

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

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**March 2, 2009**

**TO:** Honorable Florence Shapiro, Chair, Senate Committee on Education

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

**IN RE: SB574** by Jackson, Mike (Relating to an exception to the wealth per student limitation for school districts that, as a result of natural disasters, are suffering financial hardship.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB574, As Introduced: a negative impact of (\$16,135,906) through the biennium ending August 31, 2011.

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
2010	(\$14,245,832)
2011	(\$1,890,074)
2012	(\$837,088)
2013	(\$740,508)
2014	(\$634,478)

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

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1
2010	(\$14,195,832)	(\$50,000)
2011	(\$1,890,074)	\$0
2012	(\$837,088)	\$0
2013	(\$740,508)	\$0
2014	(\$634,478)	\$0

**Fiscal Analysis**

Section 1 of the bill would make special provisions for a school district located in a declared disaster area that had been determined by the commissioner to have suffered financial hardship as a result of the disaster. Any district meeting these qualifications would be exempted from the wealth per student limitations prescribed by Section 41.002, Education Code and would not be required to take any action to achieve the equalized wealth level until recovery efforts are completed and the commissioner determines that the school district's financial situation was as good as or better than before the disaster. The commissioner would be required to adopt rules as necessary to implement the new section.

Section 2 of the bill would apply the bill's provisions beginning with the 2009–2010 school year. The

section would also make the new Section 41.0021 applicable to school districts that suffered disasters that resulted in financial hardship before the effective date of the bill.

This bill would take effect September 1, 2009 or immediately if passed with the necessary voting margins.

### **Methodology**

To estimate the possible fiscal impact of the bill, the Texas Education Agency (TEA) identified several school districts that were significantly affected by Hurricane Ike in 2008. TEA assumed that these districts -- Galveston, High Island, Bridge City and Sabine Pass ISDs -- would lose 20 percent of their pre-hurricane attendance in fiscal year 2010, and that their tax year 2009 property values would be reduced by 30 percent. Under the current law school finance system, the attendance decline would cause a district's wealth per weighted student (WADA), the basis for wealth equalization obligations under Chapter 41 of the Texas Education Code, to increase in the same year. However, due to the use of lagged property values in the state funding system, the tax year 2009 property value decline would not lower wealth per WADA until fiscal year 2011.

Based on these assumptions, Galveston, High Island and Sabine Pass ISDs would be subject to wealth equalization in fiscal year 2010. TEA estimates the 2010 state cost of forgoing the recapture revenue from these districts to be \$14.2 million. This cost is estimated to fall significantly in the following years as the reduced property values lower the districts' wealth equalization obligations.

For the purpose of this estimate, identified state costs are assumed to be limited to costs resulting from application of the bill's provisions to Galveston, High Island and Sabine Pass ISDs. However, the bill would render eligible for Chapter 41 relief any school district in a designated disaster area and for which the commissioner has determined financial hardship. Currently, there are 570 school districts in a county designated by the Governor as a disaster area; of this number, 81 are subject to wealth equalization. Should more districts than the three assumed by the agency be determined by the commissioner to have suffered financial hardship as a result of a disaster, state costs due to the provisions of the bill could increase significantly.

TEA estimates that accounting for the provisions of the bill in the current Foundation School Program management and payment system would require approximately \$50,000 in software modification costs in fiscal year 2010.

### **Local Government Impact**

Affected school districts would realize relief from recapture obligations under the provisions of the bill. Districts might incur some administrative costs to document disaster declaration and financial hardship, but the TEA does not expect these costs to be significant.

**Source Agencies:** 701 Central Education Agency

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