

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATURE 3rd CALLED SESSION - 2006
Revision 1

April 23, 2006

TO: Honorable Steve Ogden, Chair, Senate Committee on Finance

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

IN RE: SB15 by Ogden (Relating to an appropriation for the Permanent Higher Education Fund under Section 17(i), Article VII, Texas Constitution.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB15, As Introduced: a negative impact of (\$1,293,000,000) through the biennium ending August 31, 2007.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2006	(\$1,468,000,000)
2007	\$175,000,000
2008	\$262,500,000
2009	\$262,500,000
2010	\$262,500,000

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from GENERAL REVENUE FUND 1	Probable Revenue Gain/ (Loss) from PERMANENT HIGHER EDUCATION FUND	Probable Savings/(Cost) from PERMANENT HIGHER EDUCATION FUND
2006	(\$1,468,000,000)	\$1,497,360,000	\$0
2007	\$175,000,000	\$119,788,800	(\$57,596,617)
2008	\$262,500,000	\$127,023,104	(\$143,985,844)
2009	\$262,500,000	\$127,601,848	(\$145,137,730)
2010	\$262,500,000	\$127,648,148	(\$146,298,832)

Fiscal Analysis

The bill would appropriate \$1.468 million from the General Revenue Fund to the Permanent Higher Education Fund.

The bill would take effect immediately upon enactment, assuming that it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect on the 91st day after the last day of the legislative session.

Methodology

When the Permanent Higher Education Fund (PHEF) fund balance reaches \$2 billion, Art. 7, Sec 17(i) of the Texas Constitution requires that subsequent fiscal year appropriations to the Higher Education

Fund cease. At the beginning of the fiscal year after the PHEF corpus reaches \$2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from the investments of the fund during the previous fiscal year shall be become a part of the fund. The remainder of the investment income shall be allocated, distributed and expended as provided by Art. 7, Sec 17(a) of the Texas Constitution.

Sec 62.021, Education Code distributes the current \$175 million General Revenue appropriation to the Higher Education Fund in fiscal year 2007 to qualified Institutions. This appropriation will increase to \$262.5 million in fiscal year 2008 and remain at that level until fiscal year 2010. Under Art. 7, Sec 17(i) of the Texas Constitution this appropriation would cease resulting in a total savings to the General Revenue Fund of \$962.5 million from 2007-2010.

Assuming the Treasury Safekeeping Trust investment target of eight percent, the additional appropriation of \$1.468 million would earn interest income totaling \$531.4 million between 2006 and 2010.

Assuming a PHEF balance of \$2.050.9 billion on September 1, 2006, the allocation for fiscal year 2007 (based on earnings during fiscal year 2006) would total an estimated \$57.6 million. Distributions for fiscal year 2008 (based on a much larger 2007 balance) would increase to \$144 million. Subsequent distributions would increase slightly as the PHEF balance continued to grow.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JOB, SD, CT, RT, JMI