

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

April 19, 2006

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

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

IN RE: SB1 by Shapiro (Relating to the compensation and benefits of public school employees, the academic and fiscal accountability of public schools, and the improvement of public schools.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1, As Introduced: a negative impact of (\$1,444,668,303) 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
2007	(\$1,444,668,303)
2008	(\$1,443,262,015)
2009	(\$1,522,091,105)
2010	(\$1,522,022,745)
2011	(\$1,582,868,957)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND</i> 1	Change in Number of State Employees from FY 2007
2007	(\$1,444,668,303)	10.0
2008	(\$1,443,262,015)	10.0
2009	(\$1,522,091,105)	10.0
2010	(\$1,522,022,745)	10.0
2011	(\$1,582,868,957)	10.0

Fiscal Analysis

Section 1.01 would authorize the commissioners of education and higher education to establish as many as three centers for education research.

Section 1.02 would 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 Texas Education Agency (TEA) website by August 1, 2007.

Section 1.02 would also 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.

Section 2.01 would 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.

Section 2.04 of the bill would require the commissioner of education to develop a measure of annual improvement in student achievement and would require the reporting of the comparative measure to school districts, teachers, and parents.

Sections 2.13-2.15 would add and amend provisions concerning sanctions related to the accountability system imposed on campuses.

Section 3.03 would require the commissioner of education to contract with a third party to conduct a review of school district accounting systems.

Section 4.01 of the bill would require TEA to develop and operate a school leadership pilot program for principals and persons interested in becoming principals in cooperation with a nonprofit organization and in consultation with institutions of higher education with coursework focusing on management and business training.

Section 4.02 would entitle certain charter school employees to a salary increase of \$2,500 or \$2,000 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 in fiscal year 2007 of either \$500 or \$250. The section would provide state aid to support the salary increases to charter schools in fiscal year 2007.

Section 4.03 would provide a \$2,500 salary increase in 2006-07 for school district employees subject to the state minimum salary schedule.

Section 4.05 would authorize school districts to provide mentors to each classroom teacher with less than two years of teaching experience.

Section 4.06 of the bill would add new Subchapter N, Chapter 21, Education Code to establish an awards for student achievement program under which the commissioner would provide grants to eligible campuses not to exceed an annual total of \$100 million statewide beginning in fiscal year 2007.

Section 4.06 of the bill would add new Subchapter O, Chapter 21, Texas Education Code to establish an educator excellence awards program. The provisions would require the commissioner 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.

Section 4.07 would convert the compensation supplement mechanism 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. Section 4.07 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 in fiscal year 2007.

Section 4.08 would entitle school districts to additional state aid sufficient to fund the salary increases to school district personnel proposed in Article 4 of the bill.

Section 5.01 would require the commissioner of education and the Texas Higher Education Coordinating Board (THECB) to establish vertical teams composed of high school and higher education faculty for the purpose of aligning the high school curriculum with the higher education curriculum and expectations, including the joint development of courses aimed at assisting students requiring additional preparation in advance of college-level work.

Section 5.02 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.

Section 5.04 would establish Texas Governor's Schools as short-term summer residential programs for high-achieving high school students. Public senior colleges and universities would be eligible to apply to the commissioner of education for grants of up to \$750,000 from funds appropriated for that purpose.

Section 5.06 would require the commissioner of education and THECB to establish vertical teams for the purpose of aligning high school and higher education curricula. This section would create a high school allotment, which would entitle school districts, including charter schools, to an allotment of \$500 per student in average daily attendance in grades 9 through 12 beginning in fiscal year 2007.

Section 5.08 would require the P-16 Council to develop a college-readiness and success strategic plan to improve college readiness and reduce the need for developmental coursework in institutions of higher education.

Methodology

Provisions in Article VI of 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, Article VI authorizes the commissioner of education to set aside funds from the Foundation School Program to fund the remaining costs. Subject to the availability of federal funds or other funds authorized under the bill, the amount set aside from the Foundation School program for the provisions of the bill could approach \$7.6 million in fiscal year 2007 and \$4.6 million in each subsequent year. The relevant provisions would have no net state fiscal impact, although distributions of state aid to school districts would be reduced proportionately according to the amount set aside.

Section 1.01 would authorize the commissioners of education and of higher education to establish up to three centers for education research. The commissioners would be granted authority to accept gifts and grants and to impose fees for the use of a center's research, resources, or facilities. Subject to the availability of federal funds or other funds, the amount set aside from the Foundation School Program for this purpose is estimated at up to \$1,000,000 per year, beginning in fiscal year 2007.

Section 1.02 of the bill would 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. Subject to the availability of federal funds or other funds, the amount set aside from the Foundation School Program for this purpose is estimated at up to \$500,000 in fiscal year 2007 with distributions of state aid to local school districts reduced accordingly.

Section 1.02 would also 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.

Section 2.01 would require the 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 the 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.

Section 2.04 of the bill would require the commissioner of education to develop a measure of annual improvement in student achievement. It is assumed that development costs would be funded under the authorization of §39.031, Texas Education Code for a set aside from the Foundation School Program compensatory education allotment. The provision would have no net state fiscal impact, although

distributions of state aid to school districts would be reduced by an estimated additional \$2,000,000 in fiscal year 2007.

Sections 2.13-2.15 would add and amend provisions concerning sanctions imposed on campuses, including a requirement that a technical assistance team be assigned to each campus that is rated academically acceptable for the current school year but would be rated academically unacceptable if performance standards to be used in the following school year were applied to the current school year. For campuses that are rated academically unacceptable for two consecutive school years, the bill would require reconstitution and assignment of a campus intervention team or alternative management. If a campus remains academically unacceptable for two consecutive years after reconstitution the bill would require the campus to be closed or placed under alternative management. State costs for the management of intervention operations are estimated at \$176,000 in general revenue each year, beginning in fiscal year 2007.

Section 3.03 would require the commissioner of education to contract with a third party to conduct a review of school district accounting systems for the purpose of providing recommendations to improve transparency of spending, enhanced information concerning campus spending, and facilitate program evaluations. The review would also determine whether any reporting requirements should be adjusted based on district size. The commissioner would be required to report the results of the review to the legislature before January 1, 2007. Subject to the availability of federal funds, the amount set aside from the Foundation School Program for this purpose is estimated at up to \$500,000 in fiscal year 2007 with distributions of state aid to local school districts reduced accordingly.

Section 4.01 of the bill would require TEA to develop and operate a school leadership pilot program for principals and persons interested in becoming principals in cooperation with a nonprofit organization and in consultation with institutions of higher education with coursework focusing on management and business training. The bill would require the TEA to conduct an evaluation of the program's effectiveness during the first semester of the 2008-09 school year and report the results of the evaluation to the governor, legislative leadership, and standing committees by January 1, 2009. The program would be funded through a set aside to the Foundation School Program, limited to \$3.6 million for fiscal year 2007, as well as gifts, grants, and donations from public and private entities. The provision would have no net state fiscal impact, although distributions of state aid to school districts would be reduced by as much as \$3.6 million in fiscal year 2007.

Section 4.02 would 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 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 in fiscal year 2007 equivalent to an average of \$500 per full-time and \$250 for part-time non-administrative employees not eligible for the \$2,500 increase. The section would provide state aid in like amounts to charter schools in fiscal year 2007. The estimated cost of additional state aid is \$13 million in general revenue in fiscal year 2007. Increases in public education employee salaries have an impact on the state's contributions to the Teacher Retirement System (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.

The bill does not preserve the salary increases stipulated for charter school employees in Section 4.02 beyond the 2006-07 school year, but if they were to continue in future years, the associated additional state aid on the \$2,500 or \$2,000 increase to charter school employees who would otherwise be subject to the minimum salary schedule would be an estimated \$8.7 million in fiscal year 2008, increasing to \$10.4 million in fiscal year 2011, including additional state TRS contributions.

Section 4.03 would entitle school district employees subject to the state minimum salary schedule to a \$2,500 salary increase in 2006-07. 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 estimated cost to the state 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.

Section 4.05 of the bill would authorize school districts to provide mentors to each classroom teacher with fewer than two years of teaching experience. The commissioner would adopt rules to implement the program and would 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.

Section 4.06 of 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. Eligibility would be determined based on the percentage of educationally disadvantaged students enrolled at the campus and the campus accountability rating. The bill would require participating campuses to have an approved campus incentive plan that describes the use of grant funding and meets minimum criteria described in the bill. The commissioner would determine grant award amounts, not to exceed \$100 million in general revenue per year beginning in fiscal year 2007. In fiscal year 2008 and subsequent years, awards would be paid from the amounts deposited to the credit of the Educator Excellence Fund to be established within Subchapter O, Chapter 21, Education Code under the bill.

Section 4.06 of the bill would add new Subchapter O, Chapter 21, Texas 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.

Section 4.07 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 the TRS, employees of charter schools that participate in the Texas School Employees Uniform Group Health Coverage program (TRS Active Care), and employees of regional education service centers who are eligible to participate in a cafeteria plan or to pay health care premiums through premium conversion 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 \$296 million in general revenue million in fiscal year 2008, increasing to \$313 million in fiscal year 2011.

Deferred compensation would not be considered compensation for the purpose of retirement contributions to TRS.

Section 4.07 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 in fiscal year 2007. The estimated increase in the state's contribution to TRS associated with the wage increase is \$2.5 million in fiscal year 2007. Estimated state contributions to TRS have been adjusted to reflect changes to the compensation supplement program contemplated elsewhere in this bill.

Section 4.08 of the bill would provide state aid to school districts sufficient to fund the salary increases to minimum salary schedule employees and support staff required by this bill. State cost is

estimated at \$943 million in general revenue in fiscal year 2007 and \$817 million in fiscal year 2008, increasing to \$862 million in fiscal year 2011.

Section 5.01 would require the commissioner of education and THECB to establish vertical teams composed of high school and higher education faculty for the purpose of aligning the high school curriculum with the higher education curriculum and expectations, including the joint development of courses aimed at assisting students requiring additional preparation in advance of college-level work.

Section 5.04 would 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.

Section 5.06 would require the commissioner of education and THECB to establish vertical teams for the purpose of aligning high school and higher education curricula. The cost of developing standards and courses required under this section is estimated at \$1 million in fiscal year 2007.

Section 5.06 would create a high school allotment, which would entitle school districts, including charter schools, to an allotment of \$500 per student in average daily attendance in grades 9 through 12 beginning in fiscal year 2007. The estimated state cost in general revenue of this provision is \$592 million in fiscal year 2007, increasing to \$644 million in fiscal year 2011.

Section 5.08 would require the P-16 Council to develop a college-readiness and success strategic plan. TEA estimates the cost of developing and maintaining curricula under the provisions of this section at \$5 million in fiscal year 2007 and \$500,000 in each subsequent year.

The estimated TEA administrative cost associated with the provisions of the bill is \$600,000 in each year to fund 10 full-time-equivalent employees.

Local Government Impact

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.

Section 5.02 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.

Districts would experience a reduction in funding received under the foundation school program due to amounts withheld for purposes authorized in Section 6.01 and other sections of the bill.

The reduction in funding on a statewide basis is estimated to approach \$7.6 million in fiscal year 2007. The amount of reduction in subsequent years associated with these purposes or would decline to approximately \$4.6 million annually. Costs may vary according to implementation.

Source Agencies: 701 Central Education Agency

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