

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 2, 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.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SJR13, Committee Report 1st House, Substituted: 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 Analysis

The 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 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.

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, 701 Central Education Agency

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