LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 2, 2003

TO: Honorable John Whitmire, Chair, Committee of the Whole Senate

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB5** by Grusendorf (Relating to public school finance.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB5, As Engrossed: a negative impact of ($155,775,000) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	($672,400,000)
2005	$516,625,000
2006	($70,000,000)
2007	($70,000,000)
2008	($70,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193
2004	($672,400,000)
2005	$516,625,000
2006	($70,000,000)
2007	($70,000,000)
2008	($70,000,000)

Fiscal Analysis

The bill provides $150 per student to all school districts in 2004 and in 2005 in addition to what is generated by districts through the current law funding formulas. A number of other school finance-related provisions are included in this bill; the provisions with fiscal implications include the following: The eligibility date for the Existing Debt Allotment is "rolled forward" to include debt for which a payment was made in the 2002-03 school year. A provision which would otherwise expire under current law providing additional state assistance to school districts that do not offer all grades is extended for fiscal year 2005. This bill creates assistance for certain small school districts under a stipulated formula. A provision for adjusting the cost of education index is also included, but only takes effect if surplus funds are available. A provision requiring the state to fund 50% of the school finance system by 2007 is included, but without a formula mechanism. Such a provision could likely cost upwards of $3 billion but due to the lack of specificity on the formula the costs are not included in the table.

The bill directs the commissioner of education to reduce state aid payments to school districts in 2005 if the final taxable value of property is greater than the amount used to estimate payments. The bill defers the August 2005 Foundation School Program payment to September 1, 2005.

Methodology

The cost to provide $150 per ADA is approximately $602 million in fiscal year 2004 and $615 million in 2005. Approximately 10% of the cost would be in the form of reduced revenue from Chapter 41 payments.

The new allocation to small districts will cost approximately $10 million in 2004 and $19 million in 2005. The cost to maintain higher property wealth levels in certain small districts teaching less than all 12 grades is $12 million in 2005.

The provision directing the commissioner to refrain from overpaying school districts in 2005 is estimated to reduce state aid payments by a range of $300-400 million. The August FSP payment is estimated to be in the $800-900 million range.

The cost to fund additional debt in the EDA is estimated to be $60 million per year, but there is the potential that it could be higher, since the change in this bill would allow districts to issue debt between now and the end of the year and make a debt service payment from available funds to make the new debt eligible. The proration of yield mechanism should limit the fiscal impact to whatever funds are appropriated.

The classroom supply program has been estimated to cost several million dollars per year, but the bill only authorizes a non-general revenue source of funds. Until a funding source is identified, it will be assumed that this feature of the bill has no impact on General Revenue.

The repeals in Section 11 and the continuation of Chapter 46 or Chapter 42 payments for debt service purposes will result in substantial savings, but the laws would continue in effect if the legislature fails to adopt a replacement law by September 1, 2004. The engrossed version indicates that the repeal does not impair obligations created by various types of indebtedness prior to September 1, 2004. School districts would be allowed to continue issuing bonded debt and taxing for debt service.

Local Government Impact

Local school districts would experience a net increase in available resources as a result of this legislation.

Source Agencies: 701 Central Education Agency
LBB Staff: JK, SD, UP