

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION**

**April 22, 2003**

**TO:** Honorable Dianne White Delisi, Chair, House Committee on State Health Care Expenditures, Select

**FROM:** John Keel, Director, Legislative Budget Board

**IN RE: HB3257** by Delisi (Relating to the establishment of a defined contribution health care benefits program for active school employees.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3257, As Introduced: a negative impact of (\$672,664,414) 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	(\$672,664,414)
2006	(\$700,540,732)
2007	(\$710,617,434)
2008	(\$722,443,952)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/(Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Change in Number of State Employees from FY 2003
2004	\$0	\$0	2.0
2005	(\$1,185,448,170)	\$512,783,756	2.0
2006	(\$1,220,711,615)	\$520,170,883	2.0
2007	(\$1,257,032,964)	\$546,415,530	2.0
2008	(\$1,294,443,952)	\$572,000,000	2.0

**Fiscal Analysis**

The bill would establish a defined contribution health care benefits program for active public and charter school employees, effective September 1, 2004. This bill proposes to replace the current health insurance program for public school employees with a Texas Public School Employees Health Reimbursement Arrangement Program. The Teacher Retirement System would be responsible for administering the program. The program would replace the current TRS-ActiveCare group health coverage program .

Under this program, the state would provide contributions of \$3,000, for each participating employee to a health reimbursement account established for that employee. Only those employees who participate in this plan will be eligible to receive the state contribution. This contribution would replace the \$1,000 compensation supplement currently received by public education employees.

Conforming amendments include changes that affect the Foundation School Program. Beginning in fiscal year 2005, the equalized wealth level would be reduced from \$305,000 per student in weighted average daily attendance (WADA) to \$297,500. The bill would also reduce the guaranteed yield from \$27.14 to \$25.53. The bill repeals several sections of the Education Code related to the current public school employees' health insurance program, including the additional state aid for employee benefits that provides funding for a \$900 annual insurance allotment.

### **Methodology**

The cost associated with a \$3,000 per employee annual contribution, assuming 600,000 school district employees is estimated to be approximately \$1.8 billion per year beginning in fiscal year 2005. This cost would increase by 3 percent each year due to growth in the school district workforce.

Based on the experience of the Employee Retirement System administering a similar program, which administers a smaller-scale voluntary program for state employees, the Teacher Retirement System estimates a cost of \$10 million per year to finance the administrative cost associated with a health care reimbursement arrangement program. The TRS estimate is based on a \$16 annual cost per school district and charter school employee, and assumes over 600,000 employees. The Teacher Retirement System indicates that two additional full-time equivalent employees would be necessary.

Savings due to reducing the guaranteed yield and the equalized wealth level, and eliminating the \$900 insurance allotment hold harmless are estimated by the Texas Education Agency to be \$512.8 million in fiscal year 2005. Savings associated with eliminating the \$1,000 compensation supplement are estimated to be \$624.6 million in fiscal year 2005. Combined savings for fiscal year 2005 are estimated to be \$1,173 million.

### **Local Government Impact**

School districts would be relieved of the requirement to expend funds for the purpose of employer health insurance contributions. At the present time, that requirement is estimated for fiscal year 2005 to be approximately \$1.35 billion, and would likely increase by 3% each year. School districts would also experience a loss of revenue from the state equivalent to about \$513 million in 2005, rising to about \$572 million by 2008.

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

**LBB Staff:** JK, JO, EB, UP, RN