

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

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**March 21, 2005**

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

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

**IN RE: SB962** by Shapiro (Relating to state assistance for public school facilities.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB962, As Introduced: a negative impact of (\$6,079,998) 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	(\$5,739,999)
2007	(\$339,999)
2008	(\$699,999)
2009	(\$339,999)
2010	(\$699,999)

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

Fiscal Year	Probable (Cost) from <i>GENERAL REVENUE FUND</i> 1	Change in Number of State Employees from FY 2005
2006	(\$5,739,999)	6.0
2007	(\$339,999)	6.0
2008	(\$699,999)	6.0
2009	(\$339,999)	6.0
2010	(\$699,999)	6.0

**Fiscal Analysis**

Section 1 of the bill would limit the Bond Guarantee Program to school district bonds that are issued for the construction of instructional facilities, affecting bonds guaranteed on September 1, 2005 or later.

Sections 2 and 3 would limit the bond guarantee program to debt service eligible under the Instructional Facilities Allotment (IFA) program as modified by the bill. These sections would become effective for bond issues guaranteed on or after January 1, 2007.

Section 4 would direct the Texas Education Agency to develop model plans to be used by school districts constructing school facilities. The commissioner is also directed to develop a cost factor for the construction of school facilities, and a regional cost index to reflect differences in construction costs in different regions across the state. These plans are to be developed no later than September 1,

2006.

New subsection 46.0023 would limit state assistance through the IFA to the cost determined using the model plans, as adjusted by the regional construction cost index. The bill would establish an appeals process for extraordinary circumstances. The commissioner is also directed to establish cost standards for mixed-use facilities.

## **Methodology**

Section 1: Under current practice, school bonds are typically issued without an absolute commitment to specific projects, and without a final definitive cost. Construction documents and actual bids are typically not taken until financing is secured. Implementation of the provisions related to restriction of the guarantee program would require the agency to obtain detailed building specifications to contrast against model plans, and would need to know precise construction costs in order to limit the guarantee. There are approximately 200 bond issues for new funds each year, and most allocate money to multiple construction projects or facilities. It is estimated that a review of each proposal would likely take multiple days of effort by a trained specialist in architecture or construction. In order to perform the reviews adequately and without substantial delay during peak periods, it is expected that at least five professionals will be needed, along with one administrative support position. These professionals would also be responsible for any monitoring of actual construction that may be needed to assure compliance with the limitations. The annual administrative cost for these six staff positions, including travel, is estimated to be \$339,999.

Sections 2 and 3 have no significant cost implications for the state.

Section 4: The cost to develop model plans for schools will depend on the number and types of models that are developed. It is anticipated that several models would be needed to accommodate the requirements of the bill and to appropriately account for various characteristics of school districts (grade level configurations, geographic differences, etc) that can impact construction strategies. Architectural expertise will be needed to develop the models and to determine the appropriate cost factors, including the regional index.

It is assumed that the most effective strategy for developing model designs would be contracted experts. For working purposes, it is assumed that a cost of about \$150,000 would be needed to develop each model design to the point where reasonably accurate construction costs could be determined. It is further assumed that each of three grade configurations would need at least three functionally different designs, and each would be sized for four different capacities. This would lead to a stock of about 36 models, at a potential price of \$5.4 million in fiscal year 2006. It is quite possible that additional designs would be needed for specialty facilities. Many districts have single-grade campuses (6th grade center, 9th grade center, early childhood center, etc.) that can have significantly different cost characteristics because of the school structure. It should also be expected that the plans and cost data will need to be refreshed on a biennial basis to maintain their relevance to actual practice. This exercise should be much less costly, with an estimate of \$10,000 per plan, or \$360,000 each biennium. It is assumed that the cost standards for mixed-use facilities as required by subsection 46.0024 would be part of the overall contract for model designs.

Subsection 46.0023: It is doubtful that any restrictions on IFA funding related to cost would have a material impact on the demand for IFA funding. In each of the last several cycles, demand exceeded the supply of funding. It has also been observed that many districts impose limitations on themselves when sizing bond issues that postpone aspects of projects that might cause the district to exceed the program limitations for the IFA (\$250 per ADA in debt service per biennium).

## **Technology**

No significant technology impact is expected.

## **Local Government Impact**

Section 1: Because district bond packages typically contain multiple construction project proposals,

the bill would require that the state guarantee only a portion of a bond issue. It is uncertain what the practical effects of a partial bond guarantee. Current approval by the attorney general requires a clear statement of whether the guarantee is attached to each bond series. It is further unclear how bond markets would respond to partial guarantees, and how disclosure of the guarantee status of a bond could be communicated to bond holders. Because of the questions raised by guaranteeing only a portion of a bond issue, this bill could effectively result in a requirement that school districts split their bond issues up so that only the portion that can be guaranteed is issued as one series and the portion that cannot be guaranteed is issued as a separate series.

School districts may need to break up most bond issues into at least two separate series in order to provide appropriate assurance to the bond market of the availability of the bond guarantee. Local district tax rates may also increase due to the need for districts to cover increased expenses related to 1) new issuance requirements, and 2) restrictions on the amount of available state aid. Any need to divide bond issues into separate series will increase bond issuance costs significantly. Districts will also seek private insurance for the bonds that cannot be guaranteed by the Bond Guarantee Program, which will result in further increases in local costs to issue.

Subsection 46.0023: If school districts desired a construction plan that cost in excess of the model plan cost, it would be required to raise funds outside the IFA program for any excess costs.

**Source Agencies:** 701 Central Education Agency

**LBB Staff:** JOB, CT, UP, JGM