

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

**FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006**

**May 11, 2006**

**TO:** Honorable Tom Craddick, Speaker of the House, House of Representatives

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

**IN RE: HB1** by Chisum (Relating to public school finance, property tax relief, public school accountability and programs, and related matters; making an appropriation.), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1, As Passed 2nd House: a negative impact of (\$3,922,431,140) through the biennium ending August 31, 2007.

**Appropriations:**

Fiscal Year	Appropriation out of <i>FOUNDATION SCHOOL FUND</i> <b>193</b>
2006	\$0
2007	\$3,825,000,000

**General Revenue-Related Funds, Five-Year Impact:**

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2007	(\$3,922,431,140)
2008	(\$8,694,799,484)
2009	(\$10,130,480,806)
2010	(\$9,851,799,502)
2011	(\$10,349,194,039)

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

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND</i> <b>1</b>	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND</i> <b>193</b>	Probable Revenue Gain/(Loss) from <i>SCHOOL DISTRICTS</i>	Change in Number of State Employees from FY 2007
2007	(\$83,535,564)	(\$3,838,895,576)	(\$1,657,400,000)	21.0
2008	(\$212,311,118)	(\$8,482,488,366)	(\$5,846,600,000)	21.0
2009	(\$268,346,145)	(\$9,862,134,661)	(\$5,873,600,000)	21.0
2010	(\$273,403,763)	(\$9,578,395,739)	(\$5,918,700,000)	21.0
2011	(\$274,821,559)	(\$10,074,372,480)	(\$5,960,000,000)	21.0

**Fiscal Analysis**

The bill would make an appropriation of \$3.825 billion in fiscal year 2007 to provide additional funding over current appropriated levels to support the program objectives discussed below.

The bill provides state aid to school districts in fiscal year 2007, in amounts equivalent to a reduction to their nominal maintenance and operations (M&O) tax rate at 88.67 percent of the M&O rate adopted for the 2005 tax year -- hereafter referred to as the compressed rate. In the fiscal year 2008, state aid is in an amount equivalent to a reduction of 66.67 percent of the district's 2005 adopted M&O rate. For example, for a district taxing at \$1.50 per \$100 of valuation in fiscal year 2006, this yields a compressed rate of \$1.33 for fiscal year 2007 and \$1.00 for fiscal year 2008. For fiscal year 2009 and beyond, the level of state aid is determined by a state compression percentage, as established by the commissioner and based on appropriations from the property tax relief fund, or from another funding source.

The bill entitles districts to state aid sufficient to guarantee state and local revenue per student in weighted average daily attendance (WADA) in an amount equal to the greater of (1) what the district would be entitled to in the 2006-07 school year under current law, or (2) 2006 revenue per WADA, and in either year including state aid districts received for property value decline and wealth-sharing arrangements. Districts also are entitled to state funding in amounts of \$2,500 for each employee subject to the minimum salary schedule (MSS), and a high school allotment of \$275 for each student in average daily attendance in grades 9-12.

This revenue is delivered to districts by an increase the school finance funding formulas to the equivalent of the yield generated by the 88th percentile of WADA, estimated for 2007 as a Basic Allotment of \$2,748, a Guaranteed Yield of \$31.95 and an Equalized Wealth Level of \$319,500. Districts not receiving their entitlement amount as determined by Section 42.2516 through the formula increases receive additional state aid to raise them to their entitlement. Districts receiving more than their entitlement amount through the formula increases have their state aid reduced to their entitlement amount. For a district subject to recapture, the additional revenue it is entitled to receive to maintain this revenue target may be received as a downward adjustment to its recapture payment.

For fiscal year 2007 and 2008, the first 4 pennies of tax effort in excess of the compressed rate – or “enrichment” pennies – are equalized to the level of the Austin Independent School District (ISD), with no recapture on the local revenue generated by those pennies. Beginning in 2009, that authorization increases to the first 6 pennies in excess of the compressed rate. These pennies are exempted from the limitation on district enrichment tax rates under Texas Education Code 42.303. Enrichment pennies after the first 4 for 2007 and 2008, and the first 6 for 2009 and beyond, are equalized at \$31.95 per penny per WADA, and recaptured above the \$319,500 wealth per WADA level.

In the 2006 tax year (2007 fiscal year), a district's rollback rate is calculated as 88.67 of its 2005 adopted M&O rate plus 4 cents, plus its debt rate. In subsequent years, the rollback rate is set at the lesser of (1) the state compression percentage applied to \$1.50, plus 4 cents, plus whatever “enrichment” pennies the district has adopted over its compressed rate, plus its debt rate, or (2) the districts effective M&O tax rate plus the product of the state compression percentage multiplied by 6 cents, plus its debt rate. The bill contains an equivalent rollback provision for districts currently permitted under special law to tax in excess of \$1.50. Rates adopted beyond the rollback rate are subject to a rollback election.

The bill would require that the final installment of districts' annual entitlement under the Foundation School Program be made on or before the 25th of August in each fiscal year, beginning in fiscal year 2009.

The bill provides a methodology by which the comptroller shall establish property values in school districts meeting certain criteria.

For 2007, the bill entitles juvenile justice alternative education programs to state aid holding them harmless for any loss of funds resulting from district wealth-sharing arrangements. The bill also provides to the Texas School for the Blind and Visually Impaired and the Texas School for the Deaf state aid in an amount that would hold them harmless against the loss in local district tax revenue. The bill requires districts participating in Tax Increment Financing (TIF) agreements to pay the same amount into a TIF fund as if the tax rate were the amount levied in 2005, and directs the Comptroller to deduct for this marginal TIF payment from the district's recognized taxable value.

The bill makes provision for a number of new or expanded programs to be administered by the Texas Education Agency, discussed in detail in the methodology section below.

The bill would add section 12.133, Education Code, to entitle certain charter school employees to a salary increase of \$2,500 or \$2,000 beginning in fiscal year 2007 dependent on the charter school's participation in the Texas School Employees Group Health Coverage program (TRS-Active Care). The bill would entitle other employees of certain charter schools to a salary increase beginning in fiscal year 2007 of either \$500 or \$250. The section would provide state aid to support the salary increases to charter schools beginning in fiscal year 2007.

The bill would amend section 19.007, Education Code, to entitle certain employees of the Windham school district to a \$2,000 salary increase beginning in fiscal year 2007 and section 19.009, Education Code, to provide additional state aid to the Windham school district in like amounts.

The bill would amend section 21.402, Education Code, to provide a \$2,500 salary increase in 2006-07 for school district employees subject to the state minimum salary schedule.

The bill would reenact and amend Subchapter D, Chapter 22, Education Code, to convert the compensation supplement program to an authorization for eligible school district employees to defer a portion of salary for the purpose of contributing to a cafeteria plan or paying health care premiums through premium conversion. The bill would entitle school district employees who currently are eligible for the compensation supplement but are not subject to the minimum salary schedule to a wage increase of \$500 for full-time employees and \$250 for part-time employees beginning in fiscal year 2007.

The bill would add section 42.2513, Education Code, to entitle school districts to additional state aid sufficient to fund the salary increases to school district full-time and part-time support personnel proposed in Article 4 of the bill.

## **Methodology**

In fiscal year 2007, this bill results in a total net state cost estimated to be \$3.9 billion, which includes the cost of property tax relief, teacher salary increases, the high school allotment, enrichment, and a number of other programs as discussed below.

Approximately \$2.1 billion represents the equivalent of a dollar-for-dollar replacement of state aid for local revenue in the school finance system, at the state compression percentage of 88.67. Another \$802 million is the estimated cost of the \$2,500 per MSS employee, and \$319 million is for the \$275 per ADA high school allotment. This additional state aid is flowed to districts through increases to the formulas and through a hold harmless payment if formula increases do not deliver a district's entitlement.

Other provisions in the calculation of a district's revenue target, including guaranteeing the higher of 2007 current law revenue or 2006 revenue per WADA, allowing districts to include revenue gained in excess of entitlement from wealth-sharing arrangements, and including revenue for property value decline, add approximately \$65 million in state costs in 2007.

The provision allowing districts to access pennies above their compressed rate results in additional local revenue and state equalization costs. For fiscal year 2007, it is assumed that districts, on a statewide average basis, access the equivalent of four pennies above their compressed rate. These 4 pennies would be equalized at the level of Austin ISD (estimated to be \$41.22 per penny per WADA), with no recapture, at an estimated state cost of approximately \$478 million in 2007.

The bill's reduction in district local revenue through tax relief, combined with the effect of netting out a district's recapture payments against its hold harmless revenue guarantee, reduces recapture payments statewide from an estimated \$1.8 billion to a little less than \$1.1 billion in 2007.

Due primarily to the reduction in local tax rate in FY 2008 and beyond, state costs of the bill increase

significantly. State costs related to replacing lost local revenue due to tax compression are estimated to be nearly \$6.6 billion in fiscal year 2008. For 2009 and beyond, the state compression percentage is based on appropriations from the property tax relief fund and any other revenue source. For the purposes of this fiscal note, it is assumed that the state aid for tax rate compression in 2009 and beyond remains equivalent to the 2008 percentage of 66.67 percent but to the extent appropriations for this purpose vary from this estimate, state costs will vary in a corresponding manner. Additionally, out-year increases are enhanced by a revenue benefit certain districts gain by using 2006 revenue per WADA as their revenue target, but are somewhat offset by the bill's revenue target calculation, which limits the revenue benefit certain districts otherwise would receive from property value increases.

Out-year costs of the teacher salary increase and the high school allotment will grow based on growth in MSS employees and high school ADA, respectively. Additional state costs are driven by districts accessing additional pennies above their compressed rate.

On top of the assumption of a statewide average of four enrichment pennies in 2007, it is assumed that districts will add another 2 pennies of tax effort in each year of 2008 to 2011. In 2009, under an assumption of 8 enrichment pennies levied, 6 would be equalized at the Austin ISD level, with another 2 at \$31.95, generating an estimated net state cost of \$940 million.

The bill would require that the final installment of districts' annual entitlement under the Foundation School Program be made on or before the 25th of August in each fiscal year, beginning in fiscal year 2009, which would incur a state cost of \$800 million in fiscal year 2009.

The bill's provision relating to property values in certain school districts is estimated to increase costs to the Foundation School Program of \$300,000 per year beginning in fiscal year 2009.

The state cost to hold the School for the Blind and Visually Impaired and the School for the Deaf harmless for the loss of school district revenue is estimated to be approximately \$200,000 in 2007, increasing to approximately \$600,000 in 2008 and beyond. The state aid increase due to the recognition of district payments into a TIF fund as required by the bill are estimated to be \$14 million in 2007, \$47 million in 2008 and increasing by roughly 13 percent each year thereafter.

The bill would authorize the use of federal funds, including consolidated administrative or innovative program funds, to fund several provisions of the bill. If sufficient federal funds are not available, Section 13.02 authorizes the use of state General Revenue funds.

The bill would add section 1.005, Education Code, to authorize the commissioners of education and of higher education to establish up to three centers for education research. The cost is estimated at \$3 million in General Revenue in fiscal year 2007. After the first year, the bill stipulates that the centers be supported through gifts, grants, and fees.

The bill would add section 7.008, Education Code, to require the commissioner of education to contract with a third-party to develop and implement procedures to make all school district and campus level financial and academic performance data available on the TEA website. The cost is estimated at \$750,000 in General Revenue in fiscal year 2007.

The bill would add section 7.009, Education Code, to require TEA in coordination with the Legislative Budget Board (LBB) to establish an online clearinghouse of information relating to the best practices of school districts for instruction, resource allocation, and business practices. The bill would require TEA to contract with one or more third-party contractors to develop a system of collecting and evaluating best practices of school districts. The bill would authorize the commissioner to purchase curriculum and other instructional tools identified by the clearinghouse for use by school districts. State cost is estimated at \$3.5 million in general revenue in fiscal year 2007 and \$350,000 in each subsequent year.

The bill would add section 44.0061, Education Code, to require the commissioner of education to contract with a third party to conduct a review of school district accounting systems, and to report the results of the review to the legislature before January 1, 2007. The cost of the review is estimated at \$300,000 in General Revenue in fiscal year 2007.

The bill would amend section 44.007, Education Code, to require the SBOE to evaluate school district accounting software and report to the legislature by January 1, 2007 the benefits of providing school districts with standard accounting software. The cost of the study is estimated at \$2 million in fiscal year 2007.

The bill would add section 44.011, Education Code, to require the commissioner to develop annual spending targets for school district expenditures. The bill would require local school boards to pass a resolution in order to exceed the spending targets. The estimated cost for developing and maintaining annual spending targets is \$1.1 million in General Revenue in fiscal year 2007 and \$100,000 in each subsequent year.

The bill would add section 7.010, Education Code, to establish a statewide electronic student records system according to standards approved by the commissioners of education and higher education to be implemented by the beginning of the 2007-08 school year. State cost for development is estimated at \$2 million in general revenue in fiscal year 2007 with on-going maintenance costs of \$300,000 in each subsequent year.

The bill would add section 39.034, Education Code, to require the commissioner of education to develop a measure of annual improvement in student achievement. The cost to develop the measure is estimated at \$2,000,000 in General Revenue in fiscal year 2007.

The bill would add and amend several provisions in Chapter 39, Education Code, concerning sanctions imposed on campuses, including a requirement that a technical assistance team be assigned to each campus that fails to meet specified accountability system standards. State costs for the management of intervention operations are estimated at \$176,000 in general revenue each year, beginning in fiscal year 2007.

The bill would add Subchapter K, Chapter 39, Education Code, to specify procedures by which a district may challenge an accountability rating or sanction. The process would require the district to appeal the decision to SOAH. Assuming the provisions would generate 33 SOAH hearings in fiscal year 2007 at a cost of \$6,000 per hearing, the cost is estimated at \$198,000 in General Revenue in fiscal year 2007. Costs would increase to \$360,000 in fiscal year 2008 for an estimated 60 hearings and would be expected to level off to a \$150,000 annual cost in subsequent years.

The bill would add section 11.203, Education Code, to require TEA to develop and operate a school leadership pilot program for principals and persons interested in becoming principals. The bill would require TEA to conduct an evaluation of the program's effectiveness and report the results of the evaluation by January 1, 2009. The program would be limited to funding of \$3.6 million in General Revenue for fiscal year 2007, with level costs in subsequent years.

The bill would add section 12.133, Education Code, to entitle charter school employees who would be subject to the minimum salary schedule if they were employed by a school district to a salary increase of \$2,500 or \$2,000 beginning in fiscal year 2007 dependent on the charter school's participation in the Texas School Employees Group Health Coverage program (TRS-Active Care). The bill would require charter schools that are TRS-Active Care participants to provide a wage increase beginning in fiscal year 2007 equivalent to an average of \$500 per full-time and \$250 per part-time non-administrator employees not eligible for the \$2,500 increase. The bill would provide state aid in like amounts to charter schools beginning in fiscal year 2007. The estimated cost of additional state aid is \$13 million in general revenue in fiscal year 2007, increasing to \$16 million by fiscal year 2011. Increases in public education employee salaries have an impact on the state's contributions to TRS. At the current state contribution rate of 6 percent, the additional state contribution to TRS associated with the salary provisions in this section is \$631,000 in general revenue in fiscal year 2007, increasing to \$812,000 by fiscal year 2011.

The bill would amend section 19.007, Education Code, to entitle classroom teachers, full-time librarians, full-time counselors, and full-time school nurses employed by the Windham school district to a salary increase of \$2,000 beginning in fiscal year 2007. Section 4.03 would provide state aid to the Windham school district in amounts sufficient to fund the salary increase. The estimated cost in

additional state aid to the Windham School district for this purpose is \$1.9 million per year in General Revenue. The additional cost of state contributions to TRS associated with these provisions would be an estimated \$110,000 per year in General Revenue.

The bill would amend section 21.402, to entitle school district employees subject to the state minimum salary schedule to a \$2,500 salary increase in 2006-07. At the current state contribution rate of 6 percent, the estimated cost of increased state contributions to TRS associated with the proposed salary increase would range from \$41 million in general revenue in fiscal year 2007 to \$44 million in fiscal year 2011. Estimated state contributions to TRS have been adjusted to reflect changes to the compensation supplement program contemplated elsewhere in this bill.

The bill would add section 21.415, Education Code, to authorize school districts to provide mentors to each classroom teacher with fewer than two years of teaching experience, and direct the commissioner to provide funding to school districts from funds appropriated for that purpose. State cost is estimated at \$13.3 million in general revenue in fiscal year 2007, increasing to \$14.4 million by fiscal year 2011.

The bill would add new Subchapter N, Chapter 21, Texas Education Code to establish an awards for student achievement program under which the commissioner of education would provide grants to eligible campuses based on the percentage of educationally disadvantaged students and the campus accountability rating. The commissioner would determine grant award amounts, not to exceed \$100 million in general revenue in fiscal year 2007. In fiscal year 2008 and subsequent years, awards would be paid from the amounts not to exceed \$100 million per year deposited to the credit of the Educator Excellence Fund to be established within Subchapter O, Chapter 21, Education Code under the bill.

The bill would add new Subchapter O, Chapter 21, Education Code to establish an educator excellence awards program. The provisions would require the commissioner of education to provide grants to school districts for the purpose of providing incentive payments to employees under the terms of locally developed awards plans approved by the commissioner. The bill would establish an educator excellence fund within the general revenue fund and would require the commissioner of education to deposit an amount equal to \$840 multiplied by the number of classroom teachers in fiscal year 2008 increasing to \$1,000 per teacher in fiscal year 2009 and subsequent years. Funding for each district would be determined on the basis of average daily attendance. State cost is estimated at \$261 million in general revenue in fiscal year 2008, increasing to \$328 million by fiscal year 2011.

Stipends or bonuses received by teachers under the Awards for Student Achievement and the Educator Excellence Awards program would be considered compensation for purposes of contributions to TRS. Additional state TRS contributions associated with these programs are estimated at \$4.5 million in fiscal year 2007, increasing to \$10.9 million by fiscal year 2011.

The bill would reenact and amend Subchapter D, Chapter 22 of the Texas Education Code to convert the compensation supplement for public education employees to an authorization to allow school district employees who are members of TRS, employees of charter schools that participate in TRS Active Care, and employees of regional education service centers to elect to defer a portion of salary for the purpose of contributing to a cafeteria plan or paying health care premiums through premium conversion. Administrators would not be eligible to elect a deferral under this section.

Deferral amounts would be limited by applicable federal law. The reenactment and amendment of this subchapter would result in a savings to the state of \$275 million in fiscal year 2007 in funds appropriated for the purpose of funding the compensation supplement as it exists in current law. Under current law, the rate at which the compensation supplement is paid is to be set by rider in the General Appropriations Act. Assuming that the rate would have remained at the current level established by the legislature, \$500 per full-time employee and \$250 per part-time employee, in future biennia, the provisions of this bill would result in a savings of \$297 million in general revenue million in fiscal year 2008, increasing to \$313 million in fiscal year 2011.

Up to \$1,000 of deferred compensation would not be considered compensation for the purpose of retirement contributions to TRS.

The bill would entitle full-time and part-time non-administrative school district employees not subject to the minimum salary schedule to a wage increase of \$500 and \$250 respectively beginning in fiscal year 2007. The estimated increase in the state's contribution to TRS associated with the wage increase is between \$2.5 million and \$3.0 million annually. Estimated state contributions to TRS have been adjusted to reflect changes to the compensation supplement program contemplated elsewhere in this bill.

The bill would add section 42.2513, Education Code, to provide state aid to school districts sufficient to fund the salary increases to school district support staff required by this bill. State cost is estimated at \$141 million in general revenue in fiscal year 2007, increasing to \$151 million by fiscal year 2011.

The bill would add sections 28.008 and 28.009, Education Code, to require the commissioner of education and the Higher Education Coordinating Board (THECB) to establish vertical teams composed of high school and higher education faculty for the purpose of aligning high school and higher education curricula and expectations, including the joint development of courses aimed at assisting students requiring additional preparation in advance of college-level work. The cost of curriculum development is estimated at \$1,000,000 in fiscal year 2007.

The bill would add section 29.124, Education Code, to establish Texas Governor's Schools to be funded through grants of \$750,000 per year per approved governor's school program. Assuming that two programs were established, the state cost is estimated at \$1.5 million in general revenue per year beginning in fiscal year 2007.

The bill would add sections 39.113 and 39.114, Education Code, to require the Texas Education Agency (TEA) to provide guidance and develop evaluation standards on high school completion and success and college readiness programs. This section would direct the use of funds received under the high school allotment provided through provisions in Article I of this bill.

The bill would add sections 61.0761, 61.0762, and 61.0763, Education Code, to require the P-16 Council to develop a college-readiness and success strategic plan. This section would require THECB to implement a course redesign project aimed at improving the delivery and cost-effectiveness of college-level courses. Total costs for the provisions of this section are estimated at \$11.8 million in fiscal year 2007 and \$7.2 million annually in subsequent years. These costs represent functions that would be required for TEA and THECB.

The bill would amend section 29.153, Education Code, to make children of active duty members of the armed forces of the United States or members of the armed forces of the United States who are injured or killed while on active duty eligible for enrollment in state-funded prekindergarten classes. Based on an average cost of \$4,390 per student in average daily attendance enrolled in prekindergarten programs, the annual cost to the Foundation School Program is estimated at \$6.3 million.

The bill would amend section 32.157, Education Code, to authorize TEA to use undedicated and unobligated General Revenue funds for the purpose of support the Technology Immersion Pilot Project. Currently the program is supported with federal funds. Based on annual program costs, the cost is estimated at \$5.5 million in General Revenue annually.

TEA administrative cost associated with the provisions of the bill is estimated at \$855,000 in fiscal year 2007 and \$800,000 in each subsequent fiscal year to fund 13 full-time-equivalent employees. TEA technology costs associated with the bill and not included in costs explained above are estimated at \$775,000 in fiscal year 2007, \$625,000 in fiscal year 2008, and \$285,000 in each subsequent year. The estimated THECB administrative cost associated with the provisions of the bill is \$650,000 in each year to fund 8 full-time-equivalent employees.

The bill would repeal subsection (a) of Rider 97 following the appropriations to TEA in the 2006-07 General Appropriations Act, 79th Legislature, Regular Session, 2005.

## **Technology**

Various provisions of the bill will have technology implications to the agency. The fiscal

accountability provisions of the bill will require the Texas Education Agency to review and revise the Public Education Information Management System data, and also create a "best practices" clearinghouse. The FSP provisions will also require adjustments to the state aid payment systems.

### **Local Government Impact**

School districts would see a decrease in local revenue due to the bill's tax rate reduction and an increase to state aid due to the bill's revenue guarantee provision.

Districts' local revenue loss from an 11.33 percent tax rate reduction is estimated to be \$2,148 million in 2007. For 2008, the 33.33 percent reduction is estimated to be \$6,587 million, increasing by 4-5 percent each year thereafter. However, for the purposes of the fiscal note it is assumed that districts would access, on a statewide average basis, the equivalent of four pennies above their compression rate in 2007, which would generate an estimated \$490 million in local revenue, resulting in a net local revenue loss of approximately \$1,657 million. In fiscal year 2008, under the assumption of six additional pennies over the compression rate (the four levied in 2007 and another two in 2008), the local revenue loss prior to enrichment cited above would be offset by a gain of \$741 million in retained local revenue on those six pennies. For 2009 to 2011, it is assumed that districts would add an average of two pennies each year, with corresponding impacts to local revenue and state aid.

The bill would impose new requirements on districts related to employee compensation and would provide for state funding sufficient to fund these requirements. The bill would create a mentoring program, the Awards for Student Achievement program, and the Educator Excellence Awards program for which state funds would be allocated to eligible districts. The bill would provide additional state funds to eligible school districts based on the number of students in average daily attendance in grades nine through twelve.

The bill would direct the State Board of Education to adopt rules to ensure that four years of English, math, science, and social studies are required for graduation and that one or more required courses include a research writing component. Implementation of this requirement may incur significant local cost for additional teachers, classroom facilities, and laboratories.

### **Source Agencies:**

**LBB Staff:** JOB, SD, UP