

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

August 7, 2017

TO: Honorable Dan Huberty, Chair, House Committee on Public Education

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB355 by White (Relating to the public school finance system.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB355, As Introduced: a negative impact of (\$7,974,682) through the biennium ending August 31, 2019.

Due to the limited specificity in the legislation with respect to the value of the funding formulas, the fiscal implication of the bill's Foundation School Program provisions is indeterminate at this time but could be significant depending on the terms.

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
2018	(\$2,693,249)
2019	(\$5,281,433)
2020	(\$5,250,912)
2021	(\$5,250,912)
2022	(\$5,250,912)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Change in Number of State Employees from FY 2017
2018	(\$2,693,249)	13.3
2019	(\$5,281,433)	53.0
2020	(\$5,250,912)	53.0
2021	(\$5,250,912)	53.0
2022	(\$5,250,912)	53.0

Fiscal Analysis

The bill would amend provisions in Chapters 41 and 42, Education Code to restructure formulas that determine entitlement under the Foundation School Program (FSP). The bill would provide a single-tier system of funding with individual allotments associated with the regular education program, designated special populations, and transportation. Total entitlement would be the sum of these allotments multiplied by a factor composed of the school district's adopted tax rate for maintenance and operations and the ratio by which appraised value exceeds taxable value. Entitlement would be funded through local revenue, defined as the sum of the district's available school fund per capita apportionment and local tax collections resulting from the adopted maintenance and operations tax rate. The bill would require a district to remit to the state the amount, if any, by which the sum of local revenue and available school apportionment exceeds the school district's entitlement.

The bill would authorize the commissioner of education to provide a school district with full-day funding under the FSP for certain groups of prekindergarten students without regard to restrictions imposed by other provisions of Title 2, Texas Education Code.

The bill would direct the Comptroller of Public Accounts with the assistance of the Office of the Attorney General to take action to collect delinquent local school property taxes if the local district fails to collect the tax within two years after the year the tax is initially due. If actions by the Attorney General are unsuccessful after one year, the Comptroller would be authorized to contract with private attorneys for that purpose.

The bill would direct the Commissioner of Education to oversee a special process pertaining to delinquent tax amounts collected by a district that result in total local revenue in excess of current year entitlement. The bill would require a school district to deposit the amount of collected delinquent revenue that exceeds current entitlement in a separate account and would provide for limited withdrawals of such funds in lieu of future state aid in amounts determined by the Commissioner of Education.

The bill would make unspecified conforming amendments.

The bill would take effect September 1, 2018.

Methodology

The bill would have an indeterminate effect on state cost for the Foundation School Program. The bill would provide an unspecified basic allotment to be used to determine Foundation School Program entitlement through the mechanisms established under the bill. The implications for state cost for the Foundation School Program would vary dramatically depending upon the basic allotment amount. For example, a basic allotment that is somewhat lower than the current statutory basic allotment would be relatively cost-neutral in comparison to the current system, while a basic allotment that is equal to or higher than the fiscal year 2018 level would result in costs that are several billion dollars more per year than the current system. In addition to student population and district characteristics, the multiplier composed of the district's adopted tax rate and the ratio of appraised value to taxable value would be a primary driver of state cost under the structure proposed.

The Comptroller of Public Accounts (CPA) anticipates significant administrative costs associated with duties prescribed by the bill concerning the collection of delinquent property taxes. Estimated administrative cost includes a one-time technology cost of \$1,350,000 and the funds

necessary to hire 52 FTEs to oversee and implement school district maintenance and operations property tax collections by the Comptroller's Office.

Estimated costs for the Comptroller's office are based on the following assumptions. There are 20,734,894 accounts in the Comptroller's Property Value Study. According to the Texas Education Agency, school districts generally have a collection rate of 98 percent. Using 2 percent as a proxy to determine the number of delinquent accounts and then adjusting down by .5 percent of accounts for those that do not make it to the second year of delinquency, there are approximately 311,000 estimated delinquent accounts. Using these assumptions as well as the model used by the Enforcement Division of the Comptroller's Office, the Property Tax Administration Division would require at least 52 new FTEs. Because many properties that go delinquent for this length of time have unknown owners, are blighted properties, or have title issues, ten taxpayer compliance officer Vs, one manager III, and an administrative assistant III are needed to initially review cases, conduct research on the delinquent taxes, and process correspondence with property owners. Delinquent property tax collection is primarily handled by foreclosing a lien in court, requiring a minimum of 30 attorney IVs and six paralegals. For the delinquent accounts that are ultimately contracted out to private attorneys, four contract specialist IVs are required.

The Texas Education Agency estimates administrative costs of \$86,912 each year associated with an additional FTE to oversee the process concerning local collections of delinquent revenue that result in local revenue in excess of current year entitlement.

Technology

The Comptroller's Office estimates a one-time technology cost of \$1,350,000 in fiscal 2018 for an estimated 9,000 hours associated with developing and implementing a new property tax liabilities and collection system. CPA does not have a model in place for collections outside of existing tax structures; automating this would require a new model. An upload interface system would need to be created to receive data from 1,019 school districts. Storage of data would be required but costs cannot be estimated because it is not known how much data exists and how long it will need to be stored. Since the Comptroller's Office does not presently enforce or collect property taxes, a mechanism would have to be developed in the agency work management system to track collectible activities. The Comptroller's Office would also need an interface to refer accounts first to the Office of Attorney General, and then to any contracted outside collection agency.

The Texas Education Agency estimates technology costs of \$30,521 in each year of the 2018-2019 biennium for the purpose of developing and implementing changes to the Foundation School Program application that is used to calculate entitlement and distribute state aid payments.

Local Government Impact

Effects on local school district entitlement are indeterminate and would vary depending upon the level of basic allotment provided.

Source Agencies: 302 Office of the Attorney General, 304 Comptroller of Public Accounts, 701 Texas Education Agency

LBB Staff: UP, AG, AM, AH, LCO, THo, RC, JSm