

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

February 27, 2003

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

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB717 by Truitt (Relating to the cost of education adjustment.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB717, As Introduced: a negative impact of (\$722,300,000) 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 | (\$203,000,000) |
| 2005 | (\$519,300,000) |
| 2006 | (\$834,000,000) |
| 2007 | (\$1,032,000,000) |
| 2008 | (\$1,032,000,000) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>FOUNDATION SCHOOL FUND</i> 193 | Probable Savings/(Cost) from <i>GENERAL REVENUE FUND</i> 1 |
|-------------|--|--|
| 2004 | (\$203,000,000) | \$0 |
| 2005 | (\$519,000,000) | (\$300,000) |
| 2006 | (\$834,000,000) | \$0 |
| 2007 | (\$1,032,000,000) | \$0 |
| 2008 | (\$1,032,000,000) | \$0 |

Fiscal Analysis

The bill would direct the Commissioner of Education to determine the cost of education adjustment based on a statistical analysis, taking into account uncontrollable factors such as teacher salaries and benefits. The adjustment must be developed by an independent organization.

Implementation of the new adjustment would be phased-in, such that 20 percent occurs in fiscal year 2004, 50 percent in fiscal year 2005, and 80 percent in fiscal year 2006. The current adjustment would be gradually phased-out by inverse proportions (80%, 50%, 20% in each year respectively). A hold-harmless would be used so that state aid is not reduced as a result of implementing the new adjustment in all future years.

The Commissioner would be required to determine a new adjustment for use in fiscal year 2007,

and every four years thereafter.

Methodology

Texas Education Agency estimated the cost of a three-year average teacher salary and benefits approach to the cost of education (CEI) adjustment, based on findings from a University of Texas Dana Center study. This analysis identified full implementation cost of \$917 million for fiscal year 2004. The agency also found that the cost to maintain current state aid funding (i.e., a hold-harmless provision) would be approximately \$100 million per year. Annual costs were estimated by TEA using the phase-in schedule mentioned above. For 2007 and 2008, the costs reflect the Dana Center index, since the adjustment to update it has not yet been identified.

Local Government Impact

School districts would experience significant increases as reflected in the fiscal impact table above.

Source Agencies: 323 Teacher Retirement System, 701 Central Education Agency

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