

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 21, 2003

TO: Honorable Teel Bivins, Chair, Senate Committee on Finance

FROM: John Keel, Director, Legislative Budget Board

IN RE: HB3459 by Pitts (Relating to fiscal matters involving certain governmental educational entities, including public school finance, program compliance monitoring by the Texas Education Agency, funding for regional education service centers, amounts withheld from compensatory education allotments, the public school technology allotment, the accounting for the permanent school fund, refunding of certain student loan bonds, funding for the higher education fund, health insurance coverage provided by certain educational entities, the uses of the telecommunications infrastructure fund, and the regulation of driver education schools.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3459, As Engrossed: a positive impact of \$999,270,830 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	(\$55,215,000)
2005	\$1,054,485,830
2006	(\$399,334,187)
2007	\$413,303,067
2008	\$426,319,439

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND</i> 1	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND</i> 193	Probable Savings/(Cost) from <i>TELECOMMUNICATIONS INFRA FUND</i> 8345	Probable Revenue Gain/(Loss) from <i>RETIRED SCHOOL EMP GROUP INSURANCE</i> 989
2004	\$616,785,000	(\$672,000,000)	(\$140,800,000)	\$53,567,983
2005	\$551,485,830	\$503,000,000	(\$143,600,000)	\$113,992,668
2006	\$460,665,813	(\$860,000,000)	\$0	\$121,288,199
2007	\$473,303,067	(\$60,000,000)	\$0	\$129,050,643
2008	\$486,319,439	(\$60,000,000)	\$0	\$137,309,885

Fiscal Year	Change in Number of State Employees from FY 2003
2004	(19.0)
2005	(19.0)
2006	(19.0)
2007	(19.0)
2008	(19.0)

Fiscal Analysis

The bill makes a number of substantive revisions to statutes governing public education, higher education and the Teacher Retirement System. The following sections of the bill have fiscal implications for the state:

Section 1 of the bill repeals Texas Education Code chapters 41,42 and 26, as well as section 45.002. Section 2 incorporates a requirement to reach 50 percent state funding in the school finance system by September 1, 2007.

Sections 5 and 38 would remove the statutory basis for state funding of core services at Education Service Centers (ESCs). Section 6 authorizes the use of non-general revenue funding to reimburse teachers for classroom supplies. Section 9 would eliminate the three-year monitoring cycle for bilingual education.

Sections 10, 12 and 36 would change the method of finance for the technology allotment from the general revenue Available School Fund (ASF) to the general revenue-dedicated Telecommunications Infrastructure Fund (TIF).

Section 15 extends for one additional year a protection for certain property wealthy school districts that do not teach all 12 grades.

Section 17 provides additional funding to all school districts outside the Foundation School Program structure, providing \$150 per student in average daily attendance (ADA) in both 2004 and 2005. This section also provides state funds in each year of the biennium to districts through a formula based on weighted ADA in comparison to ADA.

Section 19 would allow the state to avoid overpaying state aid to school districts in certain instances. Section 20 would delay the final fiscal year 2005 payment from the FSP until the following fiscal year.

Sections 21 and 22 would move the accounting for the ASF from a cash to an accrual basis by redefining the fund to include unrealized interest and dividends. Sections 23 and 24 change the eligibility for the Existing Debt Allotment by rolling forward by two years the date by which a district must make a payment in order to be eligible.

Sections 30 and 31 of the bill would increase the active public education employees' contribution rate to the retiree insurance program from 0.25 percent to 0.50 percent of salary in 2004, with a further raise to 0.75 in 2005 and thereafter.

Sections 32-35 of the bill would reduce the compensation supplement for active school district employees from the current \$1,000 annual supplement per employee to a \$550 annual supplement for teachers, nurses, counselors, librarian, \$300 for support staff, and \$200 for part-time staff. Administrative professional staff would not receive any supplement. The bill would also require new employees to wait 90 days before receiving the supplement. The last month of fiscal year 2005 supplement payment would be deferred until fiscal year 2006.

Section 37 would allow the commissioner of education to contract for driver training to be carried out by a private or other public entity.

Section 39 of the bill would also transfer \$42 million from the TRS insurance fund for active school

district employees to the TRS retiree health insurance program. Because this would be an inter-fund transfer, it has no fiscal impact to the state.

Methodology

Section 1: The repeals in Section 1 would result in substantial savings, but the laws would continue in effect if the legislature fails to adopt a replacement law by September 1, 2004. Therefore no savings estimate is included in the fiscal note. Because the bill contains no formula mechanism for achieving the policy target of 50 percent state funding of school finance in section 2, the cost is not included.

Sections 5 and 38: Under the assumption that state assistance currently earmarked for core services at ESCs would be eliminated, TEA estimates an annual savings of \$33,574,000.

Section 6: Reimbursing teachers for classroom supplies is estimated to cost \$7.4 million per year; however, the commissioner may fund this provision only with non-general revenue funds. With no identification of potential sources for this funding, this cost is not included in the fiscal note.

Section 9: Eliminating the three-year monitoring cycle for bilingual education would result in administrative savings at the agency estimated to be 5 full-time equivalent positions, with corresponding salary, travel and other operating savings of \$320,269 per year.

Sections 10, 12, and 36: Funding the technology allotment with TIF entails a cost to the general revenue-dedicated TIF estimated at \$140.8 million in 2004 and \$143.6 million in 2005 (representing \$35 per student annually). Because this change makes available ASF that can be used to offset the general revenue cost of the Foundation School Program, there is a savings to the state of approximately \$120 million a year. However, because a portion (about 10%) of the ASF savings would go to property wealthy districts with no state aid to offset, savings to general revenue is estimated to be 90% of the ASF savings, or \$108.6 million in 2004 and \$110.8 million in 2005. Costs to the TIF and savings to the ASF are not projected for fiscal years 2006 and beyond due to the expiration of TIF as a source of revenue according to current law.

Section 15: The cost to maintain higher property wealth levels in certain small districts teaching less than all 12 grades is estimated to be \$12 million in 2005.

Section 17: The cost to provide \$150 per ADA is approximately \$602 million in 2004 and \$615 million in 2005. Approximately 10 percent of the cost would be in the form of reduced revenue (appropriated receipts) from Chapter 41 payments.

Sections 19 and 20: Avoiding overpayment of state aid is estimated to save \$300- \$400 million in 2005. Delaying the final payment of the Foundation School Program is estimated to save \$800- \$900 million in 2005, but costing the same amount in 2006. The payment delay would result in \$8.3 million in additional borrowing costs in fiscal year 2005 related to cash flow. The net interest rate on this borrowing is assumed to be 1.125 percent. This cost is included in the general revenue estimate shown in the tables above.

Sections 21 and 22: Moving the accounting for certain assets of the Permanent School Fund from cash to accrual would result in an estimated one-time ASF revenue increase of \$100 million in 2004, and a corresponding savings to general revenue of \$90 million due to the cost associated with property-wealthy districts described above.

Sections 23 and 24: Rolling the eligibility date forward two years for the Existing Debt Allotment entails a state cost of approximately \$60 million annually. There is the potential for this amount to be higher, since the bill would allow districts to issue debt between now and the end of the year and make a debt service payment on it, thus making it eligible.

Sections 30 and 31: Increasing the active public education employees' contribution to 0.50 percent in fiscal year 2004 and 0.75 percent in fiscal year 2005, from the current 0.25 percent of salary would generate \$167.6 million to the Teacher Retirement System' trust fund, for the retired public education employees' insurance program, shown as "Other Funds" above, during the 2004-2005 biennium.

Sections 32-35: With regard to active school district employees, reducing the compensation supplement, excluding professional administrative staff from receiving any supplement, instituting a 90 day waiting period before new employees would receive the supplement, and deferring the last month of the biennium's supplement payment would generate approximately \$788.3 million in General Revenue savings for the 2004-2005 biennium.

Section 37: The contracting of driver training to an outside entity would allow TEA to reduce its FTEs by 14 FTEs. The fees related to this program would continue to flow through the agency, so this section is assumed to have no direct fiscal impact.

Local Government Impact

School districts could achieve some savings from the reduction in bilingual monitoring. To the extent districts need access to core services provided by ESCs, they may experience increases in fees charged by ESCs due to the elimination of state funding for these services. A number of Chapter 41 districts would gain revenue in 2004 and 2005 due to increased ASF per capita funding as a result of funding the technology allotment with TIF and the cash-to-accrual accounting change.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 701 Central Education Agency, 781 Higher Education Coordinating Board

LBB Staff: JK, SD, UP, JGM