

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION**

**April 14, 2009**

**TO:** Honorable Rob Eissler, Chair, House Committee on Public Education

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

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

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3646, As Introduced: a negative impact of (\$1,942,981,924) 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	(\$935,978,462)
2011	(\$1,007,003,462)
2012	(\$1,197,803,462)
2013	(\$1,482,203,462)
2014	(\$1,839,403,462)

**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	(\$137,978,462)	(\$798,000,000)
2011	(\$140,803,462)	(\$866,200,000)
2012	(\$154,803,462)	(\$1,043,000,000)
2013	(\$158,803,462)	(\$1,323,400,000)
2014	(\$162,803,462)	(\$1,676,600,000)

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**

Section 2 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 8 through 20 of the bill would make changes to components of the state's school finance system under Chapters 41 and 42 of the Education Code.

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 yield on a per WADA per penny basis, divided by value established in the General Appropriations Act that represents the approximate local share of funding to which the lesser of each district's effective maintenance and operations (M&O) rate in pennies or a value of 100 would be applied. A factor of 0.93 would be applied to the Tier 1 adjustment for the cost of education index (CEI). 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 total M&O revenue available to them during the 2008-09 school year, as adjusted for various funding changes. 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.

The bill would apply beginning with the 2009-10 school year.

## **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:** The bill as introduced did not contain information on certain formula amounts and levels important to the calculation of costs in the FSP. In order to estimate costs in this fiscal note, certain assumptions as to the levels of these formula amounts were made and are noted below. Additionally certain provisions of the bill are drafted such that they would create conflict within provisions of the school finance system, or are insufficiently specified to be modeled. In these instances, assumptions are made in interpreting these provisions to best represent the understood intent of the bill. To the extent that these assumptions are incorrect, the actual state cost of the bill may differ substantially from that estimated in this fiscal note.

For the purposes of this fiscal note, the revised basic allotment in Section 9 of the bill is assumed to refer to a district with property wealth per WADA that reflects the statewide average, and the divisor representing the approximate statewide local share of funding is assumed to be 0.60. These assumptions, and the impact of the bill's provisions on the calculation of WADA, produce an estimated basic allotment yield of \$47.23 per penny per WADA in FY2010 and \$47.93 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 state aid by \$798 million in FY2010, \$866 million in FY2011, increasing steadily thereafter and reaching \$1,677 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 13. 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 1.

The increase to teacher salaries and the related hold harmless provision contained in Section 12 are not estimated by this fiscal note. To the extent that the level of salary increase exceeds the amount of revenue gain realized by school districts, the state costs of the bill would increase.

### **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 \$175,000 in FY2010, with maintenance costs of \$35,000 per year thereafter.

### **Local Government Impact**

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

Most school districts would realize a gain in FSP state aid or reduced recapture payments as a result of the provisions of the bill. However, it is estimated that certain districts may realize less state aid than under current law, primarily due to the bill's reallocation of local revenue across the compressed and enrichment tiers and the interaction of that revenue with the 2008-09 minimum funding level.

**Source Agencies:** 701 Central Education Agency

**LBB Staff:** JOB, JSp, JGM