LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 7, 2003

TO: Honorable Talmadge Heflin, Chair, House Committee on Appropriations

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB3459** by Pitts (Relating to fiscal matters involving certain governmental educational entities, including 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, state aid for certain courses taken in public schools, colleges, and universities, the accounting for the permanent school fund, funding for the higher education fund health insurance coverage provided by the Teacher Retirement System of Texas, and the uses of the Telecommunications Infrastructure Fund.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3459, Committee Report 1st House, Substituted: a positive impact of $2,159,620,014 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.

Estimated savings should be compared to funding levels sufficient to conform to current policies and law. Estimated savings should not be compared to agency Initial General Revenue/Building Block requests.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	$617,859,592
2005	$1,541,760,422
2006	($340,759,595)
2007	$469,377,659
2008	$482,394,031

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193	Probable Savings/(Cost) from *TELECOMMUNICATIONS INFRA FUND* 8345	Probable Revenue Gain/(Loss) from *OTHER FUNDS* 997
2004	$617,659,592	$200,000	($140,800,000)	$53,567,983
2005	$441,560,422	$1,100,200,000	($143,600,000)	$113,992,668
2006	$461,540,405	($802,300,000)	$0	$121,288,199
2007	$474,177,659	($4,800,000)	$0	$129,050,643
2008	$487,194,031	($4,800,000)	$0	$137,309,885

Fiscal Year	Change in Number of State Employees from FY 2003
2004	(14.0)
2005	(14.0)
2006	(14.0)
2007	(14.0)
2008	(14.0)

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 restricts the Texas Education Agency's (TEA's) monitoring of school districts to the extent necessary to comply only with federal law, save for special education monitoring which requires compliance with both state and federal law. Sections 2 and 35 would remove the statutory basis for state funding of core services at Education Service Centers (ESCs). Sections 6, 8 and 34 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 14 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 15 would allow the state to avoid overpaying state aid to school districts in certain instances. Section 17 would delay the final fiscal year 2005 payment from the FSP until the following fiscal year.

Section 16 of the bill would implement two Comptroller recommendations found in the supplemental e-Texas report: state aid to districts would be reduced to reflect the elimination of state funding for courses repeated by students, and to reflect the cost associated with former students enrolled in higher education developmental courses.

Sections 19 and 20 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 21 and 22 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 26 and 27of 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. It would authorize a new school district contribution to the Teacher Retirement System's retired public education employees' group insurance program to be specified in the General Appropriations Act.

Sections 29-33 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 36 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: 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.

Sections 2 and 35: 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.

Sections 6, 8, and 34: 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 14: 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 15 and 17: Avoiding overpayment of state aid is estimated to save $300 million in 2005. Delaying the final payment of the Foundation School Program is estimated to save $800 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%. This cost is included in the general revenue estimate shown in the tables above.

Section 16: The mechanism to reduce state aid to school districts for the cost of courses that students are repeating would save the state an estimated $5 million per year in 2004 and 2005 and $2.5 million in 2006. The state does not currently fund school districts on a per-course basis, and does not currently have a mechanism for tracking students who repeat courses. It is assumed that implementation of this aspect of the bill would result in administrative costs to the Texas Education Agency, but such costs are not identified. State aid reductions for students taking higher education remedial courses is estimated to save $38.2 million annually. This assumes that the commissioners of higher education and education determine the cost of remedial courses based on the general revenue provided via the higher education funding formulas.

Sections 19 and 20: 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 21 and 22: 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 26 and 27: 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, over the 2004-2005 biennium.

Sections 29-33: 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.

Local Government Impact

School districts could achieve some savings from the reduction in 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, 367 Telecommunications Infrastructure Fund Board, 701 Central Education Agency, 720 The University of Texas System Administration, 781 Higher Education Coordinating Board

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