

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

August 15, 2017

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB21 by Huberty (Relating to the public school finance system.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB21, As Passed 2nd House: a positive impact of \$720,550 through the biennium ending August 31, 2019.

There could be an additional General Revenue cost to supplemental appropriations in fiscal year 2019 and certain other methods of finance, including Federal Funds, could be affected depending on the approach adopted by the Health and Human Services Commission to execute the transfer as directed in the legislation.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2018	\$231,000,000
2019	(\$230,279,450)
2020	(\$202,411,817)
2021	(\$244,904,116)
2022	(\$289,103,263)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings from <i>General Revenue Fund</i> 1	Probable (Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193
2018	\$563,000,000	(\$20,000,000)	(\$212,000,000)	(\$100,000,000)
2019	\$0	(\$20,000,000)	\$0	(\$210,279,450)
2020	\$0	\$0	\$0	(\$202,411,817)
2021	\$0	\$0	\$0	(\$244,904,116)
2022	\$0	\$0	\$0	(\$289,103,263)

Fiscal Year	Change in Number of State Employees from FY 2017
2018	1.0
2019	1.0
2020	0.0
2021	0.0
2022	0.0

Fiscal Analysis

The bill would create a grant program for fiscal years 2018 and 2019 to provide transition aid for school district financial hardship. Grant awards would be provided according to a specified formula to districts and charters meeting certain eligibility criteria.

Beginning in fiscal year 2019, the bill would provide additional state aid to charter schools with an acceptable performance rating equal to the guaranteed level of state and local funds per cent of tax effort under Section 46.032(a) of the Education Code multiplied by a rate equal to the lesser of the state average interest and sinking fund tax rate imposed by school districts or the rate that would result in total entitlement of \$60 million per year.

Beginning in fiscal year 2019, the bill would increase the guaranteed yield for the FSP Existing Debt Allotment for school districts each year to the lesser of \$40 or the amount that would result in a \$60 million increase in state aid from the level of state aid provided by a yield of \$35.

The bill would amend the small district adjustment applied to the basic allotment for districts with boundaries encompassing less than 300 square miles. Beginning in fiscal year 2019, the bill would increase the small district adjustment for these districts each year through fiscal year 2024 until the adjustment is equal to the level currently provided for small districts encompassing 300 or more square miles. The adjustment's effect on charter school funding would be limited to the level provided in FY18.

The bill would create two programs one to provide grants for innovative services to students with autism and a second to provide innovative services to students with dyslexia.

The bill would transfer from the Health and Human Services Commission (HHSC) \$351 million in General Revenue appropriations made by Senate Bill 1, Eighty-fifth Legislature, Regular Session, for the 2018-19 biennium to the Texas Education Agency for the same biennium to implement certain provisions of the legislation, as described in the Methodology section below: \$150 million to fund financial hardship grants, \$60 million to fund payments to open enrollment charter schools, \$60 million to support the existing debt allotment, \$41 million to fund the increase in the small district adjustment and \$40 million to fund the grant programs for services to students with autism and dyslexia. The bill would provide that in the event that the transfer is accomplished by delaying payments to that are due to managed care organizations in August 2019, the bill would require the Commission to provide those payments as soon as possible from available appropriations in the following biennium.

The bill would also transfer from the Health and Human Services Commission \$212 million in General Revenue appropriations made by Senate Bill 1, 85th Legislature, Regular Session, for the 2018-19 biennium to the Teacher Retirement System of Texas (TRS) to be used to provide support to participants in the Texas Public School Employees Group Insurance Program (TRS-Care) by: 1)

reducing costs for participants, including premiums, deductibles, and prescription drugs, during the 2018 and 2019 plan years; and 2) reducing the premium and maximum out-of-pocket cost for an enrolled adult child with a mental disability or a physical incapacity during the 2018 and 2019 plan years.

HHSC is granted authority with respect to the strategies and programs from which the funds would be transferred, and depending on the approach adopted by HHSC to execute the transfer, there could be an additional cost to supplemental appropriations in fiscal year 2019 and certain other methods of finance, including Federal Funds, could be affected. HHSC is granted authority with respect to the strategies and programs from which the funds would be transferred, and depending on the approach adopted by HHSC to execute the transfer certain other methods of finance, including Federal funds, could be affected.

The bill would create the Texas Commission on Public School Finance which would have the responsibility to develop and make recommendations for improvements to the current public school finance system or for new methods of financing public schools.

Methodology

The bill would create a two-year financial hardship grant program to provide transitional aid for school districts experiencing a loss of M&O revenue relative to statute in place for fiscal year 2017. The transition grants would be available for fiscal years 2018 and 2019. Total appropriations for the grant program would be capped at \$100.0 million in fiscal year 2018 and \$50 million in fiscal year 2019.

This analysis assumes the additional state aid to charter schools equal to the guaranteed level of state and local funds per cent of tax effort under Section 46.032(a) of the Education Code multiplied by a rate that would produce total entitlement of \$60 million per year, beginning in fiscal year 2019.

This analysis further assumes that the increase for the guaranteed yield for the Existing Debt Allotment for school districts would result in a \$60 million increase in state aid, beginning in fiscal year 2019.

The phased-in increase in the small district adjustment would be estimated to increase state cost for the Foundation School Program by \$41.3 million in fiscal year 2019 increasing to \$124.9 million by fiscal year 2022.

The bill would establish two, two-year grant programs. One program would provide grants for innovative services for students with autism with total funding for the 2018-2019 biennium of \$20 million. The second program would provide grants for innovative services for students with dyslexia, also with total funding of \$20 million for the biennium. Funding for each grant program would be provided from funds transferred to the Texas Education Agency from the Health and Human Services Commission. The Texas Education Agency would incur costs associated with administering grant programs for innovative services to students with autism and to students with dyslexia as specified in the bill. For the purpose of this estimate, it is assumed that administrative costs would be paid from funds transferred for the purpose of the grant programs.

Administrative costs associated with the grant programs are estimated to total \$186,884 in fiscal year 2018 consisting of \$115,444 for one FTE and initial program development costs plus \$71,440 for stakeholder meetings, rulemaking activities and review of grant applications (\$35,720 for each grant program). In FY19, the Agency would incur costs of \$107,444 for the FTE administering the

programs.

The bill would create the Texas Commission on Public School Finance which would have the responsibility to develop and make recommendations for improvements to the current public school finance system or for new methods of financing public schools. The bill would require staff members of the Texas Education Agency (TEA) to provide administrative support for the commission. The bill would abolish the commission on January 8, 2019. It is assumed for the purpose of this estimate that staff support costs would be accommodated with existing resources.

As noted above, provisions would be financed in the 2018-19 biennium via a transfer from the Health and Human Services Commission.

Local Government Impact

The bill would increase state aid for school districts and charter schools through the hardship program, facilities funding mechanisms, and the increased small district adjustment. School districts and charter schools that are grant recipients would also realize additional funding.

Source Agencies:

LBB Staff: UP, SD, JSp, AG, AM, AH