

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

**FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION**

**April 24, 2015**

**TO:** Honorable Jimmie Don Aycock, Chair, House Committee on Public Education

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE:** **HB1759** by Aycock (relating to the public school finance system.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1759, Committee Report 1st House, Substituted: a negative impact of (\$3,008,088,843) through the biennium ending August 31, 2017.

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>
2016	(\$1,486,456,615)
2017	(\$1,521,632,228)
2018	(\$1,749,261,425)
2019	(\$1,788,076,715)
2020	(\$1,826,477,705)

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

<b>Fiscal Year</b>	<b>Probable Savings/(Cost) from Foundation School Fund 193</b>
2016	(\$1,486,456,615)
2017	(\$1,521,632,228)
2018	(\$1,749,261,425)
2019	(\$1,788,076,715)
2020	(\$1,826,477,705)

**Fiscal Analysis**

The bill would revise formulas used to determine school district and charter school entitlement under the Foundation School Program (FSP).

The bill would revise adjustments applied to the basic allotment in the calculation of entitlement by repealing the cost of education index, reducing the level of application of the mid-size district adjustment to 75 percent of the current basic allotment and phasing the adjustment out over time, and specifying the amount of basic allotment to which the small district adjustment is applied to be equal to the current basic allotment plus \$125. The bill would expand the Career and Technical Education Allotment to include students in Grade 8.

The bill would provide a mechanism within the FSP to enable school districts with compressed tax rates that are below \$1.00 to increase FSP Tier 1 participation by converting tax effort equalized under Tier 2 at \$31.95 to Tier 1 effort. For affected school districts, the number of pennies of tax effort that could be converted from Tier 2 to Tier 1 would be limited to the number needed to achieve a Tier 1 rate of \$1.00. Rate conversion would be optional per district discretion in fiscal years 2016 and 2017 and would be automatic beginning in fiscal year 2018.

The bill would repeal a number of separate funding streams that either flow outside the equalized system or are not fully realized by all school districts due to exclusion from the calculation of the count of weighted students. The bill would repeal current provisions that result in a higher equalized wealth level for certain districts based on the district's 1992-93 revenue per student plus the indexed change between the current equalized wealth level and the level established in 1993.

The bill would provide transitional stop-loss aid for fiscal years 2016 and 2017 for school districts that would experience a loss of revenue relative to current law under the provisions of the bill.

The bill would take effect September 1, 2015.

## **Methodology**

The bill is expected to result in additional costs of \$1,486.5 million in fiscal year 2016 and \$1,521.6 million in fiscal year 2017, increasing to \$1,826.5 million by fiscal year 2020

Fiscal implications to the state have been estimated assuming a basic allotment amount of \$5,888 beginning in fiscal year 2016 relative to a current law basic allotment amount of \$5,040. Under this scenario, the level of total entitlement previously distributed via the cost of education index, the high school allotment, and the allocation of aid for nonprofessional salaries is assumed to flow through the increased basic allotment, with growth in the associated entitlement occurring in response to growth in the underlying student population and weighted student counts. A total of \$125 of the increased basic allotment amount was assumed in place of the repealed transportation allotment to provide system wide entitlement of approximately \$800 million beginning in fiscal year 2016, increasing thereafter with the underlying student population and weighted student count at approximately 1.7 percent each year.

This estimate assumes that career and technology education (CTE) participation of Grade 8 students would be similar to the current CTE participation of Grade 9 students, with about 20 percent of students enrolled in at least one CTE course at full implementation. The estimate assumes that participation by Grade 8 students would phase-in over several years as schools expand course offerings and adjust scheduling options to accommodate increased Grade 8 CTE enrollment. Participation in fiscal year 2016 is assumed at 15 percent, increasing incrementally each year until reaching full implementation in fiscal year 2020.

Provisions of the bill enabling districts with compressed rates below \$1.00 to increase Tier 1 participation by converting tax effort would apply to 472 (46 percent) of the currently operating school districts that levy property taxes for the purpose of maintenance and operations (M&O).

Property tax relief measures enacted in 2006 compressed school district M&O tax rates to a rate equal to approximately two-thirds of the district's adopted tax year 2005 rate and provided additional discretionary taxing authority up to a limit of \$1.17. For districts that were taxing at \$1.50 in tax year 2005, the rate resulting from the compression is \$1.00. For districts that were taxing below \$1.50 in tax year 2005, the rate resulting from compression is equal to 66.67% of the adopted 2005 tax rate, with outcomes ranging from just over \$0.64 to \$0.99.

The compressed rate portion of a school district's current M&O tax rate determines a school district's entitlement under Tier 1 of the Foundation School Program. Under current law, districts with compressed rates below \$1.00 receive proportionally reduced entitlement under Tier 1. For example, a district with a compressed rate of \$0.90 receives Tier 1 formula entitlement on the basis of 90 percent of the basic allotment and a local share of \$0.90. Current law does not provide a means for districts receiving prorated entitlement to increase Tier 1 participation to \$1.00 (100%) because the proration is a function of the district's 2005 tax rate, which cannot be changed.

M&O pennies levied in addition to those that make up the district's compressed rate are equalized through Tier 2 of the FSP. Each district has access to \$0.06 equalized at a yield based on the local yield of the Austin Independent School District. All remaining pennies levied up to the \$1.17 maximum are equalized at a yield of \$31.95. A district with a compressed rate of \$1.00 has access to \$0.11 equalized at the \$31.95 yield. Districts with compressed rates below \$1.00 have access to more than \$0.11 equalized at the \$31.95 yield, ranging from \$0.12 to \$0.46.

Under the bill, a district with a compressed rate below \$1.00 would be able to convert pennies equalized at the \$31.95 yield to Tier 1 pennies until a full \$1.00 Tier 1 rate is achieved, providing entitlement based on 100% of the basic allotment and a Tier 1 local share of \$1.00. Conversion of Tier 2 pennies would be optional in fiscal years 2016 and 2017 and would be automatic beginning in fiscal year 2018. For the purpose of this estimate no change in adopted tax rates in response to this mechanism was assumed. In combination with the other provisions of the bill, nearly all affected school districts currently levying pennies eligible for conversion would benefit under the conversion mechanism beginning in fiscal year 2016.

The bill would provide transitional stop-loss aid for school districts that would experience a loss of M&O revenue relative to current law due to the provisions of the bill. The transitional aid would be available for fiscal years 2016 and 2017 and would be capped at \$75.7 million in fiscal year 2016 and \$81.2 million in fiscal year 2017.

Based on the assumptions described, state cost for the Foundation School Program under the bill would be anticipated to increase by \$1,486.5 million in fiscal year 2016 and \$1,521.6 million in fiscal year 2017, increasing to \$1,826.5 million by fiscal year 2020.

### **Local Government Impact**

The vast majority of school districts and charter schools would experience gains in revenue under the provisions of the bill. In fiscal years 2016 and 2017 gains would be experienced by school districts and charter schools serving 94 percent of students, with remaining districts and charters held revenue-neutral through the provision of stop-loss aid. Beginning in fiscal year 2018, school districts and charter schools serving 98 percent of students would experience gains in revenue relative to current law.

**Source Agencies:** 701 Central Education Agency

**LBB Staff:** UP, JBi, AM, SD, JSp