LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 84TH LEGISLATIVE REGULAR SESSION

April 7, 2015

TO: Honorable Tan Parker, Chair, House Committee on Investments & Financial Services

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB2204** by Thompson, Ed (Relating to state support for assistance with payment of existing debt on certain bonds issued by school districts.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB2204, As Introduced: a negative impact of ($946,400,000) 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:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2016	($494,800,000)
2017	($451,600,000)
2018	($401,800,000)
2019	($369,000,000)
2020	($340,700,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *Foundation School Fund* 193
2016	($494,800,000)
2017	($451,600,000)
2018	($401,800,000)
2019	($369,000,000)
2020	($340,700,000)

Fiscal Analysis

The bill would change the guaranteed yield for school district debt service provided under the Foundation School Program Existing Debt Allotment (EDA) by providing two separate guarantee levels that would be applied to different portions of eligible debt service. For the first $0.20 of eligible debt service, the bill would retain the current guarantee level of $35. For eligible debt service in excess of $0.20, the guarantee level would increase to $60 under the bill. The bill would also repeal a provision that limits equalization under the EDA to $0.29 of eligible debt service.

The bill would take effect September 1, 2015.

Methodology

The Texas Education Agency (TEA) used its school finance model to estimate state costs under the bill. EDA entitlement for tax effort over $0.20 cents was calculated using the proposed higher $60 guarantee level. The TEA calculated a combined effective debt tax rate (EDTR), consisting of one component rate for debt that could be serviced with an effective rate of 20 cents or less using the $35 yield and a second component rate for debt service not covered by the first 20 cents effective rate based on the $60 yield provided by the bill. Statute limiting the EDTR to the effective rate for interest and sinking revenue plus excess collections from the last year of the prior biennium, was then applied to the sum of the combined EDTR.

Additional state cost under the bill is estimated to be $494.8 million in FY 2016, decreasing to $340.7 million in FY 2020 as school district property wealth increases. The estimated cost was based on current tax rates and debt service.

Local Government Impact

School districts with effective rates for eligible debt service that exceed $0.29 and districts with effective rates high enough to earn the proposed $60 yield would benefit from additional entitlement. Based on current debt service information, the Texas Education Agency estimates that 388 districts would benefit from higher EDA allotments under this bill in FY 2016. One hundred and thirteen of these districts would also benefit from the bill's repeal of the provision that limiting equalization under the EDA to $0.29 of eligible debt service.

Source Agencies: 701 Central Education Agency

LBB Staff: UP, CL, AM, JSp