LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

May 10, 2007

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

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

IN RE: **HB3699** by McCall (Relating to the management of public school land and the investment of the permanent school fund.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3699, As Engrossed: a positive impact of $200,000,000 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	$100,000,000
2009	$100,000,000
2010	$98,815,868
2011	$98,815,868
2012	$94,500,700

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/(Loss) from *AVAILABLE SCHOOL FUND* 2	Probable Revenue Gain/(Loss) from *PERMANENT SCHOOL FUND* 44
2008	$100,000,000	($124,509,822)
2009	$100,000,000	($135,859,440)
2010	$98,815,868	($146,195,946)
2011	$98,815,868	($158,804,786)
2012	$94,500,700	($167,704,751)

Fiscal Analysis

The bill would grant the School Land Board and the Commissioner of the General Land Office (GLO) sole and exclusive authority over the management of mineral or royalty interest, real estate investment, or other interests in public school lands, including revenue received from those sources. The bill would change the name of the Special Fund Account, which receives funds from the sale of Permanent School Fund (PSF) No. 44 land, to the Real Estate Special Fund Account. The bill would provide for the Real Estate Special Fund Account to accept the deposit of funds received from any land, mineral, or royalty interest, real estate investment, or other interest in public school fund lands.

The bill would direct the Comptroller, on the first working day of each month in a fiscal year, to transfer from the Real Estate Special Fund Account of the PSF to the Available School Fund (ASF)

No. 2 an amount equal to one-twelfth of the annual distribution from the Real Estate Special Fund Account as provided by Section 4, Article VII of the Texas Constitution for the fiscal year.

Sections 4 and 7 through 20 of the bill, which relate to the Real Estate Special Fund Account, would take effect on January 1, 2008, but only if the constitutional amendment to create the Real Estate and Investment Special Fund Accounts within the PSF and to allow the returns from the PSF real estate portfolio investments to be added to the ASF for the support of public schools were approved by the voters. If the proposed constitutional amendment were not approved by the voters, those sections would have no effect. The remainder of the bill would take effect immediately, if approved by two-thirds of the members of both houses of the Legislature. Otherwise, it would take effect on September 1, 2007.

Methodology

This estimate assumes that the consitutional amendment would be approved by voters on November 6, 2007. The bill would be expected to result in an increase in revenues to the Available School Fund (ASF) because of the distribution of funds from the Real Estate Special Fund provided by the bill and related constitutional amendment. Based on estimates from the General Land Office (GLO), it is assumed that the average market value of the real estate special fund account of the permanent school fund for the preceding 16 fiscal quarters would be approximately $1.25 billion in fiscal year 2008. The related constitutional amendment would limit distributions from the real estate special fund account to the ASF to 8 percent of the average market value of the account, which would yield an annual distribution of $100 million per fiscal year. Since the amount is effectively transferring out of the Permanent School Fund No. 44, the PSF would experience a corresponding loss of $100 million per fiscal year.

Because the constitutional amendment relating to the bill, Senate Joint Resolution 66, would need to pass for the fiscal implications of the bill to be realized, and because that resolution would prohibit the Texas Education Agency (TEA) from investing the remaining funds in the PSF, other than the Real Estate Special Fund, in real estate, the TEA estimates that this provision would result in a decrease in the rate of return on the PSF from 7.89 percent to 7.81 percent. This translates to a loss of an estimated $24.5 million in fiscal year 2008, increasing to $67.7 million by fiscal year 2012, which is incorporated into the net loss to the PSF shown in the table above.

This estimate also assumes that because the amount of money in the PSF would decline, the annual distribution from the PSF to the ASF would begin to decrease starting in fiscal year 2010. Because this distribution is based on a rolling 16-quarter average, no impact is expected in fiscal years 2008 and 2009. However, in fiscal years 2010 and 2011, a loss of $1.0 million in distributions to the ASF is expected, and in 2012, a loss of $6.5 million is expected. These losses are also incorporated in the amounts shown in the table above as the net fiscal impact to the ASF.

Local Government Impact

According to TEA, section 17 of the bill would reduce the capacity of the PSF to guarantee bonds issued by school districts by excluding the value of the assets in the PSF's real estate special fund account from the calculation of that capacity. This could have the potential to increase costs of issuing debt for districts who would not be able to participate in the PSF bond guarantee program.

Source Agencies: 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 582 Commission on Environmental Quality

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