

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 20, 2007

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

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

IN RE: HB216 by Otto (Relating to the margin of error the comptroller of public accounts must use to determine whether the local value for a school district is valid after conducting the annual property value study.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB216, As Engrossed: a negative impact of (\$161,655,000) through the biennium ending August 31, 2009.

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
2008	\$0
2009	(\$161,655,000)
2010	(\$358,726,000)
2011	(\$579,136,000)
2012	(\$824,951,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/ (Cost) from FOUNDATION SCHOOL FUND 193	Probable Revenue Gain/(Loss) from School Districts - Initial Impact	Probable Revenue Gain/(Loss) from Counties	Probable Revenue Gain/(Loss) from Cities
2008	\$0	\$0	\$0	\$0
2009	(\$161,655,000)	(\$193,749,000)	(\$61,467,000)	(\$54,587,000)
2010	(\$358,726,000)	(\$411,424,000)	(\$130,605,000)	(\$115,227,000)
2011	(\$579,136,000)	(\$655,203,000)	(\$208,105,000)	(\$182,419,000)
2012	(\$824,951,000)	(\$927,438,000)	(\$294,710,000)	(\$256,698,000)

Fiscal Analysis

The bill would amend Section 403.302 of the Government Code to increase the percentage margin of error used by the Comptroller in determining the validity of school district taxable values reported to the Commissioner of Education for use in school funding formulas.

Under current law, the margin of error used by the Comptroller may not exceed five percent. This bill would establish the margin of error as 10 percent.

The bill would apply to the annual school district property value study for the 2007 tax year (reported

to the Commissioner of Education, July 1, 2008).

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 September 1, 2007.

Methodology

The bill would increase the margin of error used in the Comptroller's Property Value Study (PVS) from five percent to ten percent. The PVS indirectly encourages appraisal districts to keep values above 95 percent of the market value standard set by state law for most kinds of property. This is a result of current law requiring that if a school district's value falls below 95 percent of the state's estimate for property categories included in the PVS, the school district's value is deemed "invalid", the school district is granted a two year grace period, and an appraisal standards review is triggered for the appraisal district. If the school district values are not at or above 95 percent of the state's estimate in the third year the school district could receive less than their expected amount of funding.

A five percent increase in the allowed margin of error would reduce this pressure, and values would drop below the amounts that are currently projected in each year by approximately one percent per year. The first effect on appraisal district values would be in the 2008 tax year, which affects 2009 fiscal year taxes. The initial cost to school districts is shown for illustrative purposes, along with the state's maintenance and operation hold harmless cost, the state's formula debt payment cost and the total state cost. The school districts' initial loss of M&O revenue would be reduced by a corresponding state aid increase in the same year; however, there would be a one-year lag between districts' revenue loss in the I&S tier and the corresponding state aid increase the following year. City, county and school district tax rates were applied to the appropriate value loss in each year to estimate the costs in each year of the projection period. Information is not available to estimate the cost to special taxing districts.

The bill is estimated to have an impact on the state aid districts receive based on the enrichment tier as tied to the yield of the Austin Independent School District (ISD). To the extent that the bill has the effect of lessening Austin ISD's revenue per weighted student per penny of tax effort, as determined by the Commissioner of Education, the equalized yield on those enrichment pennies would decrease, resulting in a decrease in state aid.

Local Government Impact

The initial impact on school districts shown in the table above is provided for illustrative purposes only. The mechanics of the school finance system would likely transfer the fiscal impact to districts' M&O revenue to the state, resulting in a zero or negligible fiscal impact to the school districts. However, districts would experience a one-year lag between the loss of I&S revenue due to the provisions of the bill and the corresponding increase in state aid for debt service, which would occur the following year.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: JOB, CT, SD, SJS, JGM