

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 7, 2015

TO: Honorable John Zerwas, Chair, House Committee on Higher Education

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB44 by Martinez, "Mando" (Relating to the establishment of a public law school in the Rio Grande Valley.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB44, As Introduced: an impact of \$0 through the biennium ending August 31, 2017.

There will be substantial costs related to the establishment of the law school beginning in fiscal year 2022, when state funding becomes available.

General Revenue-Related Funds, Ten-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	\$0
2017	\$0
2018	\$0
2019	\$0
2020	\$0
2021	\$0
2022	(\$6,451,005)
2023	(\$8,301,961)
2024	(\$9,608,747)
2025	(\$11,527,304)

All Funds, Ten-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Probable Revenue Gain from Est Oth Educ & Gen Inco 770	Probable (Cost) from Est Oth Educ & Gen Inco 770	Probable Revenue Gain from Institutional Funds 8888
2016	\$0	\$0	\$0	\$0
2017	\$0	\$0	\$0	\$0
2018	\$0	\$0	\$0	\$0
2019	\$0	\$0	\$0	\$0
2020	\$0	\$0	\$0	\$0
2021	\$0	\$0	\$0	\$0
2022	(\$6,451,005)	\$0	\$0	\$0
2023	(\$8,301,961)	\$192,000	(\$192,000)	\$2,408,000
2024	(\$9,608,747)	\$288,000	(\$288,000)	\$3,612,000
2025	(\$11,527,304)	\$384,000	(\$384,000)	\$4,816,000

Fiscal Year	Probable (Cost) from Institutional Funds 8888	Change in Number of State Employees from FY 2015
2016	\$0	0.0
2017	\$0	0.0
2018	\$0	0.0
2019	\$0	0.0
2020	\$0	0.0
2021	\$0	0.0
2022	\$0	4.0
2023	(\$2,408,000)	17.0
2024	(\$3,612,000)	29.0
2025	(\$4,816,000)	37.0

Fiscal Analysis

The bill relates to the establishment of a public law school in the Rio Grande Valley. Under provisions of the bill, the governing board of a university system that intends to establish a school of law shall notify the Higher Education Coordinating Board (Board). If the Board receives notification from more than one governing board, the Board shall determine which of those governing boards may establish a law school based on certain criteria. The bill requires the Board to prepare a feasibility study to determine actions the university system must take to obtain accreditation of the law school. Under provisions of the bill, no funds for a state fiscal biennium ending on or before August 31, 2021, may be appropriated for the law school.

Methodology

For purposes of this fiscal note is assumed that The University of Texas System would establish the law school in fiscal year 2022, when state funding becomes available. Although the bill does not specify how construction of the law school will be funded, for purposes of this fiscal note it is assumed tuition revenue bonds would be used. The fiscal impact of the bill will be broken down between faculty and costs associated with the construction of the law school.

The University of Texas System indicates that in fiscal year 2022 they will need to hire a dean, a director of admissions, and two support staff to start the law school. Total costs for these four

FTEs is \$606,405. This amount includes salaries in the amount of \$467,400 and employee retirement and insurance in the amount of \$139,005. There would also be approximately \$330,600 for operating expenses, including one time costs.

In fiscal year 2023, The University of Texas System indicates they would need to hire 13 additional FTEs which includes ten faculty and three additional administrative staff in preparation for the first entering class. The total cost for these FTEs is \$1,556,100 for salaries and \$462,784 for employee benefits. There would also be other operating costs including \$162,672 for operating expenses. There would be increases in faculty and administrative staff in the future years reaching 37 FTEs in fiscal year 2025 as well as operating expenses as the law school grows in enrollment.

The University of Texas System estimates that the new law school building would cost \$51,765,000. Bonds for the law school building are assumed to be issued on September 1, 2021, at a 6 percent interest rate with a 20-year level debt service amortization. Based on calculations prepared by The University of Texas System, the amount of debt service payments would be \$4.5 million per year beginning in fiscal year 2022. The University of Texas System also indicates there would be costs associated with the library collection of \$1 million per year beginning in fiscal year 2022.

While General Revenue funding would be the only method of financing for fiscal year 2022, beginning in fiscal year 2023, statutory tuition (Fund 770) and institutional funds (including designated tuition and other fees) will be used to support the operation of the law school. In 2023, it is estimated 100 students would enroll in the first class of the law school. These students would generate approximately \$192,000 in statutory tuition and \$2.4 million in institutional funds. The revenue from statutory tuition and institutional funds would increase as an additional 50 students are added per year. This revenue would be used to support the operation of the law school, which is represented as a cost to these funds above.

Beginning in fiscal year 2025, the law school would be eligible for formula funding. The University of Texas system indicates that the law school would generate \$1,003,034 in formula general revenue in fiscal year 2025. The formula funding has been included in the costs associated with the bill.

The Higher Education Coordinating Board indicates that outside consultants, who are experienced with the full procedures of both ABA and SACS accreditation, would be needed for the feasibility studies. These costs would be absorbed within current resources.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 720 The University of Texas System Administration, 781 Higher Education Coordinating Board

LBB Staff: UP, EMu, DEH, GO