

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 20, 2009

TO: Honorable Florence Shapiro, Chair, Senate Committee on Education

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: HB3646 by Hochberg (Relating to public school finance.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3646, As Engrossed: a negative impact of (\$1,990,296,924) through the biennium ending August 31, 2011.

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
2010	(\$913,168,462)
2011	(\$1,077,128,462)
2012	(\$1,380,328,462)
2013	(\$1,780,528,462)
2014	(\$2,280,028,462)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	Probable Savings/(Cost) from <i>Foundation School Fund</i> 193
2010	(\$138,268,462)	(\$774,900,000)
2011	(\$140,828,462)	(\$936,300,000)
2012	(\$154,828,462)	(\$1,225,500,000)
2013	(\$158,828,462)	(\$1,621,700,000)
2014	(\$162,828,462)	(\$2,117,200,000)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	1.0
2011	1.0
2012	1.0
2013	1.0
2014	1.0

Fiscal Analysis

The bill would make changes to the public school finance system, as well as establish or amend various programs for school districts administered by the Texas Education Agency.

Sections 5 through 34 would require that school districts and charter schools increase the salaries of employees eligible for placement on the minimum salary schedule (MSS), as defined by the bill, by the greater of \$80 per month or the maximum uniform amount that could be paid to each MSS eligible employee using 50 percent of the additional funds provided by the bill. The provisions would also expand the number of steps on the MSS over time by adding steps 21 through 35. School districts would be entitled to additional state aid equivalent to the amount of additional salary cost incurred due to the expansion of the minimum salary schedule. The minimum gain amount provided under proposed §42.2516(h-1) would be reduced on a prorata basis to provide funding sufficient for the additional state aid entitlement.

Sections 35 through 40, with the repeal of Chapter 21, Subchapter N in Section 99, would repeal the Texas Educator Excellence Grants (TEEG) program and amend the Subchapter O program, identifying the annual amount as determined by appropriation, among other changes.

Section 41 would create a special education grant to assist certain districts with expenses related to the education of special education students that exceed revenue generated by those students.

Sections 56 through 77 of the bill would make changes to components of the state's school finance system under Chapters 41 and 42 of the Education Code.

The bill would specify that references in Chapters 41 and 42 to the taxable value of property in a district would refer to the value for the current year unless otherwise specified.

Tier 1 and the first level of Tier 2 would be collapsed into a single Tier 1. The Tier 1 entitlement would be tied to the statewide average taxable value of property per weighted student, multiplied by 0.0001723 or higher value as specified in the General Appropriations Act. The bill would eliminate the current 0.5 discount of the CEI adjustment from the calculation of weighted average daily attendance (WADA). The high school allotment would be established as a separate Tier 1 allotment. Districts would be guaranteed M&O revenue available to them during the 2008-09 school year based on the districts compressed rate, as adjusted for various additional funding provisions.

Districts would be entitled to receive an specific increase per WADA as a result of the bill's changes to Chapters 41 and 42 over amounts the district would have been entitled to under those chapters as those chapters existed on January 1, 2009, at districts' adopted tax rates for the 2008-09 school year. WADA under this section would be calculated as it existed on January 1, 2009. The amount of the guaranteed minimum gain would be \$100 reduced on a prorata basis as necessary to provide funding sufficient for the additional state aid entitlement related to the expansion of the minimum salary schedule.

The last 6 cents of a district's effective M&O rate would be equalized to Austin ISD's yield with no recapture. Excluding this 6 cents, any additional tax effort not included in a district's local fund assignment would be equalized to \$31.95 per WADA per penny, with recapture above that level. The bill would repeal existing set-asides from the state compensatory education allotment. In addition, the bill would eliminate a number of funding and hold harmless provisions contained in the Education Code. Of particular note is that the bill would eliminate the "target revenue" structure currently codified within Section 42.2516, Education Code.

Section 58 would prevent school districts that are identified as exceeding the equalized wealth level for the first time in FY10 or a later year from having to take action to achieve the equalized wealth level for at least one year. Specifically, a district would not be required to take action to achieve the equalized wealth level until the cost to the district to purchase attendance credits was greater than the amount of the district's entitlement under Section 42.2516.

The bill would make open-enrollment charter schools eligible for funding under Chapter 42, Education Code, equal to the greater of the 2008–2009 amount of funding per WADA plus \$100 per WADA or the amount of funding per WADA, excluding enrichment, to which the charter holder would be entitled in the current year if the charter holder were a school district without local revenue. Additionally, charter holders would be entitled to enrichment funding based on the state average tax effort.

The bill would provide that a school district would be entitled to an annual allotment of \$650 per student in ADA who had a parent or guardian serving on active duty in a combat zone as a member of the armed forces of the United States and for each student in ADA who had a parent or guardian serving on active duty in the armed forces and had transferred to a campus in the district during the year as a result of a change in residence because of an action taken under the Defense Base Closure and Realignment Act of 1990. The cost of this allotment would be limited to \$9.9 million a year and be funded by excess appropriations in the FSP or by reductions to the basic allotment.

The bill would direct TEA to adjust school districts' entitlements for payments received in association with agreements made under Chapter 313, Tax Code. A school district receiving such supplemental payments would be entitled to retain a maximum of \$100 per ADA in each year.

The bill would reestablish the high school allotment as a stand-alone allotment in Chapter 42, Education Code, and would deliver funds under the allotment on a weighted student basis.

Section 83 would establish a permanent roll-forward mechanism for the eligibility of school district bonds for state assistance under the Existing Debt Allotment program.

The repeal of 42.103(e) in Section 99 would allow eligible Chapter 41 districts to receive the mid-sized adjustment.

The bill would take effect September 1, 2009.

Methodology

Special Education Grant Program: Data from the Public Education Information Management System (PEIMS), the Foundation School Program (FSP) and federal funding were used to compare district special education expenditures and available revenue. Under the assumption that TEA would reimburse districts for special education expenditures in excess of twice the amount of revenues received, the grant program would cost an estimated \$17 million in FY2010, \$20 million in FY2011. Under the assumption that federal stimulus funds for special education do not continue after FY2012, costs would be projected to increase in FY2013 to \$34 million; should increased federal allocations continue, costs in the out years would decrease. TEA anticipates the need for 1 program specialist position to administer the grant program, at an estimated administrative cost of \$68,462 per year.

Foundation School Program: Based on the provisions of the bill, the 0.0001723 multiplier would produce an estimated basic allotment yield of \$48.74 per penny per WADA in FY2010 and \$49.47 per penny per WADA in FY2011.

The impact to the FSP is estimated to be significant. Under the assumptions made in this fiscal note, the bill is estimated to increase FSP M&O state aid by \$763.4 million in FY2010, \$953.1 million in FY2011, increasing steadily thereafter and reaching \$2,169.1 million in FY2014. Included in these cost estimates is a reduction in the need for state funding related to the educator salary increase described by TEA Rider 86 in the 2008-09 General Appropriations Act, since the bill includes that funding in the calculation of district minimum funding levels under Section 69. In addition, it is assumed that approximately \$121 million in costs for programs currently funded through set-asides from the compensatory education allotment would continue to be funded with General Revenue Fund 001.

Savings to the FSP as a result of adjustments to school districts' entitlements for payments received in association with agreements made under Chapter 313, Tax Code, are estimated to be approximately \$24 million in FY2010 and \$51.1 million in FY2011, increasing somewhat in fiscal years thereafter. These estimated savings are partially offset by the allowance that districts are entitled to retain a maximum of \$100 per ADA in each year; the cost offset of this provision cannot be estimated at this time.

The permanent roll-forward of the EDA eligibility date is estimated to cost approximately \$35.5 million in FY2010, \$34.3 million in FY2011, slightly decreasing annually to \$30.9 million in FY2014.

Technology

TEA would be required to modify the FSP payment system in order to accommodate the changes made by the bill. Costs to implement these modifications are estimated to be at least \$500,000 in FY2010, with maintenance costs of \$60,000 per year thereafter.

Local Government Impact

Eligible districts meeting the requirements of the special education grant would realize an increase in funding.

It is estimated that all school districts would realize a gain in FSP state aid or reduced recapture payments as a result of the provisions of the bill. School districts would be required to provide pay increases to MSS eligible employees, including full-time speech pathologists, as prescribed by the bill.

School districts would experience a loss of state funds commensurate with the amount of associated benefits received from the businesses with which they have Chapter 313 agreements to limit valuation of property, less the increase due to the retention of the maximum of \$100 per ADA.

Qualifying districts that have made payments on eligible bonds also would receive additional state aid through the EDA.

Source Agencies: 701 Central Education Agency

LBB Staff: JOB, JSp, JGM