

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

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

**May 31, 2003**

**TO:** Honorable David Dewhurst , Lieutenant Governor, Senate  
Honorable Tom Craddick, Speaker of the House, House of Representatives

**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, amounts withheld from and the use of compensatory education allotments, the public school technology allotment, the accounting for the permanent school fund, employee benefits provided by certain educational entities, the uses of the telecommunications infrastructure fund, and participation in a multijurisdictional lottery game. ), **Conference Committee Report**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3459, Conference Committee Report: a positive impact of \$2,449,717,175 through the biennium ending August 31, 2005, if sections of the bill take immediate effect; or a positive impact of \$2,333,717,175 through the biennium ending August 31, 2005, if the effective date of the bill is September 1, 2003.

The following table assumes an immediate effective date.

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

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND</i> <b>1</b>	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND</i> <b>193</b>	Probable Savings/(Cost) from <i>TELECOMMUNICATIONS INFRA FUND</i> <b>8345</b>	Probable Revenue Gain/ (Loss) from <i>TELECOMMUNICATIONS INFRA FUND</i> <b>8345</b>
2003	\$206,000,000	\$0	(\$116,000,000)	\$0
2004	\$502,600,527	\$794,500,000	(\$120,700,000)	\$41,223,000
2005	\$525,616,648	\$421,000,000	(\$123,000,000)	\$208,777,000
2006	\$64,420,410	\$21,000,000	\$0	\$0
2007	\$66,559,651	\$21,000,000	\$0	\$0
2008	\$66,336,504	\$21,000,000	\$0	\$0

Fiscal Year	Probable Revenue Gain/(Loss) from <i>RETIRED SCHOOL EMP GROUP INSURANCE</i> <b>989</b>	Change in Number of State Employees from FY 2003
2003	\$0	0.0
2004	\$134,515,879	(14.0)
2005	\$141,241,673	(14.0)
2006	\$148,303,757	(14.0)
2007	\$155,718,945	(14.0)
2008	\$163,504,892	(14.0)

The following table assumes an effective date of September 1, 2003

<b>Fiscal Year</b>	<b>Probable Savings/ (Cost) from GENERAL REVENUE FUND 1</b>	<b>Probable Savings/ (Cost) from FOUNDATION SCHOOL FUND 193</b>	<b>Probable Savings/(Cost) from TELECOMMUNICATIONS INFRA FUND 8345</b>	<b>Probable Revenue Gain/ (Loss) from TELECOMMUNICATIONS INFRA FUND 8345</b>
2004	\$592,600,527	\$794,500,000	(\$120,700,000)	\$41,223,000
2005	\$525,616,648	\$421,000,000	(\$123,000,000)	\$208,777,000
2006	\$64,420,410	\$21,000,000	\$0	\$0
2007	\$66,559,651	\$21,000,000	\$0	\$0
2008	\$66,336,504	\$21,000,000	\$0	\$0

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from RETIRED SCHOOL EMP GROUP INSURANCE 989</b>	<b>Change in Number of State Employees from FY 2002</b>
2004	\$134,515,879	(14.0)
2005	\$141,241,673	(14.0)
2006	\$148,303,757	(14.0)
2007	\$155,718,945	(14.0)
2008	\$163,504,892	(14.0)

### **Fiscal Analysis**

This bill makes a number of substantive revisions to statutes governing public education, the Telecommunications Infrastructure Fund, the Teacher Retirement System, and the Texas Lottery Commission. The following sections of the bill have fiscal implications for the state:

Section 1 of the bill, with Section 3, repeals Texas Education Code chapters 41, 42 and 26, as well as section 45.002, contingent upon the legislature enacting a school finance system to replace the one established by those chapters.

Section 4 of the bill restricts the Texas Education Agency's (TEA's) monitoring of school districts to the extent necessary to comply only with federal law, financial accountability and data integrity, with exceptions for state law regarding special education and certain accreditation procedures.

Section 17 authorizes the use of non-general revenue funding to reimburse teachers for classroom supplies. Sections 20, 22 and 59 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 31 reduces the career and technology education allotment of the Foundation School Program (FSP) by decreasing its funding weight from 1.37 to 1.35.

Section 34 allows the state to avoid overpaying state aid to school districts in certain instances. Section 35 delays the final monthly payment from the FSP for each fiscal year until September of the following fiscal year.

Sections 36 and 37 move the accounting for the Permanent School Fund (PSF) from a cash to an accrual basis by redefining the fund to include unrealized interest and dividends.

Sections 40 and 41 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.

Section 43 delays membership in and contributions to the Teacher Retirement System (TRS) retirement program for 90 days.

Sections 50 and 56 prohibit TRS from excluding in its two insurance programs a general hospital in a county in the Texas-Louisiana border area that has a population between 100,000 and 175,000, if the hospital agrees to provide services subject to the same terms and conditions as other hospital providers in the plan.

Section 51 increases the state contribution to the TRS-Care retiree insurance program from 0.50 percent to 1.0 percent.

Section 52 increases the active employee contribution contribution to the TRS-Care retiree insurance program from 0.25 percent to 0.50 percent.

Section 53 establishes a school district contribution to the TRS-Care retiree insurance program of between 0.25 percent and 0.75 percent.

Sections 57 and 76, for the 2004-2005 biennium, the bill would reduce the compensation supplement for active school district employees from the current \$1,000 annual supplement per employee to a \$500 annual supplement per full time employee and \$250 for part-time employees. 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 the fiscal year 2005 supplement payment would be deferred until fiscal year 2006. Beginning in fiscal year 2006 and thereafter, the supplement would return to the \$1,000 level for all employees, but there would continue to be a 90 day delay for new employees. If the provision regarding the exclusion of professional staff stays in effect after fiscal year 2005, then there would be savings that are not reflected in this fiscal note.

Section 60 raises the revenue limit on the Telecommunications Infrastructure Fund from the current \$1.5 billion to \$1.75 billion.

Section 62 transfers \$42 million from the TRS insurance fund for active school district employees to the TRS retiree insurance program. Because this would be an inter-fund transfer, it has no fiscal impact to the state.

Section 68 would apparently override any conflicting provision in House Bill 1 and establish the guaranteed yield at \$25.81 per weighted student per penny of tax effort. It is assumed that the intent of this provision is to retain the guaranteed yeild at current law levels, which is \$27.14. If in fact the intent of this provision is to reduce the guaranteed yield below current law levels there would be substantial savings to the state. This provision has no impact on school districts' entitlement to additional revenue in House Bill 1.

Sections 78 and 79 authorize the Texas Lottery Commission to participate in operating, marketing and promoting a multijurisdiction lottery game or games.

## **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.

Section 4: Restricting TEA monitoring to only federal and special education state law would result in administrative savings at the agency estimated to be approximately 14 full-time equivalent positions, with corresponding salary, travel and other operating savings of \$874,592 per year.

Section 17: 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.

Sections 20, 22 and 59: Funding the technology allotment with TIF entails a cost to the general revenue-dedicated TIF estimated at \$120.7 million in 2004 and \$123.0 million in 2005 (representing \$30 per student annually). Because this change makes available ASF that can be used to offset the

general revenue cost of the Foundation School Program, this represents a savings to the state. 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. Scenario 1 of this fiscal note assumes that these sections would take immediate effect, adding a cost to the TIF of approximately \$116.0 million but resulting in a GR savings of \$104.4 million in 2003.

Section 31: The reduction in Tier 1 and Tier 2 allotments, and a related impact on Chapter 41 payments, due to the reduction of the career and technology funding weight is approximately \$17 million per year.

Sections 34 and 35: Avoiding overpayment of state aid is estimated to save \$300- \$400 million in 2005. Shifting the final payment of the Foundation School Program to September of the following fiscal year is estimated to save \$800-\$900 million in 2004.

Sections 36 and 37: 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, and a corresponding savings to general revenue of \$90 million due to the cost associated with property-wealthy districts described above. Scenario 1 of this fiscal note assumes immediate effect, increasing revenue in 2003. Scenario 2 assumes that these provisions would take effect September 1, 2003, resulting in increased revenue in 2004. It should be noted that under scenario 2, a move to total return for the PSF would significantly reduce the revenue gain of these provisions.

Sections 40 and 41: Rolling the eligibility date forward two years for the Existing Debt Allotment entails a state cost of approximately \$60 million annually. However, section 69 directs \$20 million of an amount allocated for facilities in 2005 for the instructional facilities allotment.

Section 43: Delaying state contributions for new employees to TRS for 90 days results in general revenue savings of \$42,020,174 in fiscal 2004 and \$43,280,779 in fiscal 2005. The Teacher Retirement System has indicated that this provision would increase its actuarial unfunded liability by approximately \$15 million.

Sections 50 and 56: Prohibiting TRS from excluding certain hospitals from its networks would increase the cost of providing insurance. The extent of the increase depends on the cost associated with the geographic area stipulated by the bill.

Section 51,52,53: Increasing the active employees contribution to 0.50 percent from 0.25 percent would generate \$106 million to the TRS-Care retiree insurance program over the 2004-2005 biennium. Establishing a school district contribution of 0.40 percent of payroll would generate approximately \$170 million to the TRS-Care fund over the 2004-2005 biennium. Increasing the state's contribution rate to the TRS-Care program from 0.50 percent to 1.0 percent would cost the General Revenue fund \$212 million over the 2004-2005 biennium. Under current law, the 0.50 state contribution rate results in a need for a solvency supplement of \$1.1 billion. To the extent that the state contribution is increased, the solvency supplement is reduced. Therefore, the result of this provision is that the supplemental appropriation to TRS-Care would be reduced in the General Appropriations Act to show no net cost to the state. The new revenue associated with these provisions is reflected as a gain to "Other Funds" in the fiscal impact table above.

Sections 57 and 76: With regard to active school district employees, reducing the supplement to \$500 for full-time and \$250 for part-time employees, excluding professional staff from receiving any supplement, instituting a 90 day waiting period for the supplement, and deferring the last month of the biennium's supplement payment would result in approximately \$736.7 million in General Revenue savings for the 2004-2005 biennium. For fiscal year 2006 and each year thereafter, the 90 day waiting period for new employees to receive the \$1,000 supplement would save \$19.6 million in general revenue annually.

Section 60: Increasing the collections limit on the Telecommunications Infrastructure Fund from \$1.5 billion to \$1.75 billion would increase assessment revenue to the fund by approximately \$41 million in 2004 and \$209 million in 2005, at which point the fund would reach its \$1.75 billion cap. The

Comptroller estimates that continuing TIF assessments on telecommunications providers would result in a loss to general revenue tax receipts of approximately \$790,000 in 2004 and \$4 million in 2005. This is due to dynamic tax feedback effects created by an increase or decrease to an industry's tax burden.

Sections 78 and 79: The additional net revenue gained from the state's participation in a multijurisdiction lottery game or games, to be deposited into the Foundation School Fund, is estimated to be approximately \$37.5 million in 2004 and \$64 million each year thereafter.

### **Technology**

The bill is estimated to have no significant impact on state technology costs.

### **Local Government Impact**

Most districts would experience a decrease in revenues as a result of the reduced career and technology allotment. Many districts would benefit from additional Existing Debt Allotment funding. Some districts may be able to achieve modest savings in administrative costs as a result of diminished monitoring by the Texas Education Agency. Substantial local savings are likely due to the elimination of external audits of dropout records and, for most districts, audits of compensatory education expenditures. While individual district costs for these audits vary widely, anecdotal evidence suggests the average annual cost of a dropout audit is \$9,500 - \$10,000. Likewise, the average annual cost of auditing compensatory education expenditures is estimated to be \$9,000 – \$10,000 annually.

School districts would be required to contribute to the Teachers Retirement System retiree insurance program, at an estimated biennial cost of \$170 million. School districts could achieve some savings from the reduction in bilingual monitoring. A number of Chapter 41 districts would gain revenue due to increased ASF per capita funding as a result of funding the technology allotment with TIF and the Permanent School Fund cash-to-accrual accounting change.

According to the agency, allowing districts the authority to join political subdivision corporations may result in school district savings from the reduction in expenses for electric power. Provisions restricting district reporting also may reduce district costs.

### **Source Agencies:**

**LBB Staff:** JK, SD, JGM