HOUSE
RESEARCH
ORGANIZATION bill analysis | 5/8/2009 | HB 464 Paxton

SUBJECT: Dynamic fiscal impact statements for certain bills affecting taxes and fees

COMMITTEE: Ways and Means — favorable, without amendment

VOTE: 10 ayes — Oliveira, Bohac, Hartnett, Hilderbran, C. Howard, P. King, Paxton, Peña, Taylor, Villarreal

0 nays

1 absent — Otto

WITNESSES: For — (*Registered, but did not testify:* Reggie Bashur, Verizon; Jeffrey Clark, Technology Association of America; Liza Gonzalez, Greater San Antonio Chamber of Commerce; Cindy Mallette, Americans for Prosperity; Ryan Paylor, Texas Conservative Coalition)

Against — None

BACKGROUND: Government Code, sec. 314.001, requires the Legislative Budget Board (LBB) to prepare a fiscal note estimating the cost of a bill or resolution that would authorize the expenditure of state funds for a purpose other than one provided for in the general appropriations bill. Sec. 314.003 requires the fiscal note to be attached to the bill or resolution and remain with the bill throughout the legislative process, including submission to the governor.

DIGEST: HB 464 would require the Legislative Budget Board to prepare a "dynamic fiscal impact statement" for each bill or joint resolution:

- that would raise or lower the rate or amount of a tax or fee or propose an amendment to the Texas Constitution that would raise or lower the rate of a tax or fee; and
- for which the bill or resolution's fiscal note indicated a positive or negative impact on revenue would be at least $100 million during a period of nor more than five years.

Each dynamic fiscal impact statement would be based on "dynamic scoring principles" and would be attached to the bill or resolution following the fiscal note.

The bill would define “dynamic scoring principles” as a means for estimating the pace of economic growth or the change in the aggregate level of economic output and income in response to a change in the rate of a tax or fee. The methods used in these principles would have to take into account:

- the impact fee receipts and program costs;
- the effect on incentives to work, save, invest, and conduct economic affairs;
- the resulting change in the overall level of economic activity;
- the impact of a change in the level of economic activity on tax or fee receipts and program costs;
- the impact on the unified budget.

For the five-year period beginning on the effective date of the bill or joint resolution, the statement would project the fiscal and economic impacts of the proposal. This would include the impact on:

- tax or fee receipts; and
- the costs of any program the tax or fee was designed to support.

The bill would take effect September 1, 2009.

SUPPORTERS SAY:

By directing the LBB to provide a dynamic fiscal impact statement on tax legislation, HB 464 would apply the principles of dynamic scoring in order to provide legislators with a more balanced and complete picture of the effect that proposed fiscal changes could have on state government revenue and the Texas economy. Dynamic scoring would estimate the impact that higher or lower economic activity resulting from a given policy change would have on program costs and tax receipts. Dynamic fiscal impact statements would help Texas lawmakers take better account of the effect of fiscal policy on the state’s overall economy.

HB 464 particularly would be helpful in obtaining a more complete picture of the effect of a tax cut or increase on the Texas economy and on state government receipts. It is a well-understood economic principle that tax policy influences individual behavior and that tax cuts in particular stimulate consumption and economic activity. However, static fiscal analysis of the kind currently used for a fiscal note only takes into account the negative impact of a tax cut on the state’s treasury. A static fiscal note fails to recognize that if a reduction in taxation led to an expansion of

Texas' gross state product, the base on which that tax was applied could expand. Alternatively, any tax increase might be shown to generate less than expected if the tax increase diminished economic activity in the state. A dynamic fiscal analysis would take these types of effects into account, likely predicting a more realistic impact on state revenue than generated from static analysis.

Legislators have benefited in the past from the type of information that would be included in the dynamic fiscal impact statement required under HB 464. For example, when the Legislature considered revising the franchise tax under HB 3 by Keffer during the 79th Legislature's 2005 regular session, the comptroller's office prepared a supplemental dynamic fiscal analysis indicating that the net effect of the legislation would have led to a $5.9 billion dollar increase in personal income and an increase of more than 88,000 jobs. HB 464 would ensure that similar analysis would accompany all significant tax legislation, so that legislators understood fully the long-term economic effects that legislation likely would have.

HB 464 simply would add another tool to the toolbox of legislators as they tried to determine the pros and cons of complex tax legislation. The dynamic fiscal impact statement required under HB 464 would not supplant the static fiscal note, which would continue to be included with every bill. HB 464 simply would give legislators additional information to consider when voting on large tax bills.

It is unlikely that the inclusion of a dynamic fiscal impact statement with a bill would slow the legislative process. In order to perform the type of analysis required under HB 464, it is likely that the LBB and Comptroller's Office would develop an economic forecasting model into which information from a tax proposal could be entered. In fact, several such models currently exist and are used by state governments across the county.

OPPONENTS SAY:

A dynamic fiscal impact statement by its nature would be speculative and likely less accurate than the projections currently produced for a bill's fiscal note. It is relatively easy for the LBB to predict the cost to the state of a tax cut. Further, it is relatively straightforward to estimate the marginal decline in tax revenue associated with a fee increase for a commodity for which the elasticity of demand is known, such as gasoline or cigarettes. Such predictability allows these effects to be factored into the analysis included in a fiscal note. Further, such estimates are represented in the Comptroller's Biennial Revenue Estimate and budget certification at the beginning and end of each legislative session. The cascading economic effects that would be considered in a dynamic fiscal note almost certainly would be less accurate. Inclusion of this analysis along with a fiscal note could lead lawmakers to invest more confidence in such a report than should be given, possibly leading lawmakers to base long-term fiscal policy on an unacceptably shaky foundation.

Although dynamic scoring often is promoted by those who favor lower taxes, the simple fact is that tax cuts do not pay for themselves. Often, the economic impact of tax legislation represents only two to three percent of the overall cost of a tax bill. Further, because the Texas Constitution requires a balanced budget, tax cuts inevitably have costs associated with them. A dynamic fiscal impact statement for a tax cut bill might show a positive impact for the economy only because the negative economic consequences associated with cutting critical government services to pay for the tax cut were not included.

In order to be accurate and useful, a dynamic scoring model would have to allow for multiple variables and be based on extensive research. For this reason, it is possible that inclusion of a dynamic fiscal impact statement could delay the consideration of some bills by the Legislature. Given the challenging deadlines that the LBB and the Comptroller's Office already must operate under when analyzing tax legislation, it is possible that this additional report could slow the consideration of tax legislation by the Legislature.

OTHER OPPONENTS SAY:

Tax legislation certainly has economic impacts, but other activities of government produce positive and negative economic effects as well. If dynamic scoring were to be applied to tax legislation, it only would be appropriate to apply similar methodologies to the analysis of legislation making expenditures. For example, additional funds dedicated by the state to public and higher education, highway and infrastructure projects, job training programs, health-care programs, and many other priorities likely would show a positive and substantial impact on the state's economy and future tax receipts. For this reason, dynamic fiscal impact statements should be applied to any policy proposal likely to have a significant impact to Texas' economy.

NOTES: During the 2007 regular session, the House by 137-5 passed a similar bill, HB 2786 by Paxton, which died in the Senate Finance Committee.