LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 19, 2011

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

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

IN RE: **SJR5** by Ogden (Proposing a constitutional amendment relating to determination of the market value of the permanent school fund and providing for certain transfers from the permanent school fund to the available school fund.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SJR5, As Introduced: a positive impact of $2,000,000,000 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:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$1,000,000,000
2013	$1,000,000,000
2014	$400,000,000
2015	$400,000,000
2016	$0

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
2012	$1,000,000,000	($1,040,000,000)
2013	$1,000,000,000	($1,123,200,000)
2014	$400,000,000	($513,344,000)
2015	$400,000,000	($536,444,480)
2016	$0	($144,584,482)

Fiscal Analysis

This resolution proposes a constitutional amendment relating to determination of the market value of the Permanent School Fund (PSF) and providing for certain transfers from the PSF to the Available School Fund (ASF).

Texas Constitution, Section 5, Subsection (a)(1) would be amended to provide that the amount distributed from the PSF to the ASF would not be more than 6 percent of the average of the market value of the PSF, including rather than excluding real property and proceeds from the sales of that property.

New Subsection (g) would require the General Land Office (GLO) or another entity other than the

State Board of Education (SBOE) with responsibility for the management of PSF land or other properties to distribute all revenue derived from the land and properties to the PSF for the biennium beginning September 1, 2011.

New Subsection (h) would permit the GLO or another entity other than the SBOE with responsibility for the management of PSF land or other properties to distribute all revenue derived from the land or properties to the ASF for the biennium beginning September 1, 2013.

New Subsection (i) would, notwithstanding Subsection (a) of Section 5, require the total amount distributed from the PSF to the ASF for the state biennium beginning September 1, 2011, be equal to $2 billion.

Subsection (j) would make Subsections (g) and (i) and this subsection expire December 1, 2014.

Subsection (k) would make Subsection (h) and this subsection expire December 1, 2016.

Section 2 of the resolution would require that the amendment be submitted to voters at an election on November 8, 2011.

Methodology

It is assumed for the purposes of this fiscal note that the notwithstanding clause in Subsection (i) would require $2 billion in distributions from the PSF to the ASF in addition to the total return distribution described by Subsection (a)(1). This assumption entails additional revenue to the ASF of $1 billion in each year of the 2012-13 biennium.

Subsection (h) would deliver an estimated $400 million in each year of the 2014-15 biennium from revenue generated by PSF holdings to the ASF.

The amounts described above would be a loss to the corpus of the PSF. In addition, the PSF would not benefit from the compounding interest that would be derived from these assets remaining in the corpus. This fiscal note's estimate of interest not earned is discounted for the fact that a portion of it would have been distributed to the ASF under current law through the total return rate under Subsection (a).

Decreases to the total return distribution due to the removal of $2 billion in PSF corpus are expected to be offset by the inclusion of real property and proceeds from the sale of that property in the calculation of the market value of the PSF under Subsection (a).

The General Land Office (GLO) states that by requiring "all revenue" derived from the land or properties managed by the GLO to be distributed to the PSF or ASF, the resolution potentially would eliminate the source of funding for the administration of those properties, requiring a draw from General Revenue or another funding source. Similarly, GLO states that this provision potentially could negatively affect the State Energy Marketing Program.

Local Government Impact

Depending upon appropriations decisions of the Legislature, school districts could benefit by having additional revenue distributed to the ASF, a dedicated account for public education.

Because the value of the PSF serves as a basis for guaranteeing school district bonds through the Bond Guarantee Program which lowers borrowing costs for districts, the provisions of this bill would have the effect of lowering the capacity of that program.

Source Agencies: 701 Central Education Agency

LBB Staff: JOB, KK, JGM