

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 17, 2007

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

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

IN RE: HB2785 by Paxton (Relating to school district property tax rate reductions.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2785, As Engrossed: a negative impact of (\$6,567,146,000) 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	(\$3,262,888,000)
2009	(\$3,304,258,000)
2010	(\$3,346,150,000)
2011	(\$3,387,340,000)
2012	(\$3,430,600,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from FOUNDATION SCHOOL FUND 193
2008	(\$3,262,888,000)
2009	(\$3,304,258,000)
2010	(\$3,346,150,000)
2011	(\$3,387,340,000)
2012	(\$3,430,600,000)

Fiscal Analysis

For fiscal year 2008, the bill would reduce the state compression percentage from 66.67% to 60.67%, increasing the level of state funding for school district property tax relief.

The bill makes the tax rate compression below 66.67% contingent on the state providing to school districts the equivalent of \$6,000 for each educator subject to the minimum salary schedule (MSS).

The bill would take effect on September 1, 2007.

Methodology

Under current law, the state cost of property tax relief has been estimated at the statutory level of 66.67% for fiscal year 2008, and that percentage has been assumed for the subsequent years. In

comparison to that assumption, the compression percentage under the bill's provisions of 60.67% would increase the state cost of property tax relief by an estimated \$1.264 billion in fiscal year 2008 and by a roughly equivalent amount each year thereafter.

The cost of providing a \$6,000 per MSS employee to each school district is approximately \$2 billion per year in fiscal year 2008 and in fiscal year 2009. The bill does not require an increase to the statutory minimum salary schedule. If the \$6,000 is provided as a net salary increase to MSS employees, the fiscal implication to the Teacher Retirement System (TRS) is approximately \$130 million per year in fiscal year 2008 and in fiscal year 2009. To the extent that school districts supplant local salary expenditures with this additional state aid, the cost associated with the TRS state contribution could be somewhat less.

Local Government Impact

School districts would experience reduced maintenance and operations tax rates, and receive increased state aid to replace lost tax collections. School districts would also receive state aid associated with the \$6,000 per MSS employee as described above. Based on local district decisions associated with providing the \$6,000 to educators, they may incur cost associated with TRS contributions.

Source Agencies: 701 Central Education Agency

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