

**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: 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.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for SJR5, Committee Report 1st House, Substituted: a positive impact of \$184,800,000 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	\$92,400,000
2013	\$92,400,000
2014	\$98,000,000
2015	\$98,000,000
2016	\$119,000,000

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

<b>Fiscal Year</b>	<b>Probable Revenue Gain/(Loss) from Available School Fund 2</b>	<b>Probable Revenue Gain/(Loss) from Permanent School Fund 44</b>
2012	\$92,400,000	(\$94,248,000)
2013	\$92,400,000	(\$96,835,200)
2014	\$98,000,000	(\$106,515,584)
2015	\$98,000,000	(\$111,308,785)
2016	\$119,000,000	(\$132,907,681)

**Fiscal Analysis**

This resolution proposes a constitutional amendment relating to determination of the market value of the Permanent School Fund (PSF) for purposes of the current total return distribution 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 discretionary real assets investments and cash in the state treasury derived from property belonging to the fund.

Section 2 is a temporary provision to apply the change made in Section 1 to distributions from the PSF to the ASF on or after September 1, 2011.

Section 3 of the resolution would require that the amendment be submitted to voters at an election on November 8, 2011.

### **Methodology**

The approximate value of the real assets investments and cash that would be added to the calculation of the PSF's market value for purposes of the total return distribution is currently \$2.2 billion. At the 4.2 percent distribution rate adopted by the State Board of Education (SBOE) for the 2012-13 biennium, the resolution would increase the total return distribution by an estimated \$92.4 million in each year of the 2012-13 biennium.

It is assumed that the value added to the market value calculation would increase annually by approximately \$300,000,000 in revenue from oil and gas royalties not currently transferred to the PSF corpus. Assuming a distribution rate of 3.5 percent in the 2014-15 biennium and beyond, this would yield increasing distributions to the ASF in the out years.

The amounts described above would be a loss to the either to the investment corpus of the PSF managed by SBOE, or should the School Land Board (SLB) increase its transfers to the SBOE to cover this share of the distribution, to the assets managed by the SLB. 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).

### **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.

**Source Agencies:** 701 Central Education Agency

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