

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

February 4, 2003

TO: Honorable Kent Grusendorf, Chair, House Committee on Public Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB604 by Grusendorf (Relating to public school finance.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB604, As Introduced: an impact of \$0 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	\$0
2005	\$0
2006	\$9,137,000,000
2007	\$9,325,000,000
2008	\$9,899,000,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from FOUNDATION SCHOOL FUND 193
2004	\$0
2005	\$0
2006	\$9,137,000,000
2007	\$9,325,000,000
2008	\$9,899,000,000

Fiscal Analysis

The bill would repeal Chapters 41, 42, 45 and 46 of the Texas Education Code, which serve as the primary statutes governing public school finance, effective September 1, 2005. The repealed provisions include the wealth sharing mechanisms in Chapter 41, the state aid for operations provisions in Chapter 42, bond and tax authorization provisions in Chapter 45, and debt service equalization programs in Chapter 46. The bill would prohibit local school districts from adopting a tax rate for the 2005 tax year.

The repeal of Chapters 42 and 46 would substantially eliminate state aid entitlements to schools if not replaced by new law, except for the Available School Fund distribution.

Methodology

The bill sunsets existing school finance laws. The estimate of fiscal impact assumes that the 79th Legislature will not adopt comparable laws providing for a school finance system and local tax authorizations. Action taken by the 79th Legislature replacing the sunset school finance system would result in a revised fiscal impact.

The bill would eliminate all state aid programs in Chapters 42 and 46. The statutory authorization for local taxes to support public schools would cease. There is a reasonable question as to the legitimacy of previous authorizations, but the bill contains a provision that prohibits adoption of a tax rate for the 2005 tax year. If local districts cannot impose property taxes, the local revenue loss would be substantial. As a measure, Comptroller's Office estimates that if local property taxes were not imposed during the 2004-2005 biennium, local districts would lose approximately \$35 billion in revenue. This revenue loss would probably be greater in subsequent school years.

School districts would be prohibited from issuing bonded debt, and would apparently not have the ability to pay for existing debt by levying taxes. This may raise an impairment of contracts issue, one which could be adequately handled with new law in the 79th Legislature.

Local Government Impact

The bill would have significant fiscal implications for local school districts. Districts would lose both local revenue by virtue of the elimination of the ability to adopt a local property tax and state aid, as noted above. There would also be a significant loss in Federal funding associated with the suspension of state aid payments. Public school operations would likely cease due to the lack of revenue, unless the 79th Legislature replaced the state financing system for local schools.

Source Agencies: 304 Comptroller Of Public Accounts, 701 Central Education Agency

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