LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATURE 2nd CALLED SESSION - 2005

August 5, 2005

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

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: **SB8** by Shapiro (Relating to public education and public school finance matters; imposing criminal penalties.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB8, Committee Report 1st House, Substituted: a negative impact of ($5,517,338,349) through the biennium ending August 31, 2007.

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
2006	($412,125,000)
2007	($5,105,213,349)
2008	($5,808,946,848)
2009	($6,968,064,578)
2010	($7,283,846,161)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193
2006	$213,975,000	($626,100,000)
2007	$87,386,651	($5,192,600,000)
2008	$27,253,152	($5,836,200,000)
2009	($507,164,578)	($6,460,900,000)
2010	$17,453,839	($7,301,300,000)

Fiscal Year	Change in Number of State Employees from FY 2005
2006	11.0
2007	11.0
2008	7.0
2009	7.0
2010	7.0

Fiscal Analysis

The bill would make substantive changes to the method of funding public education. The bill would amend current law regarding the calculation of entitlements under the Foundation School Program, would amend the method by which the state finances the Foundation School Program, and would make changes to various public education programs.

Article I of the bill relates to public school finance, including formula funding and property tax reduction (in 2007).

The provisions of the bill are different in fiscal year 2006 than in fiscal year 2007 and beyond.

In fiscal year 2006, school districts would be entitled to an amount equal to $2,000 multiplied by the number of employees subject to the minimum salary schedule (MSS). Of this amount, districts are required to provide MSS employees at least a $1,500 salary increase, with remainder to be used for general employee compensation at the district's discretion.

Beginning in fiscal year 2007, the provisions of the bill directing the calculation and distribution of state aid in the Foundation School Program shift significantly.

Effective FY 2007, the local fund assignment is limited to $1.20 with revised funding formulas providing increased state aid. The bill creates a single tier school finance system with a $4,600 Accreditation Allotment and a system of student and district weights and adjustments. The value of the weights and adjustments remain largely the same as under current law, save for the bilingual allotment, the Cost of Education Index, and the Small and Mid-Size District Adjustments. These adjustments increase relative to current law.

The current law Cost of Education Index values are phased out over a four-year period and replaced with the values found in the Teacher Fixed Effects CEI. The index values within Regional Education Service Centers are limited to the ratio that exists under current law, and districts are also guaranteed use of the higher of the current law or new value.

The adjustment for small and mid-size districts is increased over a three-year period.

School districts are held harmless to the 2006 per weighted pupil revenues plus 3%, total gains by districts over that 2006 amount are limited to 108% for 2007, 116% in 2008, and 124% in 2009. The bill stipulates that revenues created as a result of current law Chapter 41 wealth-sharing partnerships are to be recognized in the calculation of the hold harmless; due to data restrictions these costs are not included in this estimate.

In addition to the formula amounts described above, districts are entitled to the equivalent of $1,000 per minimum salary schedule employee. Using that guarantee together with the formula entitlements described above, districts are directed to provide a $3,000 compensation increase in fiscal year 2007 to school district employees. MSS employees are guaranteed $2,750 and districts are provided latitude in the salary expenditure of the equivalent of $250 per MSS employee.

Districts are authorized to levy an additional $0.15 of enrichment tax effort, with access to enrichment limited to $0.05 in 2007 and to $0.10 in 2008 and 2009. The state guarantee on enrichment is $39.10 in 2007, $39.70 in 2008, $40.80 in 2009, and equated to a specified percentile of wealth in 2010 and subsequent years.

A provision of the bill would, for 2008 and beyond, limit state funding increases distributed through the CEI, small and mid-size scale adjustments, and the enrichment guaranteed yield over what districts would receive under 2007 thresholds to amounts that do not exceed appropriations.

The bill would direct the Legislative Budget Board to conduct a number of annual and biennial analyses on public education funding, including expenditures, the formula funding elements, special education, facilities, and the cost of education index.

Article II of the bill relates to various education programs, educator incentives, and instructional materials. Significant fiscal implications of these provisions are discussed in the methodology section.

Article III of the bill contains conforming amendments, Article IV relates to charter schools, Articles V and VI are reserved for expansion, Article VII relates to the State Board for Educator Certification, and Article VIII contains repealers.

Methodology

Article I

The school finance provisions of the bill result in a net revenue increase to local school districts and a cost to the state.

In FY 2006, the state cost of the district entitlement for employee salary and compensation is $626 million.

In FY 2007, the net state cost of the single-tier provisions described above is $4.9 billion, of which $1.4 billion represents an increase in total revenue to school districts.

Due to the provisions of the bill that shift over time, including the phase-in of the new Cost of Education Index, phase-in of the new small and mid-size district adjustment, and the gradual elimination of restrictions on net gain, the costs in the out years are expected to increase by $400-$500 million per year, with 2010 reflecting net state cost of $6.2 billion.

The provisions for equalized enrichment also result in increased state cost and local revenue generation over time. In 2007, the state aid per penny of equalized enrichment is $116 million. By 2010, that cost per penny is $140 million. If all districts eligible accessed the maximum amount of enrichment allowable, state cost in 2010 would be in excess of $2 billion. For purposes of this estimate, it is assumed that statewide districts will access about 2.5 pennies of enrichment in 2007, growing to 7.5 pennies in 2010. These amounts are in addition to the formula totals discussed above.

The provision that would limit state funding increases in the CEI, small/mid-size scale, and guaranteed yield to available appropriations has the potential of reducing the 2008-09 biennial cost of the formula changes in the bill by approximately $900 million.

Due to the significant increase in state aid associated with this legislation, each monthly Foundation School Program payment to school districts will be relatively larger than under current law. As a result, the current law system of deferring what would otherwise be the August payment to September will result in a reduction in appropriations demand to implement the provisions of the bill.

It is estimated that completing the funding formula analyses required of the Legislative Budget Board would cost $750,000 each biennium. The study of school facilities is estimated to cost $500,000 in 2006.

State costs for providing 50 percent of district social security contributions, phased in over three years beginning in fiscal year 2007, is estimated to be $11 million in 2007, $24 million in fiscal year 2008, $38 million in 2009, and increasing gradually each year thereafter.

Article II

Increases in public education salaries have an impact on the state's contribution to TRS. Additional TRS contributions related to the salary provisions for school district employees in the bill are estimated at $26.3 million in fiscal year 2006 and $45.9 million in fiscal year 2007. Additional state aid associated with salary provisions is included in the formula amounts given above.

The bill would establish a state-funded salary longevity supplement for certain retirement-eligible classroom teachers. The supplement is estimated to cost $34.4 million annually, and would apply starting in the 2006-07 school year. Given the reimbursement nature of the payments, state costs would begin in fiscal year 2008.

For the Educator Excellence Incentive Program, it is assumed that TEA would incur costs associated with the maximum annual allotment for the grant program -- $50 million, starting in 2007. The agency also would require an estimated $160,000 and 3 full-time equivalents (FTEs) to review and approve plans and grant applications.

2A.15 would amend the health care compensation supplement (pass-through) program under Subchapter D, Chapter 22, Education Code as added by Senate Bill 1691, Acts of the 79th Legislature, Regular Session, 2005. Instead of receiving a state-funded compensation supplement, eligible public education employees would be permitted to elect deferral of a portion of compensation for the purpose of contributing to a cafeteria health plan or participating in health care premium conversion. This provision would produce a savings to the state of $273 million in fiscal year 2006 and $275 million in fiscal year 2007 in General Revenue. This provision would also reduce the increased state TRS contribution related to the salary provisions of the bill. These savings are already included in the TRS amounts discussed elsewhere in this document.

For the mentoring program, in 2006 there will be an estimated 40,200 teachers with less than two years experience. Under the assumptions of one mentor per three teachers, and a cost of $1,500 annually, this would give an initial cost of $20.1 million annually. However, it is estimated that federal funds available for this purpose could be used to defray the cost to general revenue, lowering the annual cost to $14.1 million, increasing slightly each year with teacher growth.

Based on submitted proposals from vendors, development of the electronic student records system is estimated to incur a one-time development cost to the Texas Education Agency of $2 million in 2006, with ongoing maintenance costs of $300,000 each year thereafter

State At-Risk Incentive Program. The bill would limit the cost of the state incentive program for improving student performance on at-risk campuses to $50 million annually, beginning with fiscal year 2007. It is assumed that this full amount would be utilized each year.

In 2008, the replacement of the $30 per ADA technology allotment with a $150 per ADA instructional materials and technology allotment is estimated to cost $523 million, increasing in the out years with student growth. However, given that the state would have appropriated funds for instructional materials in the 2008-09 biennium – estimated to be $515 million for the biennium – the net increase in state costs for the 2008-09 biennium is $543 million.

The bill would establish legislative intent that, of the funds appropriated for textbooks in HB 1, 1st Called Session, $295 million be used to fund the textbooks under Proclamation 2002. There is no additional fiscal impact to the state due to this provision.

Dual language pilot program. Expenditures in 2007 are limited to $130,000 for planning grants, and biennial expenditures for this project starting in the 2008-09 are limited to $13 million.

Texas Governor’s Schools. The schools would be supported by grants, limited to $750,000 each, made from funds appropriated for that purpose. The commissioner would be granted rulemaking authority. Assuming 2 schools are approved each year, the annual cost is estimated to be $1.5 million.

Beginning in 2006, the agency estimates the need for 8 FTEs (decreasing to 4 FTEs in 2008 and beyond) for the biannual instructional materials review process.

Article IV

For the facilities allotment for charters, the agency estimates that the charters that have been rated exemplary or recognized and meet the other requirements of the section represent approximately 6,000 students in ADA. At $1,000 per ADA, the annual cost of this allotment is estimated to be $6 million.

The estimated cost of providing additional state aid to qualifying charter schools for the stipulated salary increases assumes that all employees are appropriately certified. Data on certification status of charter school employees is not available. Under this assumption, the estimated cost to the state is $8.6 million in fiscal year 2006 and $2.5 million in each subsequent year. Increased TRS contributions associated with these provisions are estimated to be $352,000 in fiscal year 2006 and $680,000 in fiscal year 2007.

Article 7 of the bill would abolish the State Board for Educator Certification (SBEC) and transfer its duties to the Texas Education Agency. Since SBEC functions are supported entirely with fee revenue under current law, no cost or savings is anticipated with this transfer.

Technology

The bill would have a technology impact for the Texas Education Agency, including the development and maintenance of a student records system and a best practices clearinghouse, and the transfer of responsibility for district textbook orders.

Local Government Impact

School districts would see a decrease in local revenue and an increase to state aid commensurate with the funding formula changes described above. Out of these funds, school districts would be directed to fund the salary increases to employees as stipulated in the bill. These costs are estimated at $626 million in fiscal year 2006 and $955 million in fiscal year 2007 statewide.

School districts would generally benefit fiscally from the state cost provisions identified above. Significant programmatic sources of revenue would include:

A mentor program would provide teachers across the state approximately $14 million annually, and a new facilities program would provide certain high-performing charter districts $1,000 per student.

School districts would receive additional funding for state educator excellence and at-risk incentive programs. Combined funding statewide would be expected to total $100.0 million annually, starting in 2007.

The bill would provide an instructional materials and technology allotment, which would provide districts approximately $524 million in 2008 for the purchase of any needed instructional materials, increasing with student growth each year thereafter.   However, the state would no longer be making instructional purchases on behalf of school districts in the first year of each biennium.

Source Agencies: 701 Central Education Agency

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