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

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

IN RE: **SB1581** by Ogden (Relating to state fiscal matters, and certain administrative and business matters, related to public and higher education.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1581, Committee Report 2nd House, Substituted: a positive impact of $4,030,034,567 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:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$2,014,969,718
2013	$2,015,064,849
2014	$1,390,150,244
2015	$1,415,224,295
2016	$812,285,220

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Foundation School Fund* 193
2012	$6,139,718	$2,008,830,000
2013	$6,234,849	$2,008,830,000
2014	$6,320,244	$1,383,830,000
2015	$6,394,295	$1,408,830,000
2016	$6,455,220	$805,830,000

Fiscal Analysis

Article 1 of the bill would amend various sections of statute as they relate to the financial management of institutions of higher education, the qualifications of certain businesses to enter into contracts with the institutions, membership of certain boards, confidentiality of certain information, and the payroll deductions for employees of a university system or institution of higher education. The article also eliminates several reporting requirements applicable to institutions of higher education.

Article 2 would implement the recommendation in the report, "Limit Advanced Placement Incentive Program Exam Fee Subsidies and End Campus Awards," in the Legislative Budget Board's Government Effectiveness and Efficiency Report submitted to the Eighty-Second Texas Legislature, 2011 by funding the cost of examinations for students who demonstrate financial need in accordance with adopted guidelines.

Article 3 would end eligibility to redeem Early High School Graduation Scholarships awards issued prior to fiscal year 2012 effective for fiscal year 2018 and would close the program to new awards effective for fiscal year 2012. The bill would eliminate automatic transfers of funding from the Foundation School Program (FSP) to the Texas Higher Education Coordinating Board (THECB) for purposes of funding certain tuition exemption programs.

Article 4 would limit eligibility for Educational Aide tuition exemptions to persons seeking certification in teacher shortage areas, as determined by the Commissioner.

Article 5 would allow the partial liquidation of the Permanent Health Fund managed by The University of Texas System. The provisions of the bill would segregate the permanent health fund into two accounts which includes the per capita account (70 percent of the fund) and the formula account (30 percent of the fund).

Article 6 would exclude physical education curriculum from counting towards contact hours used to determine a junior college’s proportionate share of the state money appropriated.

The bill would amend Chapter 42 of the Education Code to reduce a district's additional state aid for tax relief in proportion to the degree to which its adopted maintenance and operations tax rate is below its compressed tax rate, applying beginning with tax rates adopted for the 2009 tax year.

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 year 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 revise the minimum salary schedule factors, and require districts to pay salaries in amounts at least equal to the salary schedule in effect for fiscal year 2011.

Except as otherwise provided, the bill would take effect September 1, 2011.

Methodology

Article 1: Based on responses from institutions of higher education, there could be some savings associated with the elimination of the various reporting requirements but these savings were not identified as significant.

Article 2: The bill would limit AP/IB exam fee subsidies to students who are educationally disadvantaged as defined in Section 5.001(4), Education Code, which would save an estimated $6.1 million in General Revenue Funds for fiscal year 2012 and $6.2 million in General Revenue Funds for fiscal year 2013, increasing to $6.5 million by fiscal year 2016. This estimate is based on current appropriations of $8.4 million for exam fee subsidies and assumes a 4 percent increase in the total number of AP/IB exams taken and a 9 percent increase in the number of AP/IB exams taken by low-income students that would be eligible for a subsidy each school year. Projected increases are based on historical data and growth in participation provided by TEA. The savings from the provision are assumed in CSHB 1.

Article 3: Students who receive Early High School Graduation Scholarships have six years from the date of the award in which to apply the scholarship to eligible higher education expenses. The THECB estimates about $10.6 million in unredeemed awards that have not yet expired. For purposes of this estimate, it is assumed that one-fifth of those awards are redeemed each fiscal year beginning in fiscal year 2012. Based on that assumption and annual state cost for the program in recent fiscal years of $7.2 million, provisions closing the Early High School Graduation Scholarship program to new awards effective for fiscal year 2012 is estimated to reduce state cost by $5.1 in General Revenue annually. The savings from the provision is assumed in CSHB 1.

Article 4: Provisions limiting eligibility for Educational Aide tuition exemptions to persons seeking certification in teacher shortage areas is estimated to reduce state costs for this program by $3,750,000 in General Revenue annually. The savings from the provision are assumed in CSHB 1.

Provisions eliminating automatic transfers of funding from the Foundation School Program (FSP) to the Texas Higher Education Coordinating Board (THECB) for purposes of funding certain tuition exemption programs affect the Early High School Graduation Scholarship program and the Educational Aide tuition exemption program as well as tuition subsidies for certain TANF eligible students and make funding for each of these programs subject to appropriations by the Legislature. Estimates of savings related to these programs referenced above are made without consideration of appropriations levels currently being considered by the Eighty-second Legislature for the 2012-13 biennium and are estimated in reference to appropriation levels similar to those in the 2010-11 biennium. To the extent that actual appropriations in future fiscal years for these programs are greater than or less than the amounts assumed for purposes of this estimate, actual savings to the 2012-13 budget would vary. The savings from the provision are assumed in CSHB 1.

If the provisions of the bill related to the Early High School Graduation Scholarship and other higher education tuition exemptions decreased the number of students enrolled at higher education institutions, the legislature could reduce General Revenue formula funds and maintain the formula rate. The legislature could also decide to keep the same amount of General Revenue funds in the formula, thereby increasing the formula rate.

Article 5: The provisions of the bill would also allow the partial liquidation of the Permanent Health Fund (Other Funds) managed by The University of Texas System. The provisions of the bill would segregate the permanent health fund into two accounts which includes the per capita account (70 percent of the fund) and the formula account (30 percent of the fund). The partial liquidation distribution required is equal to one-third of the institution's fractional share of the value of the per capita account. It is assumed that the partial liquidation is estimated at $100 million of the total estimated value of $430 million for the Permanent Health Fund. It is estimated that the partial liquidation would reduce interest earnings $8.5 million per biennium to recipients of the earnings.

Article 6: The bill would exclude physical education curriculum from counting towards contact hours used to determine a junior college’s proportionate share of the state money appropriated. The Texas Higher Education Coordinating Board estimates that provisions related to the exclusion of physical education courses from contact hour calculations for purposes of determining state funding for junior colleges would result in minimal savings. Those savings are not estimated to be significant.

Provisions relating to the calculation of Foundation School Program hold harmless aid for school districts that adopted tax rates below their compressed rate beginning with tax year 2009 are not expected to have a significant fiscal impact to the Foundation School Program. The state is not expected to incur additional costs for fiscal year 2010 and 2011 because the bill reflects the Texas Education Agency's current treatment of additional state aid for tax relief for affected districts in those years. In fiscal year 2012 and beyond, this fiscal note does not assume districts would tax significantly below their compressed rate.

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 $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 participating 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 $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: 323 Teacher Retirement System, 701 Central Education Agency, 781 Higher Education Coordinating Board

LBB Staff: JOB, KK, JGM, JSp, DE, KY, SD, JW, JSc, GO, LXH