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INTERNATIONAL RELATIONS & TRADE

May 3, 2005

The Honorable Steve Ogden, Chairman  
Senate Finance Committee  
E1.038, Capitol Extension  
Austin, TX

The Honorable Florence Shapiro, Chairman  
Senate Education Committee  
Room 440, Sam Houston Building  
Austin, TX

Dear Steve and Florence:

I have shared with our Senate colleagues in letters dated May 3, 2004, and April 12, 2005, my specific thoughts on how best to address the present school finance dilemma. With utmost appreciation for the work that you have both done toward finding a solution, allow me to summarize what I believe to be the most practical approach at this date:

1. No statewide property tax. Instead, I recommend that we simply buy down the tax rate. Unless other components ultimately contained in either HB 2 or 3 require a constitutional amendment, there is no reason to jeopardize funding over this one issue. We as a legislative body understand today how to create an equitable bill. Memorializing such in the State Constitution is unnecessary. Further, language in the proposed amendment seems far too restrictive in terms of meeting the state's future financial needs.
2. Buy down the M&O rate to \$1.25. A reduction of 25 cents from the present statutory cap is significant - - and it's all that we can afford. I support allowing local enrichment in the amounts proposed in your latest outline. I suggest that we strike from statute the present M&O cap altogether.
3. Expand the franchise tax to all business entities (excluding "passive" real estate and oil/gas partnerships) above that of sole proprietorship. Close the Delaware and Geoffrey loopholes. Computations should continue to be based upon earned surplus (profit) of a business. As a compromise to recent proposals, we should add back 20% of all wages under the theory that such a percentage captures the dollar equivalent of top-tier compensation. The present (alternative) .25% calculation on capital intensive entities should be dropped altogether. The "effective" tax rate upon earned surplus should be moved to 5.5%, assessed upon a sliding scale so that businesses earning less than \$500,000 per year pay perhaps 2.5%, while those earning substantially more might max out at 6.5%. To the state's wealthiest businesses, the elimination of the .25% alternative rate assessed against capital should make a

modestly higher rate assessed upon apportioned profits an acceptable trade off.

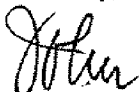
4. Raise funding to as high as \$4.0 billion, as opposed to the present \$2.7 billion that has been mentioned in Senate talks. The fundamental issue should be *adequacy* in education funding – not tax relief.

Recommendations in Item 3 will raise an additional \$3.2 billion in 07 over current law, according to LBB numbers provided to me. This allows for the proposed property tax buy-down (and more). In exchange for \$4.0 billion in funding for education, raise the sales tax by a full penny for an additional \$2.1 to 2.25 billion. Beyond that, consider those other funding sources already presented to the Senate as needed to balance the bill.

**My point is simply this: These are indeed alternatives to the present plan before the Finance Committee.** Nothing I've suggested above requires a constitutional amendment and, to the extent it raises new dollars, it will all be going toward education and tax relief. Nobody deserving of the office of State Senator is going to be defeated at the polls for adequately funding our schools and casting a vote for lower property taxes. This is one among several possible alternatives that will fix the problem without devastating the Texas business climate.

Thank you for your consideration.

Sincerely,



John Carona

cc: Senate Members  
The Honorable David Dewhurst