HOUSE
RESEARCH
ORGANIZATION bill analysis | 4/3/2003 | HB 245 | J. Keffer

SUBJECT:	Rearranging counties' reimbursement formula for vehicle sales tax collection
COMMITTEE:	Ways and Means — favorable, without amendment
VOTE:	7 ayes — Wilson, McCall, Hilderbran, J. Keffer, Luna, Paxton, Ritter 0 nays 2 absent — Pitts, Woolley
WITNESSES:	For — Kristeen Roe, Tax Assessor/Collectors Association of Texas Against — None

BACKGROUND:

Counties collect motor vehicle sales taxes and registration fees on the state's behalf and remit them to the comptroller. Motor vehicle sales taxes are general revenue, whereas most motor vehicle registration fees are deposited into the State Highway Fund (designated by the comptroller as Fund 6).

Prior to 1992, counties were reimbursed for collecting motor vehicle sales taxes by retaining 5 percent of their monthly receipts. They were reimbursed for collecting registration fees through a formula giving them a $60,000 base amount, plus an amount figured on their county road miles, plus half of fee collections up to $125,000.

In 1991, to increase general revenue, the 72nd Legislature approved a comptroller's recommendation to change counties' motor vehicle sales-tax reimbursement method. Since 1992, counties have had to send the state all their motor vehicle sales-tax collections and add into the vehicle registration reimbursement formula the equivalent of 5 percent of their previous year's motor vehicle sales-tax collections (including penalties).

Under the current formula set forth in Transportation Code, sec. 502.102, county tax assessor-collectors first must credit $60,000 to their county road and bridge funds each calendar year; then add $350 for each mile of county-maintained road up to 500 miles; then add amounts equal to 5 percent of the preceding calendar year's motor vehicle sales-tax collections plus 5 percent of local seller-financed motor vehicle sales taxes collected by the comptroller – referred to in the aggregate as the 5 percent commission – before finally adding half the registration fees collected up to $125,000 – known as the 50-50 split.

DIGEST: HB 245 would rearrange the formula used to determine the amount of motor vehicle registration fees and sales taxes retained by county tax assessor-collectors as reimbursement for processing motor-vehicle transactions, including tax and fee collection. Under the bill, the 5 percent sales-tax reimbursement calculation would be placed in the formula after the 50-50 fee split calculation.

If registration fee collections were insufficient to cover the amount that a county was authorized to retain for its road and bridge fund, the comptroller would have to make up the deficiency on request of the county tax assessor-collector. The bill would add this provision to the Transportation Code and repeal a substantially similar provision in the Tax Code.

The bill would take effect January 1, 2004.

SUPPORTERS SAY: Since 1992, the motor-vehicle sales-tax reimbursement formula has penalized counties with small populations that do not register large numbers of vehicles. HB 245 would rectify this inequity.

Small counties often do not collect enough vehicle registration fees to reimburse themselves the full 5 percent for vehicle sales-tax collection. Consequently, they must wait an entire year to be reimbursed by the state. These counties do not benefit from the immediate use of funds or from any investing of the 5 percent commission. Some counties actually lose part of their registration money because of the way the reimbursement is calculated. Losses, though relatively small in dollars, can be equivalent to up to a cent in the local property tax rate or the annual salary of a full-time employee.

Moving the sales-tax reimbursement to the end of the formula would allow all counties to take advantage of the 50-50 split, thereby receiving full payment of both sales taxes and registration fees. Doing so would not end the delay that some smaller counties experience, but neither would it affect reimbursement of larger counties. Currently, 88 counties, including many with populations below 15,000 and limited fiscal resources, would benefit from this long overdue change in an unintentionally unfair methodology.

This technical modification will have a slight but positive impact on general revenue, not insignificant given the state's current fiscal situation. The negative impact on Fund 6 would be negligible, given its size.

OPPONENTS SAY:

HB 245's fiscal note estimates that the proposed reimbursement formula would cost Fund 6 $4 million over the next five years. At a time when Texas' transportation needs are going unmet and roadways are becoming more congested and less safe, this is hardly the time to penalize Texas motorists. This change, however well-intentioned, should be postponed.

OTHER OPPONENTS SAY:

The entire motor vehicle sales-tax reimbursement formula is needlessly punitive because it is improperly based on a variable beyond counties' control: the volume of vehicle sales. The formula change was an accounting gimmick designed to generate more general revenue for the state during an economic downturn. The Legislature should undo what should have been a stop-gap approach and restore the reimbursement method to its pre-1992 format.

County roads and bridges are overburdened and deteriorating. Many have become hazardous and in dire need of repair, but counties lack the money to do so. County motorists, many of whom live in the state's most populous and fastest growing urban areas, deserve the full benefit of the original formula.

NOTES:

According to the fiscal note, the bill's net effects would be a $957,000 increase in general revenue, a decrease of just under $4 million in revenues to the State Highway Fund (Fund 6), and an increase of just over $3 million increase to county road and bridge funds over the next five fiscal years. Annual gains in general revenue would rise from $180,000 in fiscal 2004 to $197,000 in fiscal 2008, while annual losses to Fund 6 would rise from $748,000 to $821,000 during the same period. Increases to counties' road and bridge funds would rise from $568,000 in fiscal 2004 to $624,000 in fiscal 2008.

This bill and fiscal note are virtually the same as a bill and fiscal note considered by the 77th Legislature in 2001. SB 180 by Fraser passed the

Senate and was reported favorably as substituted by Ways and Means, but died on the General State Calendar.