

LEGISLATIVE BUDGET BOARD
Austin, Texas

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

July 22, 2017

TO: Honorable Jane Nelson, Chair, Senate Committee on Finance

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB19 by Nelson (Relating to bonuses and salaries for public school classroom teachers and state assistance for the Texas Public School Employees Group Insurance Program.),
As Introduced

Estimated Two-year Net Impact to General Revenue Related Funds for SB19, As Introduced:
an impact of \$0 through the biennium ending August 31, 2019.

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings from <i>General Revenue Fund</i> 1
2018	\$0	(\$212,000,000)	\$405,000,000
2019	(\$193,000,000)	\$0	\$0
2020	\$0	(\$4,656,809)	\$0
2021	\$0	(\$4,735,974)	\$0
2022	\$0	(\$4,816,486)	\$0

The tables above reflect Scenario 1, in which funds received by school districts are constitutionally dedicated for purposes of classroom teacher bonuses and salary increases starting in FY 2020.

The tables below reflect Scenario 2, in which new state appropriations are provided to school districts for purposes of classroom teacher bonuses and salary increases starting in FY 2020.

Fiscal Year	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings from <i>General Revenue Fund</i> 1
2018	\$0	(\$212,000,000)	\$405,000,000
2019	(\$193,000,000)	\$0	\$0
2020	(\$574,391,502)	(\$4,656,809)	\$0
2021	(\$582,339,536)	(\$4,735,974)	\$0
2022	(\$590,408,154)	(\$4,816,486)	\$0

Fiscal Analysis

The bill would amend the Education Code to require the Texas Education Agency (TEA) to, subject to appropriation, provide an annual bonus to each classroom teacher with at least six years of teaching experience at the beginning of the school year during which the bonus is provided. The bill would require the amount of the bonus to be established by appropriation, which may be based on the number of years of teaching experience. The authority to provide bonuses would apply beginning with the 2018-19 school year.

From state funding designated specifically for this purpose, the bill would require a school district to spend an amount equal to the product of \$1,000 multiplied by the number of classroom teachers employed by the district to increase salaries for classroom teachers in a manner determined by the board of trustees. The increase in teacher salary would apply beginning with the 2019-20 school year.

The bill would transfer from the Health and Human Services Commission \$193 million in General Revenue appropriations made by Senate Bill 1, 85th Legislature, Regular Session, for the 2018-19 biennium to TEA to be used by the agency to provide: 1) a bonus of \$600 to be paid in September 2018 for each classroom teacher with at least 6 but less than 11 years of teaching experience at the beginning of the 2018-19 school year; and 2) a bonus of \$1,000 to be paid in September 2018 for each classroom teacher with at least 11 years of teaching experience at the beginning of the 2018-19 school year. 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.

The bill would 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.

Methodology

The legislation internally limits the amount that may be provided for bonuses in the 2018-19 biennium to the \$193 million transferred from HHSC. Based on the current count of the affected population, and a historical rate of growth, the amount needed to fully fund the \$600 and \$1,000 bonus amounts is estimated to be \$200 million.

For fiscal year 2020 and beyond, two scenarios are provided, consistent with the language in Section 21.418 of the bill. Scenario A assumes that a constitutional designation of existing funds would be created from which districts would pay bonuses and salary increases. Scenario B estimates the cost of the bill's bonus and salary provisions if they were to be paid with new state appropriations. In both cases, district salary increases would be calculated based on an estimated 372,545 classroom teachers, yielding \$372.5 million in increased salary in 2020, growing

thereafter by the historical rate of growth for teachers. The estimated cost of bonuses is \$201.8 million in 2020, growing thereafter by the historical rate of growth for teachers.

State contributions to TRS-Care associated with the increased salary is anticipated to be \$4.7 million in fiscal year 2020, \$4.7 million in fiscal year 2021, and \$4.8 million in fiscal year 2022, based on a contribution rate of 1.25 percent of active payroll.

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

Local Government Impact

As noted in the two scenarios above, costs in 2020 could be a state obligation if appropriations are provided or could be a cost to local school districts if a constitutional designation of certain existing state aid were enacted. In either case, the bill would result in local costs for both retirement and health benefits provided by TRS. For the salary increase portion of the bill, the contribution rate to TRS retirement is 6.8% of salary. However, because the salary increase specified in the bill would not adjust the minimum salary schedule under Section 21.402 of the Education Code, retirement contributions to TRS for the salary increase would be a local obligation as established in Section 825.405 of the Government Code. Additionally, districts that do not participate in Social Security would contribute 1.5% of active salary to TRS retirement; and all districts would contribute 0.75% of active salary to TRS-Care.

In total, district costs related to retirement contributions and TRS-Care are anticipated to be \$28.2 million in fiscal year 2020, \$28.6 million in fiscal year 2021, and \$29.1 million in fiscal year 2022.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 529 Health and Human Services Commission, 701 Texas Education Agency

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