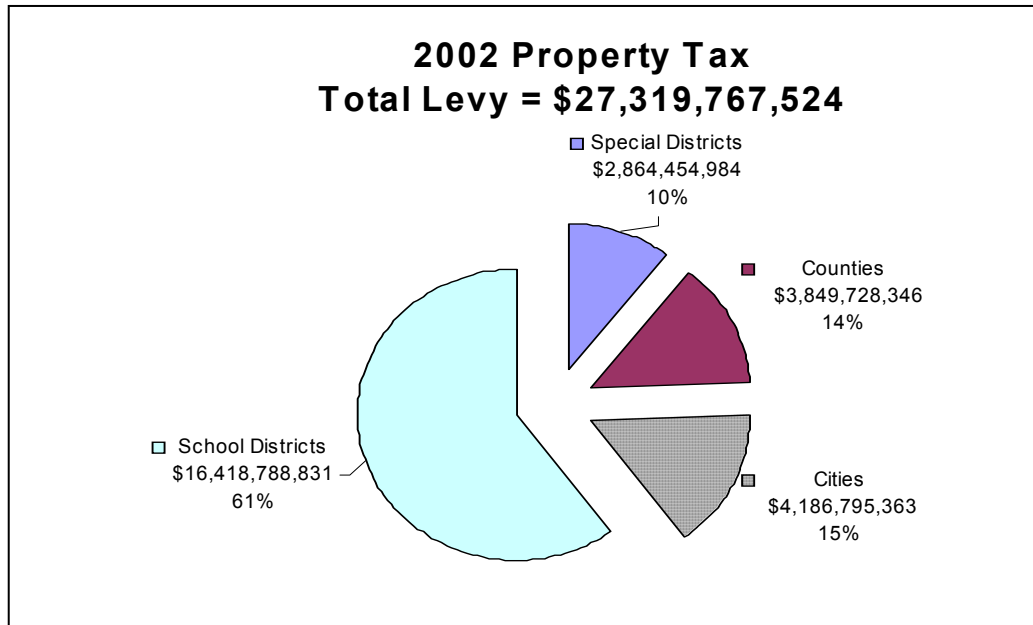
CHART ONE

It took almost a decade for school maintenance and operations taxes to increase from an average of \$1.17 to \$1.43, or 26 cents.

Tax year	Average Maintenance and Operations Tax Rate
1993	\$1.17
1994	\$1.20
1995	\$1.22
1996	\$1.24
1997	\$1.26
1998	\$1.30
1999	\$1.36
2000	\$1.38
2001	\$1.39
2002	\$1.43

Source: Texas Comptroller of Public Accounts, Annual Property Tax Reports (various years)

CHART



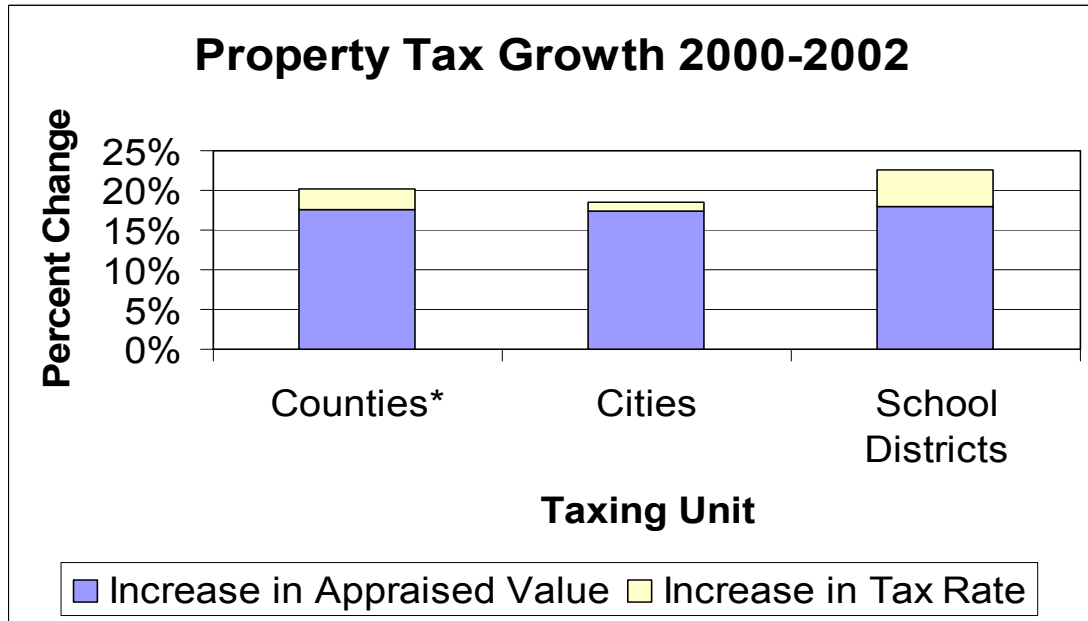
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Source: Texas Comptroller of Public Accounts, 2002 Annual Property Tax Report

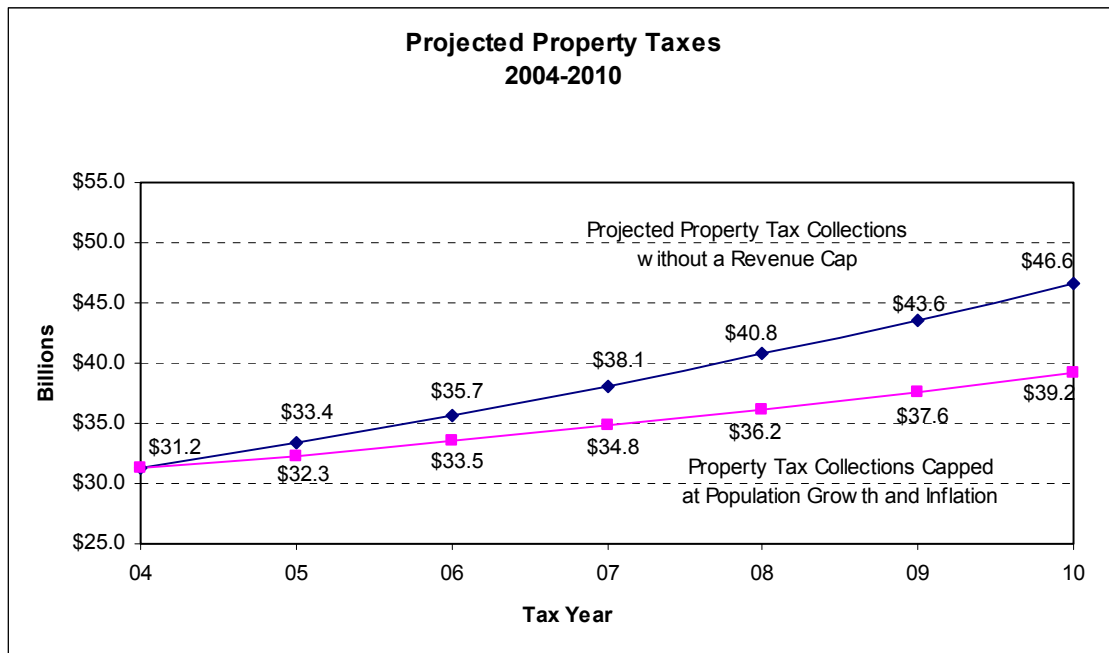
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CHART THREE



*Market value is used for counties; taxable value is not reported
 Source: Texas Comptroller of Public Accounts, Annual Property Tax Reports (various years)

CHART FOUR



2010 Savings:
\$ 7.4 B

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Estimated Total Savings over 6 years of \$24.6 Billion **Relief**

CHART FIVE

Estimated Savings from a 25 cent School Property Tax Rate Reduction (Residential)

Average Home Price (Dec 2003, Texas Real Estate Center)	\$167,000	
2003 Average School Maintenance and Operations Property Tax Rate/\$100 in value:	\$1.45	
Less: Governor's Proposed School Tax Rate Reduction for Residential Property	\$0.25	-17%
Total revised rate	\$1.20	
Average Priced Home		
Annual school property tax bill at current tax rate	\$2,422	
Annual school property tax bill at reduced tax rate	\$2,004	-17%
Difference (annual savings from 25 cent reduction)	\$418	

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ELIMINATES “ROBIN HOOD” AND IMPROVES EQUITY IN SCHOOL FINANCE

The Perry plan calls for a constitutional amendment to establish a constitutionally linked tax base to replace the “Robin Hood” school finance scheme.

Eliminates “Robin Hood”

The constitutionally linked tax base allows the elimination of “Robin Hood” by moving business property into a statewide tax system and leaving residences on the local tax roll. That means taxes collected on residential properties will continue to flow directly to local schools, while taxes on business properties will be distributed by the state.

Under Gov. Perry’s constitutionally linked tax base, it costs \$3.2 billion to reduce property tax rates 25 cents, compared to \$6 billion to lower both residential and business rates. Gov. Perry is using the savings to fund education.

Cost of Business and Residential Property Tax Buy Down Under Current System Cost of Reducing School District Tax Rates For All Categories of Property (In Billions)

	2006–2007 biennium	2008–2009 biennium	2010–2011 biennium
10 cents per year	\$3.6	\$8.0	\$13.2
25 cents, then 5 cents per biennium	\$6.0	\$8.0	\$10.3
50 cents	\$12.0	\$13.3	\$14.6
75 cents	\$18.1	\$19.9	\$22.0

This is the state’s cost of writing a check to the school district for the tax rate decrease

The plan provides for local control by allowing schools to continue to tax residential property within their districts.

Property taxes have grown as appraisals have continued to rise, which has caused property tax revenues for schools to be higher than the state’s contribution. Over time, this has led to an imbalance, where locally collected property taxes are paying the majority of school costs. The linked base would remedy this by increasing the state’s share of public education funding to approximately 60 percent as the state distributes revenue from non-residential property.

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Under the Perry plan, approximately 98 percent of students will be within an equalized system, significantly more than under the current system.

Local Enrichment

Beginning in 2007, districts will be allowed up to 5 cents per biennium for local enrichment up to a total cap of 15 cents. This enrichment can only occur after a vote of the people on a uniform election date.

Improves Equity

A district where property is more valuable can raise more money per penny of its tax rate than a poorer district. Funding equity means that school districts have substantially equal access to similar revenues per pupil at similar tax efforts. In the Edgewood opinions, the Supreme Court of Texas focused on funding equity as a goal of public school funding.

Gov. Perry's Educational Excellence & Property Tax Relief plan substantially improves public education equity by increasing the number of students in the equalized system to approximately 98 percent.

The increase in equity to approximately 98 percent under Gov. Perry's plan is achieved by two components:

- I. The plan increases state guaranteed yield payments from \$27.14 to \$29.50 per pupil per penny of tax effort, with funding through the Educational Excellence Fund.

One of the ways to implement substantially equal access to revenue is for the state to guarantee districts receive a minimum revenue level. The state currently achieves this using the guaranteed yield allocation, an element of the state's school funding formulas. The state guaranteed yield funding formula works as a floor, so that districts whose local wealth and tax efforts produce less than the guaranteed yield receive additional state aid, while those districts whose wealth and tax efforts produce more than the guaranteed yield amount do not get additional state funds. By raising the floor (i.e., the guaranteed yield), equity is increased because fewer districts are above the floor, and the additional state funds ensure a higher percentage of districts have access to a greater funding level.

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- II. The constitutionally linked tax roll also increases equity by reducing disparities in the tax base by shifting business property from the local district base to the state base.

One of the main reasons for disparity in the amount of revenue school districts can raise from local property taxes is that there is more business property in some districts than in others. The districts with more valuable business property are often able to raise considerably more revenue per penny of tax rate than property-poor districts. The court found that this resulted in inequalities that conflicted with the Texas Constitution's requirement for an efficient system of public schools.

The wider disparity in values of business property works against the principle of similar access to revenue from similar tax effort. For example, a district with even a single highly valuable business property may be able to set a lower overall tax rate because of the value of that single property. Conversely, a district without such a high value business property may have to charge a higher overall tax rate. Moving business property to a statewide base works to improve equity by reducing such distortions at either end of the spectrum, resulting in districts with more stability in their residential base.

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CONSTITUTIONALLY LINKED TAX RATES

- By linking the local residential property tax rate with a statewide business property tax rate, the Perry plan ends Robin Hood and the state funds a higher share of the cost of public schools without a major tax bill.
- Local and statewide tax rates would be linked in the constitution, so that when residential property tax rates drop, so do property taxes for businesses. This prevents school property tax burdens from shifting to employers.
- The school taxes from all residential property, including rental property, will stay in the local school district, to be spent educating local children.
- Business property moves to a statewide property tax roll where it will be utilized to provide equity among school districts.
- School property tax rates will immediately be cut by 25 cents on all residential property, saving taxpayers \$3.2 billion.
- The \$1.50 cap on residential property tax rates will immediately be lowered to \$1.25.
- Non-residential school property tax rates will be capped at \$1.40, providing up to 10 cents in rate reductions for most employers. The cap could not be raised without a constitutional amendment, which requires passage by a 2/3 majority in both houses of the legislature and a statewide vote of the people, the highest protection afforded in Texas.
- The Constitution would dedicate a portion of all future budget surpluses to buying down school property tax rates to 75 cents for residences and employers. Two-thirds of surplus funds would be dedicated to reducing tax rates and to increasing funding to public schools and 1/3 to other state needs.
- The linked tax base works in tandem with Gov. Perry's Taxpayer Protection Plan, which limits appraisal increases to 3 percent a year on residential property. It also caps property tax revenue growth, limiting it to inflation and population growth. Voters have the opportunity to vote on increases above the cap.

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NOTE: School property tax rate refers to maintenance and operation rate.

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FINANCE COMPONENTS

BIENNIUM 06-07

Tax Reductions / Elimination of 'Robin Hood' In Billions

Tax reduction through Constitutionally Linked Roll: 0.25 reduction for residential / \$1.40 rate for Employers	\$3.2
State share of appraisal district costs / Honor local TIF's and abatements	\$0.2
Subtotal	\$3.4

Education Excellence Fund In Billions

Achievement Incentive Proposals	\$1.0
Hold Harmless estimate (includes \$0.3 billion of \$110 WADA)	\$1.1
Bilingual weight change from 0.1 to 0.12	\$0.1
Equalized Enrichment	\$0.3
Increase Tier 2 guaranteed yield from \$27.14 To \$29.50 (includes \$0.9 billion of \$110 WADA)	\$1.2
Subtotal	\$3.7

TOTAL COST	----- \$7.1
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REVENUE OPTIONS

(in millions)

	2005	2006	2007	Total
Video lottery at race tracks*/lottery enhancements	\$400	\$800	\$800	\$2,000
Increase cigarette and tobacco taxes**	747	897	794	2,438
Increase cigarette surcharge of 50 cents/pack on NPMs	55	44	35	134
Close franchise tax loopholes**	238	238	238	714
Reduce sales tax fraud (SB 1952, Reg.)		86	86	172
Tax revenue acceleration			1,200	1,200
Adult entertainment admission fee (\$5 minimum)		45	45	90
Improve collection of delinquent taxes		175	175	350
Total revenue options	\$1,440	\$2,285	\$3,373	\$7,098

*assumes 1-1-05 effective date with first revenue beginning on 3-1-05

**assumes 9-1-04 effective date

Video lottery terminals and lottery enhancements. Subject to voter approval of a constitutional amendment, video lottery terminals (VLTs) would be allowed at the state's race tracks and participating Indian reservations. Other revenue enhancement ideas include expanding lottery retailers to include bars and restaurants and authorizing the sale of certain online lottery tickets at the gas pump as a convenience. Proceeds from VLTs will be dedicated in the constitution to education.

Cigarette and tobacco products taxes. The cigarette tax would be increased \$1 from 41 cents per pack to \$1.41 per pack effective 9-1-04. The tax on other tobacco products would be increased proportionally.

Cigarette surcharge on non-participating manufacturers (NPMs). The new surcharge would be paid by the cigarette manufacturers that are not making payments to the state under the tobacco settlement agreement. This new charge would be in lieu of the tobacco settlement. The average payment by participating manufacturers is 42 cents per pack and the higher 50-cent rate will allow for some "catch up" payments. This fee would ensure that NPMs don't have an unfair competitive advantage and pay their fair share to the state that are comparable to the costs attributable to cigarette use.

Close franchise tax loopholes. Close loopholes that allow corporations to avoid the franchise tax by creating limited partnerships owned by Delaware subsidiaries. Use a "nexus" approach by establishing that limited partnerships owned by out-of-state corporations are doing

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business in Texas. Disallow income-shifting transactions between related companies that are not for legitimate business purposes. This will not include other partnerships owned by individuals or sole proprietorships.

Reduce auto sales tax fraud. Establishes a minimum presumptive value for used cars subject to the sales tax. Prohibits the transfer of title if the sales price is less than the standard presumptive value. The current system allows individuals to undervalue the car and avoid paying taxes. This measure does not increase any taxes, but prevents tax fraud.

Tax revenue Acceleration. These changes would help eliminate the time lags associated with the collection of sales and franchise tax payments. The monthly sales tax payment cycle could be permanently changed to collect taxes earlier, producing an extra month of revenue in the 2006–07 biennium. In addition, the franchise tax payment cycle could be changed to require quarterly payments rather than annual. This is the primary payment method used in other states and the federal government.

Adult entertainment fee of \$5. Impose a fee on admissions to sexually-oriented businesses that provide live nude entertainment. The fee would be the greater of \$5 per customer or 50% of the cover charge for admission.

Improve collection of delinquent taxes. The state could use private collection agents to enhance tax collections and generate additional revenue from delinquent tax collections.

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SUSTAINS AND ENHANCES A HEALTHY JOB CLIMATE

Governor Perry's chief aim is to build a Texas of unlimited opportunity and greater prosperity. He is committed to enhancing Texas' economy and job-creation ability by providing a climate where businesses can grow and prosper. Since January of 2003, while the rest of the country has been in a recession, Texas has added over 15,400 new jobs and \$6.4 billion in new capital investment announced.

The governor realizes that education and the economy are bound together. Employers are dependent on our schools for well-educated graduates to fill positions in the 21st century economy, and our schools are dependent on the private sector to provide the tax revenue needed to fund schools and provide jobs for the graduates of the future.

Our schools and our employers succeed together. When there is a proper balance when the economy lifts up our schools...and when our schools lift up the economy Texas prospers.

The Texas Legislature is to be complimented for its diligence last year in closing a \$10 billion budget shortfall without raising taxes and passing historic tort reform. The state's leadership worked with me in providing a \$295 million Enterprise Fund. Thus far the fund has been used to created thousands of new jobs in Texas. And Texas is helping to lead the nation in the economic recovery, thanks in part to its low tax rate and excellent schools.