

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

**FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION**  
**Revision 1**

**April 25, 2011**

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

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

**IN RE: SB22** by Shapiro (relating to public school finance and prekindergarten programs.),  
**Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SB22, Committee Report 1st House, Substituted: a positive impact of \$4,000,000,000 through the biennium ending August 31, 2013.

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>
2012	\$2,000,000,000
2013	\$2,000,000,000
2014	\$1,375,000,000
2015	\$1,400,000,000
2016	\$797,000,000

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

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>
2012	\$2,000,000,000
2013	\$2,000,000,000
2014	\$1,375,000,000
2015	\$1,400,000,000
2016	\$797,000,000

**Fiscal Analysis**

The bill would make structural changes in the Foundation School Program that would result in significant savings beginning in fiscal year 2012 and continuing thereafter.

The bill would add an adjustment to the Tier 1 regular program allotment of 0.98 for fiscal years 2012 and 2013 and would raise the Tier 1 basic allotment and accompanying equalized wealth level from \$4,765 to \$4,900 in fiscal year 2016 and to \$5,000 in fiscal year 2017. The bill would proportionally reduce the calculated target revenue amount used to determine hold harmless state aid under Section 42.2516, Education Code. The reduction applied to target revenue would represent 93.50 percent in fiscal year 2012 and 92.35 percent in fiscal years 2013 through 2016. Effective fiscal year 2017, the bill would abolish the target revenue calculation and associated hold harmless aid. For fiscal years

2012-2016, the bill would codify intent with respect to the calculation of target revenue hold harmless aid for school districts adopting tax rates below the compressed rate. The bill would move outside of the hold harmless calculation, the authorization for state aid paid to certain school districts for amounts in excess of compressed tax revenues that are paid into tax increment funds. The bill would repeal a provision that limits the amount of gain to which a school district is entitled from one year to the next and would revise the statutory mechanism used to prorate shortfalls in the Foundation School Program among districts to apply a uniform percentage reduction to all districts.

The bill would require school district prekindergarten programs to demonstrate effectiveness as determined by a school readiness certification system administered by the commissioner of education. The commissioner would be authorized to waive participation in the certification system for programs otherwise demonstrating effectiveness. Contingent upon available funding, the bill would provide for the commissioner of education or an entity acting under contract with the commissioner to provide technical assistance to school districts that are not certified following two consecutive review cycles. In fiscal years 2012 and 2013, the bill would authorize the commissioner of education to withhold Foundation School Program funds in an amount sufficient to pay the cost of school districts' participation in the school readiness certification system.

Beginning with the 2011-12 school year, the bill would replace minimum salary schedule factors with dollar amounts equivalent to the salary schedule in effect for fiscal year 2011.

### **Methodology**

A model of the bill's changes to the calculation of Foundation School Program entitlement indicates that savings of approximately \$2.0 billion each year would be achieved in the 2012-2013 biennium, with continuing savings of approximately \$1.4 billion each year in the 2014-2015 biennium. Savings would be reduced in years thereafter as a result of formula the increases to the basic allotment and equalized wealth level that would take effect in fiscal years 2016 and 2017. However, savings beginning in fiscal year (FY) 2017 are enhanced by the repeal of target revenue hold harmless.

The Texas Education Agency estimates that provisions of the bill authorizing the commissioner to withhold an amount from the FSP to support participation in the school readiness certification system, would require a set-aside of approximately \$14.5 million in FY12 and \$15.3 million in FY13. This amount would be assumed to pay for the certification costs of programs for the 226,456 FSP eligible prekindergarten students estimated to be in attendance in FY12, at a cost of \$64.21 per student. The amount for FY13 assumes an annual rate of growth of 5 percent in prekindergarten enrollment. Reductions in entitlement in the form of FSP set-asides are distributed among districts on the basis of property wealth. However, set-aside reductions are offset for districts receiving hold harmless by increases to their hold harmless state aid. A model of the set-aside added under the bill indicates that the set-aside would result in increased state costs, of \$8.3 million in fiscal year 2012 and \$7.3 million in fiscal year 2013.

Although the bill would make entitlement to the benefits of the Foundation School program for prekindergarten students conditional upon school district participation in the school readiness certification system, the provision is assumed to have no significant implications for the expected level of average daily attendance of prekindergarten students. It is anticipated that school districts would choose to participate in the system thereby maintaining prekindergarten students' entitlement to the benefits of the FSP.

### **Technology**

It is estimated that the Texas Education Agency would experience costs of approximately \$175,000 in FY12 for modification of the system used to calculate Foundation School Program entitlement and make payments to accommodate changes under the bill. Costs for ongoing maintenance associated with the system modifications would be approximately \$50,000 in FY13 and each year thereafter.

### **Local Government Impact**

School districts would experience significant loss of revenue under the bill. In total, revenues

available to school districts would decline by approximately \$2.0 billion per year relative to current law in FY12 and FY13. Revenues would decline by approximately \$1.4 billion per year relative to current law in FY14 and FY15, with additional revenue realized through formula increases beginning in FY16 resulting in a lesser reduction of \$797.0 million on a statewide basis. Reductions in revenue would vary among districts depending upon specific local circumstances.

The bill would make entitlement to the benefits of the Foundation School program for prekindergarten students conditional upon school district participation in a school readiness certification system or demonstration of effectiveness by other means under a waiver. The bill would provide for a portion of attributable FSP funding to be withheld to offset costs associated with participation. It is estimated for the purpose of this fiscal note that school districts would choose to participate in the system or obtain a waiver to continue to maintain prekindergarten students' entitlement to the benefits of the Foundation School Program. School districts that do not receive target revenue hold harmless aid would experience a reduction in revenues due to the FSP setaside authorized in fiscal years 2012 and 2013. On a statewide basis, the reductions in revenue would be estimated to total \$6.2 million in FY12 and \$8.0 million in FY13.

Beginning with the adoption of tax rates for tax year 2011, the bill would relax school district publication and hearing requirements pertaining to the effective interest and sinking fund rate in situations where the effective rate decreases after the initial publication. Under the bill, school districts would be clearly authorized to adopt a lower interest and sinking fund rate without republishing or rehearing the proposed lower rate. The number of districts that would no longer have to republish or rehear proposed tax rates would vary each year but is likely limited to no more than 50 districts each year. The Texas Education Agency estimates an average savings of \$140 per republication avoided.

**Source Agencies:** 701 Central Education Agency

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