

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

April 16, 2007

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

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

IN RE: HB3864 by Branch (Relating to the legislature's obligation to provide state funding for the public education system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3864, As Introduced: a negative impact of (\$1,779,000,000) 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	\$0
2009	(\$1,779,000,000)
2010	(\$2,484,000,000)
2011	(\$2,996,000,000)
2012	(\$3,704,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>FOUNDATION SCHOOL FUND</i> 193
2008	\$0
2009	(\$1,779,000,000)
2010	(\$2,484,000,000)
2011	(\$2,996,000,000)
2012	(\$3,704,000,000)

Fiscal Analysis

The bill would require the state to provide state funding to school districts in an amount that represents at least 55 percent of the cost of maintaining and operating the public school system. The bill does not specify a distribution mechanism.

The bill would limit recapture to no more than 35 percent of a district's revenue from ad valorem taxes for the maintenance of public schools in the district.

The act would take effect September 1, 2008.

Methodology

The language of the bill, referencing the "cost of maintaining and operating the public school system," appears to include district operating expenditures from all funding sources, including federal funds. If the language of the bill is intended to be limited to the local and state funding that represents the maintenance and operations cost of the Foundation School Program (FSP), then the state costs presented in this fiscal note would be somewhat lower.

Based on projections of total school district operating expenditures statewide for FY2009 roughly estimated at \$38.0 billion, compared to state funding distributed to districts through the FSP and outside the FSP - ie., textbooks, technology allotment, major programs, etc. - the net state cost of increasing the state share of district operating costs to 55 percent would be approximately \$1.6 billion in FY2009. Total district operating expenditures are estimated to grow by between 2.5 and 3.0 percent annually which, combined with the impact of increasing property values which serve to lower state share, produces increases to the net state cost in the out years. State costs are estimated to increase to \$2.3 billion in FY2010, \$2.8 billion in FY2011 and \$3.5 billion in FY2012. Sharp increases or decreases to federal funding over the next five years also could impact the state cost, as could the actual means by which the required percentage is achieved.

The recapture limitation in the bill is estimated to cost the state approximately \$179 million in FY2009 in lost recapture revenue which would need to be replaced with state funding, increasing to \$184 million in FY2010, \$196 million in FY2011, and \$204 million in FY2012. Should property value growth be higher than assumed by this estimate, the state cost could increase significantly.

Local Government Impact

The net impact to school district revenue would depend upon the mechanism by which the additional state funding is delivered. If additional state aid were flowed to districts through additional tax compression, there would be little net impact in terms of revenue. If tax rates are not compressed and additional state funds were delivered by some other mechanism, the bill would significantly increase total revenue available to districts.

Source Agencies: 701 Central Education Agency

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