

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

March 2, 2005

TO: Honorable Kent Grusendorf, Chair, House Committee on Public Education

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

IN RE: HB2 by Grusendorf (Relating to public education and public school finance matters.),
Committee Report 1st House, Substituted

Estimated Two-year Net Impact to General Revenue Related Funds for HB2, Committee Report 1st House, Substituted: a negative impact of (\$14,342,490,795) 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	(\$6,608,580,987)
2007	(\$7,733,909,808)
2008	(\$7,628,073,601)
2009	(\$8,531,892,140)
2010	(\$8,515,562,265)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/(Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue (Loss) from <i>School Districts</i>
2006	\$466,812,404	(\$7,075,393,391)	(\$5,296,083,271)
2007	\$377,007,889	(\$8,110,917,697)	(\$5,352,008,320)
2008	\$381,566,500	(\$8,009,640,101)	(\$5,491,532,978)
2009	\$387,590,907	(\$8,919,483,047)	(\$5,671,992,396)
2010	\$392,369,645	(\$8,907,931,910)	(\$5,849,790,115)

Fiscal Year	Change in Number of State Employees from FY 2005
2006	3.0
2007	3.0
2008	3.0
2009	3.0
2010	3.0

Fiscal Analysis

The bill would make substantial changes both to the method of financing and the operation of local school districts. The bill also directs certain action on the part of the Texas Education Agency and effects agency operations. The discussion of changes below is limited to those portions of the bill that have fiscal implications to the state or to local school districts.

Article 1 of this bill significantly changes the foundation school program and the formula structure of state assistance for public education. Article 2 of the bill contains educator excellence reforms. Article 3 contains conforming amendments. Article 4 includes repealers, applicability and effective dates.

Formula Modifications

The bill creates accreditation allotments of \$5,050 for each student in attendance in grades 9-12, and \$4,550 for all other students. This amount is modified by supplemental funding allotments: A special education allotment based on specific dollar amounts for each full-time student within each of the twelve instructional arrangements, with mainstream students receiving an allotment of \$4,822; an allocation of \$877 for each low income student for accelerated programs (calculated on the basis of the percentage of students eligible for free or reduced-price lunches in grades PK-8 applied to all attendance for the district); a transitional (bilingual) program allotment of \$500 for each student enrolled below the ninth grade and \$1,000 for each student enrolled above the ninth grade; and \$178 for each annual credit hour of career and technology programs in which students in grades 7-12 are enrolled. New §42.155 provides \$250 for each student in attendance accepted under the public education grant program by a district. Save for certain spending requirements for special education, allotment funds are generally not restricted in their use. However, there are maintenance of effort requirements.

In the new Subchapter D of Chapter 42, the transportation allotment is established as the greater allotment obtained under two possible formulas. The bill would prohibit school districts from receiving a transportation allotment that exceeds \$1,000 per average daily attendee (ADA).

New Subchapter F provides an instructional materials and technology allotment of \$150 per ADA beginning in fiscal year 2007. Section 3.23 of the bill provides a technology allotment for 2005-2006 of \$70 per ADA.

New Subchapter H provides for additional adjustments, including a cost of education adjustment that will be applied to 50% of the subchapter B and C allotments. This adjustment is to be based for school year 2005-06 on an average of the existing cost of education index and the teacher fixed effects index determined in research commissioned by the Joint Select Committee on Public School Finance. For the 2006-2007 school year the adjustment is to be based on the teacher fixed effects index alone. The Legislative Budget Board is directed to update the index on a biennial basis. Adjustments for size and sparsity are also provided.

Taxing Provisions

The bill would have the effect of reducing local maintenance and operations taxes by approximately one-third, with a provision to increase tax rates for enrichment purposes. The total rate may not exceed \$1.10 and the enrichment portion may only be achieved incrementally at a rate of \$0.02 per year subject to voter approval.

Hold Harmless and Credits Calculations

The bill eliminates current law hold harmless provisions, and replaces them with a new provision providing an assurance of minimum funding the higher of 103% of the fiscal year 2005 state and local revenue under Chapters 41 and 42 as they existed for that year, plus funds from rider 82 (\$110 per WADA supplemental funding) or the same revenues for fiscal year 2006. In each subsequent year the guarantee is pegged to the higher of the fiscal year 2005 or 2006 amount, limiting gains to no more

than 108% in fiscal year 2006, 116% in fiscal year 2007 and 124% in 2008. The bill limits the means by which school districts can achieve required wealth equalization. The cost of the credit payment is the lesser of (1) the difference between the district's local share and the tier one allotment; or (2) a graduated amount over time equivalent in 2006 to 108% of a district's per pupil maintenance revenue, increasing in 2007 to 116%, in 2008 to 124% and in 2009 shifting to an amount equal to 35% of the district's total maintenance and operations tax revenue, including enrichment revenue, for the school year.

Article 1 of the bill would also create a new Subchapter J, Chapter 42, Education Code to establish an educator excellence incentive program. The provisions would require districts to use an amount equal to at least 1% of the districts' total state and local expenditures for maintenance and operations to provide incentive payments to employees who demonstrate success in adding value to student achievement.

Section 1B.01 would direct the commissioner to implement a program allowing school districts to enter into cooperative arrangements for the consolidation of administrative functions. The program may include reasonable incentives to encourage districts to do so.

Section 1B.02 would direct the Comptroller of Public Accounts to periodically examine the effectiveness of school district tax collections.

Article 2 of the bill contains educational excellence provisions. Part A of Article 2 addresses educator quality. Section 2A.03 would amend Section 21.402, Education Code regarding the minimum salary schedule for classroom teachers and full-time counselors, librarians, and nurses. The bill would amend the minimum salary schedule and would define that existing employees subject to the minimum salary schedule be provided a salary that is at least \$100 greater per month (\$1,000 annual increase for 10-month contract) beginning in 2005-2006. The employee would be entitled to retain the increase for the duration of employment with the district. The bill provides no direct formula allocation for the cost of the increase.

Section 2A.06 would authorize school districts to provide mentors to each classroom teacher with less than two years of teaching experience. The commissioner would be directed to adopt rules and fund mentor training from funds appropriated for those purposes.

Section 2B.01 would allow the creation of no more than three education research centers statewide and would authorize the collection of fees.

Section 3.46 amends Section 1581.702 to continue a provision in the Insurance Code that directs the Teacher Retirement System to provide additional aid to a school district that pays social security for its employees in an amount based on supplements district employees would have received for health insurance as that supplement existed on January 1, 2005. A number of provisions in the bill repeal the actual supplement, although the aid would continue to be calculated and distributed on the basis of the amended language in Section 3.46.

Section 2B.02 of the bill would require each school district to participate in a student enrollment and tracking system approved by the commissioner.

Section 2D .01 requires the agency to contract with one or more third parties to establish a clearinghouse by September 1, 2006 of information relating to district best practices for curriculum development, classroom instruction, bilingual education, special language programs and business practices. This section also requires identification of successful bilingual and special language programs on the basis of a longitudinal measure of progress toward English proficiency.

Section 2D.17 of the bill requires the agency to adopt end-of-course assessments for secondary level courses in Algebra I, Algebra II, Geometry, Biology, Chemistry, Physics, Integrated Physics and Chemistry, English I, English II, English III, World Geography, World History, and United States History. These assessments are required to be implemented no later than the 2008-09 school year, with a corresponding phase-out of the current exit-level exam.

Under Section 2D.18, the agency is required to design its Texas Assessment of Knowledge and Skills

(TAKS) exams to be computer-adaptive, with implementation required by March 1, 2006.

Section 2D.22 would direct the agency to select and approve vendors of nationally normed and curriculum-based achievement assessment instruments, and to pay for all costs associated with the administration of the assessments for high school students in grades determined by the commissioner.

Section 2D.28 would create a state incentive program for improving student performance on at-risk campuses. It would establish eligibility criteria, and the commissioner would be directed to begin granting awards September 1, 2006. The bill would require that 75 percent of the awards be used for additional teacher compensation of at least \$7,500 per teacher at the campus level. The cost of grant awards would be limited to \$100 million annually, except as expressly authorized by the General Appropriations Act.

Section 2D.34 would expand the state's financial accountability system to the campus level, establish expenditure categories by which the data is reported, and require the information to be reported by districts and campuses at least quarterly each year.

Under Section 2F.01, Texas governor's schools as summer residential programs of at least 3 weeks duration for high-achieving high school students administered by public senior colleges and universities are established.

Other Provisions

The bill requires school districts to start school the Tuesday after Labor Day and also requires that school ends no later than June 7.

Methodology

Article I Funding Formulas

The net state aid impact of the school finance provisions discussed above is \$14.9 billion for the 2006-2007 biennium. Of that total, nearly \$11 billion is the direct result of lowering the local property tax by one-third. The remaining \$3.9 billion represents an increase in formula funding to school districts. In addition to the new funding formulas, these estimates include the cost of the new hold harmless and the net cost to the state of reducing recapture payments. These costs are adjusted by various factors described below.

Each penny of local enrichment is estimated to cost the state \$77 million in 2006 growing to \$100 million by 2010. For purposes of this estimate, it is assumed that on average school districts statewide will access one-half of the allowable amount, or a cost to the state of about \$245 million for the biennium.

The bill provides that student assessment costs continue to be funded via a set-aside from the school district formula payments. Assuming that the other statutory programs currently funded via that mechanism are maintained at their current allocations, the additional cost to the state is approximately \$160 million for the 2006-07 biennium.

The increase to the Technology Allotment in 2006 is a cost to the state of \$165 million. In subsequent years, the Technology Allotment and current textbook funding is eliminated and replaced with a \$150 per pupil allotment. The resulting cost offset is estimated in the out years to be approximately \$130 million in 2007 and 2009 and approximately \$650 million in 2008 and 2010. This estimate is intended to reflect the current biennial funding scheme for textbooks.

Educator Excellence Incentive Program

In implementing the new Educator Excellence Incentive program, the Agency would incur administrative costs estimated to be \$160,000 annually and three FTEs associated with the process of approving local plans for educator incentives.

Requirements that the Legislative Budget Board contract biennially to update the Cost of Education Index and contract biennially for a comprehensive study of the formula funding elements is estimated to cost \$750,000 in each beinnium.

Article 2 Provisions

Under Section 2A.03 of the bill, the changes proposed to the minimum salary structure for classroom teachers and full-time librarians have no effect on formulas generating aid under the Foundation School Program. Because the bill neither results in additional state aid nor specifies a contingency appropriation, for the purpose of this estimate it is assumed that additional salary costs would be borne solely by local school districts.

Increases in teacher pay have an impact on the state's contributions to the Teacher Retirement System. At a constitutional minimum contribution rate of 6 percent, the cost to the state associated with the salary increase proposed would likely range from at least \$18.8 million in fiscal year 2006 to \$20.0 million in fiscal year 2010.

Section 3.43 of the bill amends Section 822.201(c), Texas Government Code, to include payments to teachers received under the Educator Excellence Initiative in the definition of compensation as it pertains to the Teacher Retirement System. Increases in teacher pay have an impact on the state's contributions to the Teacher Retirement System. Assuming a constitutional minimum contribution rate of 6 percent and assuming that all the funds which the bill directs school districts to use for the purpose of the Educator Excellence Initiative are used for stipends, the cost to the state associated with the additional compensation would likely range from at least \$16.5 million in fiscal year 2006 to \$18.7 million in fisca year 2010.

Section 3.46 amends Section 1581.702 to continue a provision in the Insurance Code that directs the Teacher Retirement System to provide additional aid to a school district that pays social security for it's employees in an amount based on supplements district employees would have received for health insurance as that supplement existed on January 1, 2005. As noted above a number of provisions in the bill repeal the actual supplement, although the aid would continue to be calculated and distributed on the basis of the amended language in Section 3.46. It is assumed that estimates of the cost associated with the continuation of the allocation for social security benefits will be provided by the Teacher Retirement System.

Section 2B.02, the Student Enrollment and Tracking System: Based on submitted proposals from vendors, development of the system is estimated to incur a one-time cost of \$2 million in 2006, with ongoing maintenance costs of \$300,000 each year thereafter.

Section 2D.01, the Best Practices Clearinghouse: The agency estimates the state cost to contract for the development of the clearinghouse would range from \$3.5 million, with ongoing maintenance costs of an estimated \$350,000 each year thereafter. Regarding the identification of successful bilingual and special language programs, assuming the longitudinal progress measure is developed in fiscal year 2006 and implemented beginning in fiscal year 2007, identification of successful districts on the basis of that measure would occur in fiscal year 2008 and the study of best practices in those districts would be assumed to occur in fiscal year 2009. Given the level of field work involved, it is estimated that the state cost in fiscal year 2009 would add maintenance costs of approximately \$150,000 in that year.

Section 2A.06, Mentor Programs. The commissioner is directed to fund rule adoption and mentor training from funds appropriated for those purposes. It is assumed that federal funds currently available for this purpose would be used to satisfy this provision of the bill.

Section 2B.01, Education Research Centers. Based on the size and scope of similar operations, it is assumed that each center would require an annual operating budget of up to \$1.0 million to fulfill the duties described in the substitute. It is assumed that these funds would be in addition to any gifts, grants and service fees the centers are authorized to receive.

Section 2D.17, replacing the current exit-level TAKS test with a set of end-of-course assessments, Section 2D.18, requiring computer-adaptive assessment instruments, and SEction 2D.22,

administering nationally normed achievement assessments, represents costs that are to be funded either by available federal funds or by a set aside from the Foundation School Program. Thus, these assessment-related costs have a local, but not a state fiscal impact.

Section 2D.28, State Incentive Program. The bill would limit the cost of the state incentive program for improving student performance on at-risk campuses to \$100 million annually, beginning with fiscal year 2007. It is assumed that this full amount would be utilized each year.

Financial Accountability System. Section 2D.34 would expand the state's financial accountability system to the campus level and would require that the information be reported by districts and campuses at least quarterly each year. According to the agency based on the costs of a national school data project and a project undertaken by the state of Michigan, it is estimated that the state would incur development costs of in the range of \$2.0 - \$5.0 million annually for fiscal years 2006-2008, with ongoing maintenance costs of approximately \$1.0 - \$2.0 million annually for fiscal years 2009 and 2010. Given the bill's requirement to collect, analyze, and report data on at least a quarterly basis, it is assumed that the requirements of this section of the bill cannot be met using the detailed information currently collected for budgeted and actual expenditures and annual financial reports. If currently collected data was determined to be sufficient to meet the requirements of the bill, the cost implications to simply provide more extensive analysis and publication of the data would be substantially lower than the system development and maintenance costs estimated.

Section 2F.01, Texas Governor's Schools. The schools would be supported by grants made from funds appropriated for that purpose. The commissioner would be granted rule-making authority. Assuming these programs were designed to serve approximately 1,000 students each year, costs would be anticipated to range from \$1.8 million to \$2.0 million.

Other Provisions

The school start and end date provision has the net effect of limiting the number of days of school operation.

Various provisions in Article 4 of the bill would repeal provisions that relate to a state-funded supplement, distributed by the Teacher Retirement System, currently provided to most types of school district employees for the purpose of offsetting out-of-pocket costs for health insurance. The repeal of this program would yield savings of an estimated \$595.9 in fiscal year 2006 and \$601.9 in fiscal year 2007, increasing to \$620.1 in fiscal year 2010.

Local Government Impact

The bill significantly impacts the funding and operation of local school districts. The bill represents a significant shift in the financing of public education, with reductions in local tax revenue offset by increases in state aid and reductions in recapture.

The bill would require school districts to use an amount equal to at least 1% of the districts total state and local expenditures for maintenance and operations or an about \$570 million for the 2006-07 biennium to provide incentive payments to employees who demonstrate success in adding value to student achievement. School districts that elect to provide teacher mentoring programs as authorized under Section 2A.04 of the bill would also be allowed to use a portion of the local incentive set-aside for the purpose of providing stipends to teachers who serve as mentors.

For the purpose of this estimate, it is assumed that employees affected by the salary provisions of this bill are employed under 10-month contracts. Based on this assumption, each affected individual would receive an annual total of \$1,000 under this bill. Based on the most current staff responsibility data available (school year 2003-2004) and a four-year average growth rate among affected staff, approximately 312,703 individuals employed by school districts would be entitled to additional salary amounts under this bill beginning in school year 2005-06 increasing to about 334,515 individuals by 2009-10. Assuming these individuals are employed under a 10-month contract, the annual local cost

of the salary increase would range from about \$313.0 million in fiscal year 2006 to \$335.0 million in fiscal year 2010.

Increases in public education salaries have an impact on district contributions to the Teacher Retirement System's Retired Employee Group Health Insurance Program, TRS-Care. Assuming a contribution rate of 0.4 percent of payroll, the estimated cost of additional district contributions would be \$1.3 million annually.

Section 2B.01 would require each school district to participate in a student enrollment and tracking system to track each student's enrollment; attendance; achievement including course or grade completion and assessment instruments; receipt of special education services and the concomitant individualized educational plan; individual graduation plans; and specific reasons for leaving a school district. Because school districts' automation of these types of records may vary and because the systems used to automate records also vary, it is likely that districts will realize some additional costs in complying with this requirement.

School districts generally may be able to save some expenses related to utilities as a result of the later start date required by Section 2C.02 of this bill and the mandated end date of June 7th. The net effect of the start and end date coupled with statutory requirements for days of instruction will result in shifts in the typical district vacation schedule.

Section 2C.06 stipulates that the first day of the school year shall be the first Tuesday after Labor and that the last day of the school year shall be no later than June 7th unless the district operates a year-round program or in the event of a special waiver from the Commissioner as a result of disaster (including extreme weather) that forces closure of campuses. The Comptroller of Public Accounts has estimated a school district savings of \$8.2 million in fiscal year 2006 and \$9.4 million in fiscal year 2007, increasing to \$14.0 million in fiscal year 2010, associated with savings in school district utility costs resulting from the compressed school year stipulated in the bill.

Section 2D.10 would require TAKS and end-of-course assessments to be designed and administered to the extent practicable and appropriate as computer-adaptive assessment instruments. School districts would likely incur additional costs for computer hardware, software, and maintenance in order to have the infrastructure in place to administer these assessments in computer-adaptive form to most students. Costs would likely vary considerably depending upon the structure of the computer-based testing system and the timeframe and extent to which its use is required. Information supplied by the Texas Education Agency suggests that if immediate compliance were required that the costs could be extremely high.

The bill requires an annual financial report for each campus including any difference between the Foundation School Program allotments received and actual campus expenditures as well as a separate reporting by administrative, instructional, or support categories of the actual expenditures for personnel working on the campus; the operation and maintenance of the campus; and services that cannot be allocated at the campus level. Under current and proposed law, Foundation School Program allotments are determined at the district level only and may be very difficult to attribute to a particular campus. Again depending on actual implementation requirements, costs could run into the tens of millions statewide.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 701 Central Education Agency

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