

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

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

**April 21, 2003**

**TO:** Honorable Florence Shapiro, Chair, Senate Committee on Education

**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 Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SJR13, As Introduced: a positive impact of \$330,364,243 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	\$155,598,549
2005	\$174,765,694
2006	\$219,500,135
2007	\$248,377,008
2008	\$283,265,689

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

Fiscal Year	Probable Revenue Gain from <i>AVAILABLE SCHOOL FUND</i> 2	Probable Savings from <i>AVAILABLE SCHOOL FUND</i> 2	Probable Savings from <i>GENERAL REVENUE FUND</i> 1	Probable Savings from <i>FEDERAL FUNDS 555</i>
2004	\$126,287,000	\$20,370,000	\$8,941,549	\$92,775
2005	\$129,480,000	\$31,471,000	\$13,814,694	\$143,338
2006	\$172,856,000	\$32,415,000	\$14,229,135	\$147,638
2007	\$200,334,000	\$33,387,000	\$14,656,008	\$152,067
2008	\$233,781,000	\$34,389,000	\$15,095,689	\$156,629

**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 equal to the lesser of 5 percent of the average of: (A) the market value of the PSF on the first day of that fiscal year; and (B) the market value of the PSF on the first day of the two preceding fiscal years; or a portion sufficient to preserve the purchasing power of the PSF over a ten year period.

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 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. Inflation estimates used in the projections were from the Comptroller's Fall 2002 State Economic Forecasts. The total return and the distributions of the PSF were calculated to be sufficient to allow the 5 percent distribution specified in the bill 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:** 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 701 Central Education Agency

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