

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

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

**May 12, 2003**

**TO:** Honorable Kenny Marchant, Chair, House Committee on State Affairs

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

**IN RE: SJR13** by Ellis, Rodney (Proposing a constitutional amendment relating to the use of income and appreciation of the permanent school fund.), **As Engrossed**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SJR13, As Engrossed: a positive impact of \$535,753,243 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	\$260,541,549
2005	\$275,211,694
2006	\$128,507,135
2007	\$125,930,008
2008	\$128,943,689

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

Fiscal Year	Probable Revenue Gain from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Savings from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Savings from <i>GENERAL REVENUE FUND 1</i>	Probable Savings from <i>FEDERAL FUNDS 555</i>
2004	\$231,230,000	\$20,370,000	\$8,941,549	\$92,775
2005	\$229,926,000	\$31,471,000	\$13,814,694	\$143,338
2006	\$81,863,000	\$32,415,000	\$14,229,135	\$147,638
2007	\$77,887,000	\$33,387,000	\$14,656,008	\$152,067
2008	\$79,459,000	\$34,389,000	\$15,095,689	\$156,629

Fiscal Year	Probable (Cost) from <i>PERMANENT SCHOOL FUND 0044</i>
2004	(\$29,404,325)
2005	(\$45,429,032)
2006	(\$46,791,773)
2007	(\$48,195,076)
2008	(\$49,641,318)

## **Fiscal Analysis**

This resolution would propose a constitutional amendment to change the method for calculating the amount of Permanent School Fund (PSF) return that would be distributed annually.

Currently, only dividends and interest received by the PSF are distributed to the Available School Fund (ASF). This resolution would require that the annual distribution be an amount no greater than six percent of the average of the market value of the PSF, excluding real property belonging to the PSF, on the last day of each of the 16 state fiscal quarters preceding the regular legislative session that begins before that state fiscal biennium, in accordance with the rate adopted by: a) a vote of two-thirds of the total membership of the State Board of Education (SBOE), taken before the regular session of the Legislature convenes; or b) the Legislature by general law or appropriation, if the SBOE did not adopt a rate as provided for above. For fiscal years 2004 and 2005, the resolution requires that the annual distributions equal five percent of the average of the PSF market value, excluding PSF real property, for the 16 state fiscal quarters preceding the regular session of the 78th Legislature.

Currently, the expenses of managing PSF investments are paid by the ASF, and the expenses of managing PSF lands are paid by the General Land Office. The proposed amendment would require that both expenses be paid by appropriation from the PSF.

This bill would partially implement recommendation ED 9 from the Comptroller's e-Texas report, Limited Government, Unlimited Opportunity.

## **Methodology**

It is assumed that the provisions of the amendment would be effective beginning January 1, 2004. Beginning with the market value of the PSF at January 31, 2003, the Comptroller's office projected the total returns of the PSF over the next five years. For fiscal year 2004 and 2005 a distribution rate of 5 percent was used. It was assumed that for fiscal 2006 and forward, the SBOE would adopt a distribution rate of 4.5 percent. The total return and the distributions of the PSF were calculated to be sufficient to allow the distributions specified in the bill and used in the estimate and to preserve the purchasing power of the PSF. However, in years when the total return of the PSF was at the rate of inflation, or less, the payout to the ASF could be zero.

Cost savings are included for the transfer of investment expenses from the ASF and land management expenses from General Revenue and Federal Funds to the PSF. Fiscal year 2002 actual investment expenses of \$28.8 million were trended forward to estimate future investment expenses. Land management costs were provided by the General Land Office. Since the bill provisions would not be effective before the constitutional election, cost savings for fiscal year 2004 are shown only for the last eight months of the year.

## **Local Government Impact**

No fiscal implication to units of local government is anticipated. The requirement to pay the expenses of managing PSF land and investments out of the corpus of the PSF could impact the exempt status of school district bonds guaranteed under the PSF bond guarantee program.

## **Source Agencies:**

**LBB Staff:** JK, JO, RR, WP, DLBe