

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

March 12, 2019

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

FROM: John McGeady, Assistant Director Sarah Keyton, Assistant Director
 Legislative Budget Board

IN RE: HB3 by Huberty (Relating to public school finance and public education.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3, As Introduced: a negative impact of (\$9,287,152,898) through the biennium ending August 31, 2021.

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
2020	(\$4,632,108,469)
2021	(\$4,655,044,429)
2022	(\$5,458,170,538)
2023	(\$4,982,097,989)
2024	(\$5,198,826,211)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>Foundation School</i> <i>Fund</i> 193	Probable Revenue Gain/(Loss) from <i>Recapture Payments</i> <i>Atten Crdts</i> 8905	Probable Revenue Gain/(Loss) from <i>TRS Trust Account</i> <i>Fund</i> 960
2020	(\$91,540,987)	(\$4,540,567,482)	(\$1,458,403,933)	\$38,650,341
2021	(\$90,315,574)	(\$4,564,728,855)	(\$1,549,860,817)	\$39,809,759
2022	(\$93,853,887)	(\$5,364,316,651)	(\$1,814,626,790)	\$51,013,102
2023	(\$96,903,854)	(\$4,885,194,135)	(\$1,755,512,460)	\$59,641,406
2024	(\$100,600,131)	(\$5,098,226,080)	(\$2,061,849,951)	\$75,416,745

Fiscal Year	Probable Revenue Gain/(Loss) from RETIRED SCHOOL EMP GROUP INSURANCE 989	Change in Number of State Employees from FY 2019
2020	\$9,973,522	42.5
2021	\$10,314,527	45.5
2022	\$13,609,628	44.5
2023	\$16,147,365	44.5
2024	\$20,787,170	44.5

Fiscal Analysis

The bill makes major revisions to the school finance formulas; adds and repeals several chapters of the Education Code; and revises, abolishes, and creates multiple allotments or programs. The following fiscal analysis organizes the bill into the following categories: (1) Foundation School Program (FSP) Elements; (2) Texas Education Agency non-FSP Elements; and (3) Salary and Teacher Retirement System Elements.

Foundation School Program (FSP)

The bill would amend the Education Code to transfer certain sections from Chapter 42 to Chapter 48 and certain sections from Chapter 41 to Chapter 49, and would revise formulas used to determine entitlement under the FSP.

The bill would set the minimum basic allotment equal to \$6,030. The bill would provide an incentive for additional instructional days for students to attend up to 30 days of school during the summer.

The bill would remove the small and mid-sized adjustment as it currently exists, and provide it instead as a separate allotment within Tier 1, that provides additional entitlement for school districts with an Average Daily Attendance (ADA) of less than 5,000. The allotment would be based on formulas providing additional funding to school districts within the following categories: those with an ADA of less than 450, an ADA from 450 to 1,600, and an ADA from 1,600 to 5,000.

The bill would create the dyslexia allotment with a weight of 0.1. The bill would amend the compensatory education allotment to be based on the census block in which the student resides, and would require the Commissioner of Education to establish an index for economically disadvantaged census blocks with five tiers. The compensatory education allotment would have a weight of 0.225 to 0.275 depending on the tier. If insufficient data is available about a census block, the weight applied would be 0.2 and applied based on participation in the free or reduced-price lunch program.

The bill would modify the bilingual education allotment to provide an additional 0.05 weight to students using a dual language immersion/one-way or two-way program model.

The bill would expand eligibility for the career and technology allotment to grades 6 through 8.

The bill would create the early reading allotment, which would provide an additional weight of 0.1 to each student in grades kindergarten through three that is educationally disadvantaged or in a bilingual education or special language program, and would provide a weight of 0.2 for students

in grades kindergarten through three who are both educationally disadvantaged and in a bilingual or special language program.

The bill would amend the transportation allotment to provide entitlement based on a rate per mile set by the Legislature in the General Appropriations Act.

The bill would increase the maximum amount appropriated to the New Instructional Facilities Allotment to be \$100 million per year.

The bill would set the guaranteed yield in the enrichment tier equal to 160 percent of the basic allotment for "golden pennies" and 80 percent of the basic allotment for "copper pennies." "Golden pennies" would be limited to 6 cents of tax effort per hundred dollars of property valuation in fiscal year 2020, and would rise to 7 cents in fiscal year 2021, and 8 cents beginning in fiscal year 2022. Copper penny revenue per weighted student would be limited to the revenue received by the district in the preceding year, so the increase in the yield from \$31.95 per penny per weighted average daily attendance (WADA) per cent of tax effort to \$48.24 ($(\$6,030 \times 0.8)/100$) would require districts with that level of tax effort to reduce the tax rate at the copper penny level.

The bill would modify the state maximum compressed tax rate to be the product of the state's compression percentage, which is set at 96 percent or lower by appropriation, multiplied by \$1.00.

The bill would modify local revenue subject to recapture to be local revenue in excess of entitlement, and would be calculated by subtracting a district's tier one entitlement and credit for appraisal costs from its available school fund distribution and local fund assignment. The bill would reduce the benefit received by districts subject to reduced recapture based on information from the district in the 1992-93 school year by 20 percent per year.

The bill would create the formula transition grant for districts that would receive, under the provisions of the bill, less than the district's total maintenance and operations tax revenue per student in weighted average daily attendance than in the 2018-19 school year. The bill would limit this grant to be the lesser of the difference of current entitlement to the district's 2018-19 entitlement, or 125 percent of the statewide average revenue per student in weighted average daily attendance.

The bill would entitle districts to reimbursement for fees for certain college preparation assessments and for certain certification examinations. Districts would also be entitled to reimbursement for fees related to the educator effectiveness program, including National Board for Professional Standards membership fees. For the 2019-2020 school year, district would be eligible for reimbursement of fees related to teacher designations, provided that the Commissioner approves the district's teacher designation system for the 2019-20 school year.

The bill would require each prekindergarten class for children who are at least four years of age to be operated on a full-day basis and comply with the program standards required for high quality prekindergarten programs, although, for purposes of Foundation School Program funding, average daily attendance would be limited to one-half.

The bill would repeal the High School Allotment, the Chapter 41 Early Agreement Credit, the Cost of Education Index, the Gifted and Talented Allotment, Additional State Aid for Staff Salary Increases, and Maintenance and Operations Additional State Aid for Homestead Exemption and Limitation on Tax Increases.

Texas Education Agency non-FSP Elements

The bill would create two new programs at TEA outside of the FSP.

The blended learning grant program requires the Commissioner to make grants intended to facilitate instructional settings combining online and classroom instruction and specifies the required elements of such a program.

The enhancement services grant program requires the Commissioner to establish and make grants to school districts for eligible students to receive funding supporting services supplementing certain students' education. The bill specifies criteria for student eligibility, which is intended for students with certain special needs.

Salary and Teacher Retirement System Benefits

The bill would establish the Educator Effectiveness Allotment. Districts would be entitled to an allotment for newly created teacher designations of recognized, exemplary, and master teacher for teaching performance in the top 33.0 percent, 20.0 percent, and 5.0 percent statewide, respectively, with base funding from \$3,000 to \$12,000 depending on the designation. These amounts would be increased based on the level of economic disadvantage of the campus at which the teacher is placed, on a scale from 0.5 to 4.0. An additional weight would be provided if the designated teacher teaches at a rural school. The bill would require the commissioner to provide a list of campuses participating in the program with the potential allotment amounts available.

The bill would require district and charter teacher designation systems to incorporate student performance, student perception surveys, educator leadership, reliable observation-based appraisal components, and reliable student assessments.

The bill would require TEA to provide technical assistance, approvals, and evaluate designation systems submitted by districts and charters schools, including a requirement to contract with an institution of higher education to verify designations. The bill would allow TEA to develop an auditing process for district teacher designation systems to maintain quality and ensure compliance. The bill would require the State Board for Educator Certification (SBEC) to place the appropriate each teacher's designation on their certificate as soon as practicable after being notified by the agency of the issuance of the designation.

The bill would entitle school districts to receive reimbursement for fees paid to the National Board for Professional Standards in fiscal year 2020 only for the purpose of implementing teacher designations.

The bill would increase the minimum salary schedule (MSS), and would provide an educator salary transition allotment to ensure that the new funding formulas deliver at least 150 percent of the difference between a district's costs and its entitlement increase over the 2018-19 school year.

The bill would amend the Government Code to require open-enrollment charter schools and districts of innovation to pay the TRS state retirement contribution on payroll amounts that would exceed the MSS if the staff were employed by school districts.

Methodology

Foundation School Program Costs

Based on information provided by the Texas Education Agency and their Foundation School Program model, the bill would result in an estimated state cost for the Foundation School Program of \$4.54 billion in fiscal year 2020 and \$4.56 billion in fiscal year 2021. The bill would reduce recapture paid by school districts by approximately \$1.5 billion in fiscal year 2020 and \$1.5 billion in fiscal year 2021.

Included in these costs would be the increased basic allotment; the modification of the small and mid-sized district adjustment as a stand-alone allotment; the dyslexia allotment; the modifications to the compensatory education allotment, bilingual, and the career and technology allotments; the early reading allotment; the transportation allotment at an assumed rate of \$1.00 per mile; the increase in the new instructional facilities allotment; the educator effectiveness allotment; the modifications to Tier 2; four cents of tax compression in Tier 1, and additional "copper penny" tax compression for qualifying districts; the modification to the calculation of recapture revenue; the formula transition grant; and the elimination of the cost of education index, the high school allotment, the gifted and talented allotment, additional state aid for staff salary increases, and maintenance and operations additional state aid for homestead exemption and limitation on tax increases.

According to TEA, the estimated cost of the college preparation assessment allotment is \$19 million per year.

TEA reports that the estimated cost of the certification examination reimbursement allotment is \$19 million in fiscal year 2020, \$22.8 million in fiscal year 2021, growing to \$39.4 million in fiscal year 2024.

According to TEA, the estimated cost of the education effectiveness fee reimbursement allotment is \$0.1 million in fiscal year 2020, \$0.2 million in fiscal year 2021, growing to \$1.5 million in fiscal year 2024.

Administrative costs relating to FSP changes are discussed in the Administrative Costs section below.

TEA Non-FSP Program Costs

Actual costs associated with the two grant programs would be dependent on and limited by appropriations. However, this analysis includes cost estimates based on the level of participation and grant levels anticipated by the agency.

TEA assumes that grants for the enhancement services program would average \$500 for each student served under the program. Assuming that 100,000 students, or one-fifth of those eligible, are funded each year, the program would cost \$50.0 million per fiscal year. Travel reimbursement and other costs associated with convening stakeholders associated with the enhancement services program, as required by the bill, would total \$24,150 in fiscal year 2020.

The agency assumes that grants for the blended learning professional development program would average \$250,000 for each participating district. Assuming that 20 districts are funded each year, the program would cost \$5.0 million per fiscal year.

Administrative costs relating to the grant programs are discussed in the Administrative Costs section below.

Costs Relating to Salary and Teacher Retirement System Changes

Included in amounts listed above for Foundation School Program costs, the Texas Education Agency (TEA) assumes the Salary Transition Allotment for the Minimum Salary Increase would result in additional statewide entitlement under the Foundation School Program totaling \$92.0 million in fiscal year 2020, \$88.5 million in fiscal year 2021, decreasing to \$69.0 million in fiscal year 2024. This estimate is based on FSP modeling results and PEIMS school year 2018-19 salary data.

Also included in amounts listed above for Foundation School Program costs, this analysis estimates additional statewide entitlement under the Foundation School Program resulting from the Educator Effectiveness Allotment would total \$90.9 million in fiscal year 2020, \$108.0 million in fiscal year 2021, increasing to \$631.6 million in fiscal year 2024. Based on school year 2018-19 PEIMS FTE data, this analysis assumes 357,327 classroom teachers statewide would be potentially eligible for educator effectiveness designations in fiscal year 2020 based on work hour requirements. This amount is assumed to increase by 1.28 percent each fiscal year due to student enrollment growth. Of those teachers, the following percentages are assumed to be employed by districts and charter schools with educator effectiveness designation systems by fiscal year: 4.3 percent in 2020, 5.0 percent in 2021, 12.4 percent in 2022, 18.0 percent in 2023, and 28.1 percent in 2024. Of those teachers employed by participating districts and charters, 33.0 percent, 20.0 percent, and 5.0 percent are assumed to receive recognized, exemplary, and master designations, respectively. Under the bill, the base Foundation School Program entitlement under the allotment would equal \$3,000 for each recognized, \$6,000 for each exemplary, and \$12,000 for each master designation. This is estimated to total \$42.4 million in fiscal year 2020, \$50.3 million in fiscal year 2022, increasing to \$294.5 million in fiscal year 2024 on a statewide basis. Assuming a statewide average Compensatory Education factor of 2.375, additional Foundation School Program entitlement due based on campus economic disadvantage would equal the product of the 2.375 and \$1,500 for each recognized, \$3,000 for each exemplary, and \$5,000 for each master teacher. This additional entitlement is estimated to total \$48.5 million in fiscal year 2020, \$57.6 million in fiscal year 2021, increasing to \$337.1 million in fiscal year 2024.

Using 2018-19 school year PEIMS payroll data, this analysis estimates a net General Revenue cost related to TRS state retirement contributions of \$18.2 million in fiscal year 2020, \$17.8

million in fiscal year 2021, decreasing to \$16.5 million in fiscal year 2024. This cost would reflect the combined effect of changes to the Minimum Salary Schedule (MSS) and the TRS Statutory Minimum Contribution. This analysis estimates the increase in the Minimum Salary Schedule would result in a \$407.8 million annual increase in TRS covered payroll for school districts. Applying the 6.8 percent TRS state retirement contribution to this amount would result in a cost of \$27.7 million in General Revenue each fiscal year. This analysis estimates that charter school payroll above the MSS, on which the TRS Statutory Minimum contribution would be paid, would total \$140.6 million in fiscal year 2020, increasing 4.1 percent annually for projected payroll growth. Applying the 6.8 percent contribution rate to this payroll would result in charter school Statutory Minimum contributions of \$9.2 million in fiscal year 2020, \$10.0 million in fiscal year 2021, increasing to \$11.2 million in fiscal year 2024. These contributions would offset required TRS state retirement contributions paid by General Revenue and would result in a savings to the General Revenue Fund.

The provisions of the bill related to salary increases would also result in additional state contributions to TRS-Care. This analysis assumes the Educator Effectiveness Allotment would result in additional payroll totaling \$90.9 million in fiscal year 2020, \$108.0 million in fiscal year 2021, increasing to \$631.6 million in fiscal year 2024. Combined with the additional payroll increase listed above resulting from changes to the MSS, this analysis assumes resulting additional 1.25% TRS-Care state contributions would total \$6.2 million in fiscal year 2020, \$6.4 million in fiscal year 2021, increasing to \$13.0 million in fiscal year 2024.

Administrative Costs

TEA estimates that the agency will need four FTEs to provide additional work coordinating various agency-wide aspects of implementation. These four FTEs include one project manager to coordinate and monitor implementation of the entire project, which would only be required for the 2020-21 biennium; one human resources specialist to support recruitment, hiring, and other services for additional employees associated with the legislation, which would only be required for the 2020-21 biennium; one contract specialist to support solicitation, contracting, and vendor monitoring for new programs under the bill; and one accountant to manage various financial aspects of the implementation, including contractor and vendor billing, payment activity, payroll and benefits, payments, and travel costs. Total associated with these FTEs-including salary, benefits, and other operational costs-are estimated to be \$441,523 in fiscal year 2020 and \$189,674 in subsequent years in General Revenue Funds.

In order to implement the provisions of the bill related to modifying the various funding allotments under the Foundation School Program, the agency estimates that six additional FTEs would be required. Total costs associated with these FTEs are estimated to be \$686,332 in fiscal year 2020 and \$614,913 in subsequent years.

To accomplish the additional audit and fiscal oversight required by the FSP changes in the bill, the agency estimates it would require one auditor and one investigator, for a total cost of \$230,273 in fiscal year 2020 and \$222,273 in subsequent years.

According to the agency, two FTEs would be required to implement the blended learning grant program. These employees would be required to administer the program. Their duties

managing the application and grant process, developing and approving training programs, and evaluating the program's effectiveness. Costs associated with these FTEs would total \$222,428 in fiscal year 2020 and \$214,428 in subsequent years in General Revenue Funds.

TEA reports that four FTEs would be required to implement the enhancement services grant program. Two of these employees would be required to administer the process by which parents apply for the program on behalf of their children. The other two employees would be required to review, approve, and oversee service providers under the program. Total costs associated with these FTEs would be \$395,348 in fiscal year 2020 and \$379,348 in subsequent years.

The agency estimates that four additional FTEs would be required to establish program support and technical assistance related to three new or revised allotments, including one each for the dyslexia and bilingual allotment and two for the CTE allotment. Costs associated with these four positions would total \$444,856 in fiscal year 2020 and \$428,856 in fiscal year 2021.

The agency estimates that one FTE would be required to oversee the development of the Kindergarten reading assessment, at a cost of \$111,214 in fiscal year 2020 and \$107,214 in fiscal year 2021. The cost to contract with a vendor for the development of the assessment would be \$1.5 million in fiscal year 2020 and \$1.0 million in fiscal year 2021.

In addition, this analysis assumes that 1.0 FTE would be required to administer the reimbursement of fees for the college preparation assessments and certification exams at a cost of \$93,247 in fiscal year 2020 and \$89,247 in fiscal year 2021.

The bill would result in administrative costs for TEA to implement the Educator Effectiveness designations, including costs to provide technical support to districts and to approve, evaluate, and track designation systems. TEA assumes it would need 6.5 additional FTEs in fiscal year 2020, 10.5 FTEs in fiscal year 2021, increasing to 14.5 FTEs in fiscal year 2024. For technical assistance in teacher evaluation, educator leadership and student survey tools, TEA would need 1.0 Program Specialist VII in fiscal year 2020, 2.0 Program Specialist VIIs in fiscal year 2021, and 3.0 Program Specialist VIIs thereafter (\$125,394 in fiscal year 2020, \$246,788 in fiscal year 2021, \$368,182 in fiscal year 2022, and \$364,182 per year thereafter). For expertise in student performance measures, TEA would need 1.0 Program Specialist VII in fiscal year 2020, 2.0 Program Specialist VIIs in fiscal year 2021, and 4.0 Program Specialist VIIs thereafter (\$125,394 in fiscal year 2020, \$246,788 in fiscal year 2021, \$493,576 in fiscal year 2022 and \$485,576 per year thereafter). To provide assistance to districts in change management and stakeholder engagement, TEA would need 2.0 Program Specialist VIIs in fiscal year 2020, 4.0 Program Specialist VIIs in fiscal year 2021, and 5.0 Program Specialist VIIs each year thereafter (\$250,788 in fiscal year 2020, \$493,576 in fiscal year 2021, \$610,970 in fiscal year 2022, and \$606,970 per year thereafter). The agency would also require 1.0 Project Manager III to manage vendors and external partners (\$118,059 in fiscal year 2020 and \$114,059 per year thereafter).

TEA assumes it would require 1.0 Programmer V (\$125,394 in fiscal year 2020 and \$121,394 per year thereafter) to develop and maintain the list of campuses and possible allotment

amounts available for designated teachers and 0.5 Program Specialist IV to add designations to cees and track designations by campus (\$46,623 in fiscal year 2020 and \$44,623 pthereafter).

TEA assumes it would need to contract with a vendor on an ongoing basis to calculate student growth value-added measures (VAM) to ensure the accuracy and reliability of designations. Including onetime costs to develop designation cut scores in fiscal year 2020 and ongoing annual costs to correlate local designation systems with state-level VAM ratings, this contract is estimated to cost \$3.5 million in fiscal year 2020, \$3.0 million in fiscal year 2021, \$4.5 million in fiscal year 2022, and \$6.0 million per year thereafter.

To provide technical assistance, TEA assumes it would need to contract with a vendor to provide a website with resources for districts, for a cost of \$100,000 each fiscal year.

To verify teacher designations, TEA would be required to contract with an institute of higher education. This contract would include ongoing costs to train individuals to verify samples of classroom teaching (\$275,000 each fiscal year) and costs to review a sample of teachers submitted for designation. TEA assumes 3,494 teachers will earn designations in fiscal year 2020, 20.0 percent of which will be reviewed for a cost of \$349,370 in fiscal year 2020. This cost is assumed to increase as the number of districts providing designations grows to \$414,874 in fiscal year 2021, increasing to \$2,691,245 in fiscal year 2024.

TEA assumes it would contract with a vendor to conduct a student performance study once every two years beginning in fiscal year 2022, for an annual cost of \$250,000 in fiscal years 2022 and 2024.

Due to capacity limitations in its current facility, the agency estimates that \$500,000 for rent would be required to provide office space for the additional FTEs required by the legislation.

Technology

The bill would modify existing Texas Education Agency (TEA) IT systems contained in the Texas Commission on Public School Finance recommendations. Costs are estimated based on projected development hours and weighted wage rate per hour, including benefits and operating costs.

TEA will need to implement required changes to existing applications and provide ongoing support and maintenance per the recommendations outlined in the Texas Commission on Public School Finance.

TEA is responsible for collecting and reporting education data for publicly-funded schools in the State of Texas and disbursing funding for Texas school districts. In order to implement the

proposed school finance recommendations, ITS will need to make changes/modifications in the existing applications below and develop a new application.

- Foundation School Program (FSP)
- Educator Certification Online System (ECOS)
- Texas Records Exchange (TREx)
- eGrants
- Texas Student Data System (TSDS)
- Web Applications

Initial modifications for the 86th biennium is estimated to be \$4.5 million which include Data Center Services through the Department of Information Resources. Ongoing maintenance costs is estimated to be approximately \$1.2 million each year.

Local Government Impact

Under the provisions of the bill, additional state aid would be provided to school districts and charter schools relative to current law for fiscal years 2020 and 2021. Local revenue would decline due to tax compression. Districts whose entitlement would be less under the provisions of the bill as compared to current law would be eligible for a formula transition grant through fiscal year 2024. To the extent that districts incurred additional costs detailed below, increases in entitlement could be used to offset any potential costs.

Districts would be required to provide full-day high quality prekindergarten for eligible four-year olds, unless a waiver was granted by the Commissioner of Education, while funding would be limited to one-half of average daily attendance.

The bill would result in local school district and charter school costs for both retirement and health benefits provided by TRS. The additional state aid provided to districts and charters is assumed to cover these costs, through the Educator Salary Transition Allotment for Minimum Salary Increase, the Educator Effectiveness Allotment, or through other increases in Foundation School Program entitlement. All public education employers would contribute 0.75 percent of additional payroll to TRS-Care. In total, aggregate statewide costs to employers related to TRS-Care are anticipated to be \$3.7 million in fiscal year 2020, \$3.9 million in fiscal year 2021, and increasing to \$7.8 million in fiscal year 2024.

Public education employers would also incur costs related to TRS retirement 6.8 percent state contributions and 1.5 percent non-Social Security employer contributions, resulting in combined statewide costs of \$20.5 million in fiscal year 2020, \$22.0 million in fiscal year 2021, increasing to \$63.6 million in fiscal year 2024. School districts that do not participate in Social Security would contribute 1.5 percent of additional payroll related the increases in the MSS, estimated on a statewide basis to be \$4.7 million each fiscal year. The bill would require charter schools and districts of innovation to make Statutory Minimum contributions for staff who would be subject to the MSS if employed by a school district, estimated on a statewide basis to be \$9.2 million in fiscal year 2020, \$10.0 million in fiscal year 2021, increasing to \$11.2 million in fiscal year 2024. Additionally, school districts and charter schools receiving the Educator Effectiveness Allotment would pay the 6.8 percent state contribution on the resulting additional payroll, estimated on a statewide basis to be \$6.2 million in fiscal year 2020, \$7.3 million in fiscal year 2021, increasing to \$42.9 million in fiscal year 2024.

Source Agencies: 304 Comptroller of Public Accounts, 323 Teacher Retirement System, 701 Texas Education Agency, 771 School for the Blind and Visually Impaired, 772 School for the Deaf

LBB Staff: WP, HL, AM, AH, ASa, AF, THo