

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

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**March 13, 2007**

**TO:** Honorable Rob Eissler, Chair, House Committee on Public Education

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

**IN RE: HB1792** by King, Tracy (Relating to the limitation on the rate of school district enrichment taxes eligible for equalization under the foundation school program.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1792, As Introduced: a negative impact of (\$2,800,000) 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:**

<b>Fiscal Year</b>	<b>Probable Net Positive/(Negative) Impact to General Revenue Related Funds</b>
2008	(\$2,000,000)
2009	(\$800,000)
2010	(\$800,000)
2011	(\$800,000)
2012	(\$800,000)

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

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from FOUNDATION SCHOOL FUND 193</b>
2008	(\$2,000,000)
2009	(\$800,000)
2010	(\$800,000)
2011	(\$800,000)
2012	(\$800,000)

**Fiscal Analysis**

This bill would repeal the limit on the district enrichment tax rate (DTR) used for the purposes of calculation state funding under the Foundation School Program (FSP).

The bill would repeal Subsections 41.159(b) and 42.302 (a-2) and Section 42.303, Education Code. The bill would also make conforming amendments to Sections 42.302(a), (a-1), and (a-3).

The bill would also direct TEA to adjust the funding that districts would have earned in 2006-2007 to reflect the repeal of the DTR limit and to pay the additional FSP funds to those districts in 2007-2008.

This bill would take effect September 1, 2007.

## **Methodology**

A district that sees an increase to its DTR on "level 1" of its Tier II tax effort (that is, DTR due to revenue generated by tax effort up to the state-compressed tax rate) would see higher Tier II state aid. However, since the district is held to a total revenue target, its hold harmless state aid would decrease, or its dragback amount would increase, commensurately, resulting in no additional state aid.

Under the bill's provisions, only districts that have levied enrichment tax effort, i.e. maintenance and operations taxes above the state-compressed tax rate, sufficient to push their DTR related to enrichment tax effort over the current law limit would see an increase in state enrichment aid. Based upon 2007 information there are 8 districts levying enough enrichment tax effort to exceed the current law DTR limit, and thus would receive more funds due to the removal of the limit. TEA estimates that the cost of applying the repeal of the DTR limit to FY 2007 funding would be approximately \$1.2 million, which would be paid out during FY 2008.

Assuming steady property value growth, this group of districts would continue to earn additional state aid in the enrichment tier due to the removal of the DTR limit in each year after 2007. The total amount is estimated to be \$800,000 in fiscal year year 2008 and each year thereafter; however, this amount would increase or decrease depending on actual property value growth.

To the extent that more districts levy a high proportion of the 17-cent enrichment tier, state enrichment costs would begin to rise. However, this is not expected to occur by 2012; districts must seek voter approval for enrichment tax rates beyond 4 cents above the state compression rate. It is estimated that, by 2012, few other districts would levy an enrichment tax rate high enough to draw additional state enrichment aid under the bill's provisions.

## **Technology**

This bill has no identifiable effect on the Texas Education Agency's technology costs.

## **Local Government Impact**

Under the provisions of the bill, it is estimated that a small number of districts would realize an increase in state enrichment aid.

**Source Agencies:** 701 Central Education Agency

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