

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

May 1, 2019

TO: Honorable Larry Taylor, Chair, Senate Committee on 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; authorizing the imposition of a fee.), **Committee Report 2nd House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3, Committee Report 2nd House, Substituted: a negative impact of (\$15,509,719,780) 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	(\$6,702,842,394)
2021	(\$8,806,877,386)
2022	(\$9,240,976,287)
2023	(\$9,329,256,216)
2024	(\$9,752,203,416)

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 Savings/(Cost) from <i>TRS Trust Account</i> <i>Fund</i> 960
2020	(\$60,880,401)	(\$6,641,961,993)	(\$1,558,829,067)	\$127,666,704
2021	(\$98,859,949)	(\$8,708,017,437)	(\$2,263,535,305)	\$130,374,704
2022	(\$112,384,445)	(\$9,128,591,842)	(\$2,561,317,302)	\$138,500,198
2023	(\$127,795,994)	(\$9,201,460,222)	(\$2,821,218,843)	\$148,830,864
2024	(\$127,934,444)	(\$9,624,268,972)	(\$3,251,482,548)	\$161,436,203

Fiscal Year	Probable Savings/(Cost) from RETIRED SCHOOL EMP GROUP INSURANCE 989	Change in Number of State Employees from FY 2019
2020	\$37,402,372	53.5
2021	\$77,476,854	60.5
2022	\$79,945,557	57.0
2023	\$82,868,670	57.0
2024	\$86,464,094	57.0

Fiscal Analysis

The bill makes major revisions to 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 move to current year values for certain formula funding determinations. The bill would revise formulas used to determine entitlement under the FSP and would set the minimum basic allotment equal to \$5,880.

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 certain school districts. The bill would increase the adjusted allotment applied to the special education allotment for districts that qualify for the small or mid-sized allotment.

The bill would create several new allotments. New allotments include a dyslexia allotment with a weight of 0.12, and establishes 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 a student of limited English proficiency 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 a student of limited English proficiency in a bilingual or special language program. The bill creates a fast growth allotment for districts meeting certain specified average daily attendance growth benchmarks. The bill also creates several other additional allotments and specifies their funding criteria.

The bill amends several existing allotments, including amending the compensatory education allotment to be based on the census block in which the student resides. The bill would require the Commissioner of Education to establish an index for economically disadvantaged census blocks with five tiers, with a range of weights depending on the tier. The bill would increase the weight applied to the mainstream instructional arrangement of the special education allotment from 1.1 to 1.15, and 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 amend the transportation allotment to provide entitlement based on a rate per mile set by the Legislature in the General Appropriations Act.

The bill creates certain bonuses for districts meeting specified criteria. The bill creates the third grade reading outcome bonus providing additional funding to districts meeting certain assessment

performance thresholds. The bill establishes the college, career, or military readiness outcomes bonus for districts meeting the specified criteria.

The bill modifies the guaranteed yield in the enrichment tier equal to the greater of the tax effort available to a school district at the 96th percentile of wealth per weighted student or 160 percent of the basic allotment for "golden pennies" and 80 percent of the basic allotment for "copper pennies". 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 would require districts with that level of tax effort to reduce the tax rate at the copper penny level. Districts would continue to be subject to recapture 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 the following percentages or lower by appropriation, multiplied by \$1.00: 92 percent for fiscal year 2020, and 85 percent for fiscal year 2021 and beyond.

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 create the formula transition grant for districts to ensure they receive maintenance and operations revenue per student in average daily attendance, under the provisions of the bill, at least the lesser of the district's total maintenance and operations tax revenue per student in average daily attendance under current law in fiscal year 2020 or 2021, depending on whether it is an even or odd fiscal year, or 128 percent of the statewide average revenue per student in average daily attendance under the bill. The grant expires September 1, 2025.

The bill would entitle districts to reimbursement for fees for certain college preparation assessments and for certain certification examinations.

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. Districts would also be entitled to reimbursement for fees related to the teacher incentive, including National Board for Professional Standards membership fees.

The bill would, contingent upon approval by voters of a constitutional amendment increasing the homestead exemption from \$25,000 to \$40,000, hold districts harmless for the impact of the lower property tax collections in both the maintenance and operations and interest and sinking tiers.

Beginning in fiscal year 2022, the bill would create a mechanism by which districts' maximum compressed tax rates are compressed for property value growth exceeding certain thresholds, which would be based on determinations of the annual inflation rate. The bill also directs the Texas Education Agency to calculate these maximum compressed rates such that differences between districts do not exceed 15 percent.

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 creates several new non-FSP requirements for the agency and creates a new blended learning grant program at TEA outside of the FSP.

The bill would require TEA to conduct a study on geographic education cost variations; require TEA and The Higher Education Coordinating Board to jointly report to the Legislature about progress toward achieving the 60x30 plan; and would require TEA to assist school districts and charter schools in achieving goals established under early childhood literacy proficiency plans.

The bill makes multiple changes related to student assessments.

Salary and Teacher Retirement System Benefits

The bill would establish the Teacher Incentive Allotment, providing a district funding entitlement for several new teacher designations. Funding levels 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, with an additional weight if the designated teacher teaches at a rural school.

The bill provides a \$5,000 annual salary increase, multiplied by factors specified in the bill, for classroom teachers and librarians.

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. TEA would be required to provide oversight of the designation program, and the bill would allow TEA to establish a fee for districts and charters that implement teacher designations.

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

FSP Costs

Based on the Legislative Budget Board's Foundation School Program model, the bill would result in an estimated state cost for the Foundation School Program of \$6.60 billion in fiscal year 2020 and \$8.67 billion in fiscal year 2021. The bill would reduce recapture paid by school districts by approximately \$1.6 billion in fiscal year 2020 and \$2.3 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 special education, compensatory education allotment, bilingual, and the career and technology allotments; the early reading allotment; the transportation allotment at an assumed rate of \$0.85 per mile; the accelerated campus excellence turnaround plan allotment; the third grade reading outcomes bonus; the college, career, and military readiness bonus; the fast growth allotment; the teacher incentive allotment; the dropout recovery school allotment; the modifications to Tier 2; eight cents of tax compression in fiscal year 2020 and 15 cents of tax compression in subsequent years in Tier 1, and additional "copper penny" tax compression for qualifying districts; an increase in the homestead exemption to \$40,000; the modification to the calculation of recapture revenue; the formula transition grant; the increase in the special education weight for the mainstream instructional arrangement; 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.

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

Fiscal Impacts Relating to Salary and Teacher Retirement System Changes

This analysis estimates a net General Revenue cost savings related to TRS state retirement contributions of \$20.8 million in fiscal year 2020, \$21.8 million in fiscal year 2021, increasing to \$25.0 million in fiscal year 2024 due to increases to the Minimum Salary Schedule (MSS) resulting from increases in the basic allotment and changes to the TRS Statutory Minimum Contribution. The savings is primarily attributable to subjecting charter schools to certain MSS requirements.

Additionally, salary increases provided through the MSS increase, the teacher incentive allotment, and the classroom teacher and librarian allotment would result in increased state General Revenue contributions to TRS-Care totaling \$23.4 million in fiscal year 2020, \$48.4 million in fiscal year 2021, increasing to \$54.0 million in fiscal year 2024.

TEA Administrative Costs

TEA estimates that the agency will need five FTEs to provide additional work coordinating various agency-wide aspects of implementation. Total costs associated with these FTEs-including salary, benefits, and other operational costs-are estimated to be \$540,360 in fiscal year 2020, \$475,360 in fiscal year 2021, and \$257,511 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, including audit and fiscal oversight requirements, the agency estimates that 12 additional FTEs would be required. Total costs associated with these FTEs are estimated to be \$1,364,775 in fiscal year 2020 \$1,316,775 in fiscal year 2021, and \$1,269,356 in subsequent years.

According to the agency, costs associated with non-FSP programs and administration would total \$8.5 million in fiscal year 2020 and \$3.7 million in fiscal year 2021. This would include funding to support 11.0 FTEs and other program support costs associated with the following components of the bill:

- Incentive for Additional Instructional Days
- Dyslexia Allotment
- Bilingual Education Allotment
- Certification Exams
- State 60x30 Goals
- Early Childhood Literacy Proficiency Plans
- Kindergarten - Grade Two Assessments

- Blended Learning Grant Program
- Study on Geographic Education Cost Variations
- Career and Technical Education Review
- FAFSA and TASFA Tracking

The agency estimates that costs associated with the bill's student assessment provisions would total \$39.5 million in fiscal year 2020 and \$59.0 million in fiscal year 2021.

According to the agency, costs associated with the bill's teacher incentive provisions would total \$5.0 million in fiscal year 2020 and \$5.1 million in fiscal year 2021. This would include funding to support 6.5 FTEs in fiscal year 2020 and 10.5 FTEs in fiscal year 2021, as well as other program support costs. This analysis assumes these costs would be offset by the new fee established by the bill.

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 TEA IT systems to incorporate the elements of the bill. Costs are estimated based on projected development hours and weighted wage rate per hour, including benefits and operating costs.

TEA reports that initial IT modifications for would be \$5.2 million, which includes Data Center Services through the Department of Information Resources. Ongoing maintenance costs are estimated to be approximately \$1.4 million annually.

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, and 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 2025. 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 teacher incentive allotment, the classroom teacher and librarian allotment, or through other increases in Foundation School Program entitlement.

Source Agencies: 701 Texas Education Agency, 781 Higher Education Coordinating Board

LBB Staff: WP, HL, AM, AH, RC