

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

April 25, 2011

TO: Honorable Jim Pitts, Chair, House Committee on Appropriations

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

IN RE: HB3639 by Pitts (relating to state fiscal matters related to public and higher education),
Committee Report 1st House, Substituted

Estimated Two-year Net Impact to General Revenue Related Funds for HB3639, Committee Report 1st House, Substituted: a positive impact of \$2,505,459,551 through the biennium ending August 31, 2013.

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
2012	\$151,318,720
2013	\$2,354,140,831
2014	\$157,007,746
2015	\$159,918,947
2016	\$162,873,765

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	Probable Revenue Gain/ (Loss) from <i>RETIRED SCHOOL EMP</i> <i>GROUP INSURANCE</i> 989
2012	\$142,488,720	\$8,830,000	(\$136,349,002)
2013	\$145,310,831	\$2,208,830,000	(\$139,075,982)
2014	\$148,177,746	\$8,830,000	(\$141,857,502)
2015	\$151,088,947	\$8,830,000	(\$144,694,652)
2016	\$154,043,765	\$8,830,000	(\$147,588,545)

Fiscal Analysis

The bill would remove a requirement that the state contribution rate to the Teacher Retirement System (TRS) Pension Trust Fund be no less than the contribution rate required for active employees.

The bill would reduce the rate of the required state contribution to the Teacher Retirement System for the TRS-Care retiree insurance program to 0.5 percent of active member payroll.

The bill would defer the Foundation School Program (FSP) payment to school districts scheduled for August of fiscal year 2013 to not earlier than September 5th of the following fiscal year.

The bill would implement the recommendation in the report, "Limit Advanced Placement Incentive Program Exam Fee Subsidies and End Campus Awards," in the Legislative Budget Board's Government Effectiveness and Efficiency Report submitted to the Eighty-Second Texas Legislature, 2011 by funding the cost of examinations for students who demonstrate financial need in accordance with adopted guidelines.

The bill would end eligibility to redeem Early High School Graduation Scholarships awards issued prior to fiscal year 2012 effective for fiscal year 2018 and would close the program to new awards effective for fiscal year 2012.

The bill would eliminate automatic transfers of funding from the Foundation School Program (FSP) to the Texas Higher Education Coordinating Board (THECB) for purposes of funding certain tuition exemption programs.

The bill would limit eligibility for Educational Aide tuition exemptions to persons seeking certification in teacher shortage areas, as determined by the Commissioner.

The bill would exclude physical education curriculum from counting towards contact hours used to determine a junior college's proportionate share of the state money appropriated.

Methodology

For purposes of this estimate, it is assumed that the state contribution rate to the TRS Pension Trust Fund would remain the same as the rate stipulated in the 2010-11 General Appropriations Act. However, if a lower rate were adopted by the Eighty-second Legislature, which could be reduced below 6.4 percent based on the provision of the bill removing the requirement that the state contribution rate to the TRS Pension Trust Fund be no less than the contribution rate required for active employees, state costs to General Revenue would be reduced. The TRS Pension Trust Fund would experience a revenue loss in like amounts. Savings from the provision is assumed in HB 1 as Engrossed.

The provision reducing the rate of the required state contribution to the Teacher Retirement System for the TRS-Care retiree insurance program would result in an estimated state savings to General Revenue of \$136.4 in fiscal year 2012, growing to \$147.6 million by fiscal year 2016 based on an assumption of covered payroll growth of 2 percent annually. The TRS-Care Trust Fund would experience a revenue loss in each fiscal year in like amounts. The savings from the provision is assumed in HB 1 as Engrossed.

The effect of deferring the August FSP payment in fiscal year 2013 to September of the following fiscal year is that a total of 23 monthly FSP payments would be dispersed during the 2012-13 biennium. Under current law funding of the FSP, this deferral would result in a one-time savings of \$2.2 billion in fiscal year 2013. Under the funding levels for the FSP in HB 1 as Engrossed, the savings from the August payment deferral is estimated to be \$1.8 billion.

The bill would limit AP/IB exam fee subsidies to students who are educationally disadvantaged as defined in Section 5.001(4), Education Code, which would save an estimated \$6.1 million in General Revenue Funds for fiscal year 2012 and \$6.2 million in General Revenue Funds for fiscal year 2013, increasing to \$6.5 million by fiscal year 2016. This estimate is based on current appropriations of \$8.4 million for exam fee subsidies and assumes a 4 percent increase in the total number of AP/IB exams taken and a 9 percent increase in the number of AP/IB exams taken by low-income students that would be eligible for a subsidy each school year. Projected increases are based on historical data and growth in participation provided by TEA. The savings from the provision is assumed in HB 1 as Engrossed.

Students who receive Early High School Graduation Scholarships have six years from the date of the award in which to apply the scholarship to eligible higher education expenses. The THECB estimates about \$10.6 million in unredeemed awards that have not yet expired. For purposes of this estimate, it is assumed that one-fifth of those awards are redeemed each fiscal year beginning in fiscal year 2012. Based on that assumption and annual state cost for the program in recent fiscal years of \$7.2 million,

provisions closing the Early High School Graduation Scholarship program to new awards effective for fiscal year 2012 is estimated to reduce state cost by \$5.1 in General Revenue annually. The savings from the provision is assumed in HB 1 as Engrossed.

Provisions limiting eligibility for Educational Aide tuition exemptions to persons seeking certification in teacher shortage areas is estimated to reduce state costs for this program by \$3,750,000 in General Revenue annually. The savings from the provision is assumed in HB 1 as Engrossed.

Provisions eliminating automatic transfers of funding from the Foundation School Program (FSP) to the Texas Higher Education Coordinating Board (THECB) for purposes of funding certain tuition exemption programs affect the Early High School Graduation Scholarship program and the Educational Aide tuition exemption program as well as tuition subsidies for certain TANF eligible students and make funding for each of these programs subject to appropriations by the Legislature. Estimates of savings related to these programs referenced above are made without consideration of appropriations levels currently being considered by the Eighty-second Legislature for the 2012-13 biennium and are estimated in reference to appropriation levels similar to those in the 2010-11 biennium. To the extent that actual appropriations in future fiscal years for these programs are greater than or less than the amounts assumed for purposes of this estimate, actual savings to the 2012-13 budget would vary. The savings from the provision is assumed in HB 1 as Engrossed.

If the provisions of the bill related to the Early High School Graduation Scholarship and other higher education tuition exemptions decreased the number of students enrolled at higher education institutions, the legislature could reduce General Revenue formula funds and maintain the formula rate. The legislature could also decide to keep the same amount of General Revenue funds in the formula, thereby increasing the formula rate.

The bill would exclude physical education curriculum from counting towards contact hours used to determine a junior college's proportionate share of the state money appropriated. The Texas Higher Education Coordinating Board estimates that provisions related to the exclusion of physical education courses from contact hour calculations for purposes of determining state funding for junior colleges would result in minimal savings. Those savings are not estimated to be significant.

Local Government Impact

School district payments from the FSP that would have been made in August of fiscal year 2013 would be deferred to the following September, a delay of approximately two weeks.

Source Agencies: 323 Teacher Retirement System, 781 Higher Education Coordinating Board

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