

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 24, 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, amounts withheld from compensatory education allotments, the public school technology allotment, the composition of and accounting for the permanent school fund and the available school fund, health insurance coverage provided by certain educational entities, and the uses of the telecommunications infrastructure fund.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3459, Committee Report 2nd House, Substituted: a positive impact of \$2,627,339,740 through the biennium ending August 31, 2005, if certain sections of the bill take immediate effect; or a positive impact of \$2,511,339,740 through the biennium ending August 31, 2005, if the bill takes effect September 1, 2003.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

This table assumes an effective date of September 1, 2003.

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND</i> 1	Probable Revenue Gain/(Loss) from <i>AVAILABLE SCHOOL FUND</i> 2	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND</i> 193	Probable Savings/(Cost) from <i>TELECOMMUNICATIONS INFRA FUND</i> 8345
2004	\$919,403,871	(\$2,200,000)	\$757,000,000	(\$120,700,000)
2005	\$482,335,869	(\$2,200,000)	\$357,000,000	(\$123,000,000)
2006	\$394,815,982	(\$2,200,000)	(\$43,000,000)	\$0
2007	\$406,546,194	(\$2,200,000)	(\$43,000,000)	\$0
2008	\$416,156,302	(\$2,200,000)	(\$43,000,000)	\$0

Fiscal Year	Probable Revenue Gain/ (Loss) from <i>TELECOMMUNICATIONS INFRA FUND</i> 8345	Probable Revenue Gain/(Loss) from <i>RETIRED SCHOOL EMP GROUP INSURANCE</i> 989	Change in Number of State Employees from FY 2003
2004	\$41,223,000	\$152,133,072	(14.0)
2005	\$208,777,000	\$161,869,589	(14.0)
2006	\$0	\$172,229,242	(14.0)
2007	\$0	\$183,251,914	(14.0)
2008	\$0	\$194,980,036	(14.0)

This table assumes certain sections of the bill take immediate effect.

Fiscal Year	Probable Savings/ (Cost) from GENERAL REVENUE FUND 1	Probable Revenue Gain/(Loss) from AVAILABLE SCHOOL FUND 2	Probable Savings/ (Cost) from FOUNDATION SCHOOL FUND 193	Probable Savings/(Cost) from TELECOMMUNICATIONS INFRA FUND 8345
2003	\$206,000,000	\$0	\$0	(\$116,000,000)
2004	\$829,403,871	(\$2,200,000)	\$757,000,000	(\$120,700,000)
2005	\$482,335,869	(\$2,200,000)	\$357,000,000	(\$123,000,000)
2006	\$394,815,982	(\$2,200,000)	(\$43,000,000)	\$0
2007	\$406,546,194	(\$2,200,000)	(\$43,000,000)	\$0
2008	\$416,156,302	(\$2,200,000)	(\$43,000,000)	\$0

Fiscal Year	Probable Revenue Gain/ (Loss) from TELECOMMUNICATIONS INFRA FUND 8345	Probable Revenue Gain/(Loss) from RETIRED SCHOOL EMP GROUP INSURANCE 989	Change in Number of State Employees from FY 2003
2003	\$0	\$0	0.0
2004	\$41,223,000	\$152,133,072	(14.0)
2005	\$208,777,000	\$161,869,589	(14.0)
2006	\$0	\$172,229,242	(14.0)
2007	\$0	\$183,251,914	(14.0)
2008	\$0	\$194,980,036	(14.0)

Fiscal Analysis

The bill makes a number of substantive revisions to statutes governing public education, the Telecommunications Infrastructure Fund, the Teachers Retirement System and the Employees 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 3 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 11 eliminates the three-year monitoring cycle for bilingual education.

Section 9 authorizes the use of non-general revenue funding to reimburse teachers for classroom supplies. Sections 12, 14 and 48 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 20 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 21 allows the state to avoid overpaying state aid to school districts in certain instances. Section 22 delays the final monthly payment from the FSP for each fiscal year until September of the following fiscal year.

Section 23 with section 26 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. Section 24 and 25 make changes to the distributions from the PSF related to changing the basis of the distributions to a total return concept.

Sections 27 and 28 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 29, 30, and 31 defers the June, July and August transfers from the general revenue fund to the

Teacher Retirement System (TRS) and the Employees Retirement System (ERS) trust funds until September of each fiscal year. The deferrals would be paid with interest in September.

Sections 35 and 40 prohibit TRS from excluding a general hospital, all or part of which is located within the service area of the retiree or active school district insurance programs (TRS-Care and ActiveCare), in which at least two, but not more than four general hospitals are located, if the hospital agrees to provide services subject to the same terms and conditions as other hospital providers in the plan.

Section 37 increases the active public education employees' contribution rate to the TRS retiree insurance program, TRS-Care, from 0.25 percent to 0.50 percent of salary. Section 38 establishes a new school district contribution to the TRS retiree public education employees' group insurance program of between 0.25 and 0.75 percent of payroll.

Sections 41 and 52 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 a \$250 for part-time employees. Professional staff would not receive any supplement. It requires new employees to wait 90 days before receiving the supplement. The bill also defers the last month of the fiscal year 2005 supplement payment until fiscal year 2006.

Section 49 raises the revenue limit on the Telecommunications Infrastructure Fund from the current \$1.5 billion to \$1.75 billion.

Section 52 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.

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.

Sections 3 and 11: Restricting TEA monitoring to only federal and special education state law and eliminating the 3-year monitoring cycle for bilingual education 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 9: 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 12, 14 and 48: 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 2 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.

Section 20: 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 21 and 22: 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 23 and 26: 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 that these provisions would take effect September 1, 2003, resulting in increased revenue in 2004. Scenario 2 assumes immediate effect, increasing revenue in 2003. It should be noted that under scenario 1, a move to total return for the PSF would significantly reduce the revenue gain of these provisions.

Sections 27 and 28: 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.

Section 29, 30, and 31: The deferred retirement contributions would result in savings of \$326.6 million in General Revenue related to TRS contributions and \$42.2 million related to ERS contributions for fiscal year 2004.

Section 35: Requiring hospital participation in TRS-Care and ActiveCare provider networks, according to TRS, would increase the biennial cost of the Active Care plan for ISD employees by \$5 million and increase the biennial cost of TRS-Care by \$11 million.

Sections 37 and 38: Increasing the active public education employees' contribution to 0.50 percent from 0.25 percent would generate \$110.6 million to the retiree insurance program over the 2004-2005 biennium, shown as "Other Funds" above. Establishing a school district contribution of 0.46 percent of payroll, the contribution assumed in the Senate version of the proposed General Appropriations Act, would generate approximately \$203.4 million to the TRS retiree insurance fund over the 2004-2005 biennium.

Sections 41 and 59: With regard to the compensation supplement, or pass-through 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.

Section 49: 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.

Technology

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

Local Government Impact

School districts would be required to contribute to the Teachers Retirement System retiree insurance program, at an estimated biennial cost of \$203.4 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.

Source Agencies: 327 Employees Retirement System, 701 Central Education Agency

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