

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, a state ad valorem tax, state general sales and use taxes, state taxes on the sale or use of a motor vehicle, and property tax relief for residential tenants.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB5, Committee Report 2nd House, Substituted: a negative impact of (\$16,805,000,000) through the biennium ending August 31, 2005.

The bill is dependent on passage and enactment of SJR 1 that would raise \$16.1 billion in the 2004-05 biennium in new state revenue.

Additional General Revenue appropriations for public education are contained in the Senate version of HB 1.

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	(\$60,000,000)
2005	(\$16,745,000,000)
2006	(\$17,497,000,000)
2007	(\$18,189,000,000)
2008	(\$18,941,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from New Texas Education Fund 193
2004	(\$60,000,000)
2005	(\$16,745,000,000)
2006	(\$17,497,000,000)
2007	(\$18,189,000,000)
2008	(\$18,941,000,000)

Fiscal Analysis

The bill replaces the existing school finance system including the means by which the system is funded. This bill defines the Texas Education Excellence Program as guaranteeing school districts adequate resources to provide instructional programs and facilities suitable to the student's needs, and providing access to a substantially equalized program to finance enrichment.

The bill guarantees \$4,300 in state aid per weighted pupil (WADA) as the basic program. The calculation of WADA is redefined. It is assumed that the redefinition of WADA is intended to create the equivalent of the current law tier I definition of WADA, but the language contains some ambiguities. A hold harmless is created to ensure that no school districts earns less revenue per WADA than under the school finance system in place in 2004. Local school districts may levy an ad valorem tax for enrichment purposes. The tax rate is limited, and a state guarantee of \$32 per penny per pupil is provided. School districts are prohibited from granting a local option exemption on the enrichment tax.

The bill does not amend the current law provisions regarding debt service. However, it does create an automatic "roll-forward" of the date on which school district debt is eligible for funding under the Existing Debt Allotment.

The bill creates the Education Excellence Task Force comprised of members appointed by the governor, lieutenant governor and the speaker of the house of representatives. The Task Force is charged with various duties, including presentation of a report by December 1, 2004 with specific recommendations on how to improve student academic performance, increase high school graduation rates and revise the education funding formulas and weights.

Methodology

The state guarantee of \$4,300 per WADA results in a gross state cost of \$16.4 billion in 2005 increasing to \$17.9 billion in 2008, including the cost of transportation. The hold harmless provision is an additional state cost of \$285 million per year. The bill does not provide a mechanism for local enrichment in fiscal year 2005 and limits the 2006 enrichment rate to \$0.05. For the purposes of this estimate, it is assumed that local school districts will access an additional \$0.025 of enrichment tax effort each year. The cost to the state of that tax effort is about \$200 million per year. If fully accessed by local school districts, the cost to the state of \$0.05 enrichment is approximately \$414 million in 2006. The total maximum cost to the state of the allowable \$0.10 of enrichment is approximately \$828 million per year.

The provision to roll forward the date for Existing Debt Allotment eligibility is a \$60 million annual state cost.

Local Government Impact

The bill would substantially change the formula by which districts generate state aid. Due to the hold harmless provision, districts are ensured of no loss in total revenue and many districts gain revenue. Given that the preponderance of school districts are at or approaching the current law \$1.50 cap on maintenance taxes, the provision allowing districts access to \$0.10 of unrecaptured and equalized enrichment provides additional budget capacity to districts.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JK, SD, UP