Senate Finance Subcommittee on General Government Issues

Interim Report

Senator Averitt (Chair), Senator Fraser, Senator Harris, Senator Nelson, Senator Whitmire

January 2009

SENATE FINANCE COMMITTEE

80th Legislature

January 7, 2009

The Honorable David Dewhurst
Lieutenant Governor of the State of Texas
Capitol Building, Room 2E.13
Austin, Texas 78701

Dear Governor Dewhurst:

The Senate Finance Committee is pleased to submit the final interim report with recommendations of the Senate Finance Subcommittee on General Government Issues for consideration by the 81st Legislature in preparation for the regular session.

Respectfully submitted,

Senator Stephen E. Ogden, Chair

Senator Judith Zaffirini, Vice-Chair

Senator Kip Averitt

Senator Bob Deuell

Senator Robert Duncan

Senator Kevin Eltife

Senator Troy Fraser

Senator Chris Harris

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Senator Florence Shapiro

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Senator John Whitmire

Senator Tommy Williams

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CHARGE 1

Study the effectiveness of cash management strategies of the state. Review the quarterly amount of cash on hand and its use and potential to generate excess returns. Include an assessment of cash flow problems that exist in school districts and request that the Comptroller of Public Accounts report on the additional short-term borrowing needed and the potential impact on bond ratings if legislation is not passed which allows for the "smoothing" of state payments to school districts.

Public Hearing:

The Senate Finance Subcommittee on General Government Issues met on Thursday, September 10, 2008, in the Capitol Extension, Room E1.036, at Austin, Texas, to hear testimony related to the interim charge listed above. The agenda for that hearing, including a list of invited and public witnesses, is attached (see Appendix A).

Background:

Using a property value-based payment category system, the State of Texas distributes Foundation School Fund (FSF) payments to school districts in varying amounts throughout the fiscal year to accommodate the unique needs of each payment category.

For school districts in payment category 1 (districts with property value less than 1/2 of the statewide average), the FSF disbursements are spread relatively evenly throughout the year. For districts in payment category 2 (districts with property value at least 1/2 of or equal to the statewide average) and districts in payment category 3 (districts with property value above the statewide average), a significant percentage of a district's annual entitlement is delivered in the first few months of the state's fiscal year.

Because the districts in payment categories 2 and 3 are more reliant on local property tax revenue to fund operations, this front-loaded disbursement schedule has traditionally been viewed as an acceptable way to fill the financial gap that exists for school districts between the start of the school year and the receipt of those local property tax revenues, which are generally collected in December or January.

However, during the 3rd Called Session of the 79th Legislature, legislators passed House Bill 1, which reduced local property taxes by one-third, replacing them with revenue collected through the new margins tax and general revenue. Those property tax buy-down funds are delivered through the payment category-based schedules, which significantly increases the state's cash needs at the beginning of the fiscal year, several months before the margins tax is collected.

Tax and Revenue Anticipation Notes

Just as most school districts need operational funds months before their local property taxes are collected, the State of Texas must obtain funds to cover the gap that exists

between the time when disbursements are made to school districts and the receipt of revenue from the margins tax. The state obtains these funds in the debt market, through Tax and Revenue Anticipation Notes (TRANs).

According to the Comptroller of Public Accounts (Comptroller), the debt market could easily accommodate, at rates favorable to the state, our short-term cash needs prior to the property tax buy-down. But the dramatic increase in short-term cash needed to cover the buy-down -- which is expected to grow year after year -- could be difficult to obtain due to illiquidity in the debt market, could cost more due to a limited cash supply and could have an adverse-effect on the state's bond rating.

Smoothing

During the 80th Legislative Session, the Legislature attempted to eliminate the state's need to sell additional TRANs by adopting a system under which payments to school districts would be spread more evenly throughout the year -- a process commonly referred to as "smoothing." The smoothing proposal was part of Senator Robert Duncan's Senate Bill 1848, which died in the Texas House of Representatives on a point of order not related to the smoothing issue.

In response to a request made during a joint hearing of the House Appropriations Subcommittee on Education and the House Select Committee on Higher and Public Education Finance, the Comptroller has compiled a list of new smoothing options (see Appendix B).

Conclusions:

Increased TRAN borrowing could impact our bond rating, and the current economic climate could lead to increased borrowing costs and decreased availability of cash. Striking a balance between assisting the school districts and protecting the state's fiscal standing would be ideal, but the payment category system currently in place makes it difficult to determine what individual schools districts need and when they need it.

Recommendations:

1. The Legislature should consider adopting a payment system that meets school district needs while minimizing the cost to the state by borrowing only what is needed and striving to work within a system more closely structured to the state's revenue stream.
2. The Legislature should consider adopting a just-in-time payment system that delivers funds to school districts as needed.

CHARGE 2

Explore the policy implications of allowing school districts, or other public agencies, to participate in a permissive pooled collateral program which provides for the centralization of collateral in a pool which will be tracked and verified to meet state requirements.

Public Hearing:

The Senate Finance Subcommittee on General Government Issues met on Thursday, September 11, 2008, in the Capitol Extension, Room E1.036, at Austin, Texas, to hear testimony related to the interim charge listed above. The agenda for that hearing, including a list of invited and public witnesses, is attached (see Appendix A).

Background:

Chapter 2257 of the Texas Government Code requires that public funds deposited in a financial institution be secured by eligible collateral, and the funds for each public entity must be collateralized individually.

For example, ABC Bank holds deposits for the City of XYZ and Good Apple Independent School District. Under current law, ABC Bank must collateralize each entity's deposits individually. This could be accomplished by pledging separate United States Treasury Notes for each account.

During the 80th Legislative Session, Senator Robert Nichols and Representative Dan Flynn filed similar bills (Senate Bill 1748 and House Bill 345) that would have permitted the Comptroller of Public Accounts (Comptroller) to establish a pooled collateral program. Under such a program, the Comptroller could allow for the creation of a collateral pool for a single financial institution's public deposits, or a centralized collateral pool for two or more financial institutions' public deposits.

Continuing with the hypothetical example laid out above, under the pooled collateral legislation offered last session, the Comptroller could permit ABC bank to hold a single security to collateralize the total deposits from the City of XYZ and Good Apple Independent School District. It might also have been possible under the pooled collateral legislation for the Comptroller to allow ABC Bank to share with a separate financial institution a collection of securities that could be used to collateralize all the public deposits in both banks.

Critics of a pooled collateral program worry that such a program will provide insufficient protection for public funds. Under the current system, public entities can negotiate a level of collateralization that meets their unique local needs. If the statute is revised and the Comptroller is permitted to create a pooled collateral program, critics argue that financial institutions will be better equipped to negotiate terms that prioritize reduced costs above

the responsibility of the public entities to protect and manage the public funds entrusted to them.

Furthermore, critics argue that financial institutions' current reporting requirements position public entities to maintain necessary oversight of their deposits. Under the pooled collateral legislation considered during the 80th Legislative Session, it would be possible for the Comptroller to remove the requirement that reports regarding the value of securities collateralizing a public entity's deposits be given directly to the public entity, and that monitoring of the market value of collateral could be conducted by the Comptroller.

Some critics have expressed concern that a pooled collateral program, if not structured properly, could unfairly influence the market in a way that would be detrimental to small and independent financial institutions.

Supporters of a pooled collateral program say that such a program would lower the cost of holding public funds, and that reduced costs could be passed on to taxpayers and free up funds to be reinvested in the community.

To support the contention that a pooled collateral program would reduce costs and streamline the securitization process, supporters point to sometimes significant fluctuations in public entities' account balances. Under current law, pledged collateral must be no less than 100% of the value of the public deposits, including any accrued interest, minus the value of the deposit covered by the Federal Deposit Insurance Corporation. Permitting pooled collateral, supporters argue, would allow financial institutions to provide sufficient protection of public funds by collateralizing based on aggregate need, and eliminate the wasteful cost of pledging collateral 365 days a year for deposits that might not reach their peak outside of a single fiscal quarter.

Conclusions:

Pursuing the development of a pooled collateral program may reduce the cost of collateralizing public funds, allowing savings to be passed on to the taxpayer and freeing up funds to be reinvested in the community. The ultimate goal, whether the Legislature adopts a pooled collateral program or not, should be improving fiscal management and security of public funds. Local control is essential to the success of a pooled collateral program, as it ensures that public entities can negotiate a collateral package that works best for them and their taxpayers.

Recommendations:

The Legislature should consider adopting a pooled collateral program that provides sufficient security for public funds by setting an adequate collateral "floor," allows local entities and the state to maintain sufficient oversight of the value of their collateral, protects public funds by including harsh penalties for under-collateralization, and protects market integrity by avoiding any barriers to competition.

CHARGE 3

Compile a list of significant state assets and infrastructure, including but not limited to the state lottery and state real property, and determine if each asset is being used to the highest and best use possible in the interest of taxpayers of Texas. Where appropriate, provide analysis of alternative uses of underperforming assets, potential cost savings or revenue gains and the legislative actions that would be needed to make the changes that are in the best interest of taxpayers.

Public Hearing:

The Senate Finance Subcommittee on General Government Issues met on Thursday, September 11, 2008, in the Capitol Extension, Room E1.036, in Austin, Texas, to hear testimony related to the interim charge listed above. The agenda for that hearing, including a list of invited and public witnesses, is attached (see Appendix A).

Background:

The State of Texas does not currently maintain a centralized, comprehensive list of state assets, such as real property, personal property, infrastructure, cash and revenue streams.

The General Land Office does produce -- under the direction of Chapter 31 of the Natural Resources Code -- a *Real Property Evaluation Report* that reviews and evaluates certain state real property once every four years, but there are state agencies and state-owned properties exempt from this process.

Although there is obviously great value in identifying the assets that the state maintains and how the market values those assets, the Legislature has not adopted a policy defining what is and what is not a state asset. While traditional definitions -- like those used in private enterprise -- can be applied, the question of whether or not our assets are being used to the highest and best use possible in the interest of the taxpayers of Texas is not as easily answered utilizing traditional, private industry definitions.

Legislative Budget Board

In response to the interim charge listed above, the Legislative Budget Board (LBB) produced the Capital Asset Inventory Research Report. Included in the report is data collected from the state property accounting system, real property evaluation data, pension fund valuations and cash balances in general revenue related accounts.

While the LBB's report is a helpful first step in our attempt to shape the state's vision of asset valuation and management, it ultimately leaves the reader with more questions than answers regarding what assets the state maintains and what they are worth.

The report reveals that reporting processes related to asset valuation vary from agency to agency. Furthermore, the asset valuations provided by each state agency are generally

not based on market value. Under the accounting practices employed by most state agencies, personal property, equipment, software and improvements (such as buildings) are assigned a net book value -- which includes depreciation -- and much of the state's real property is assigned its historic value, rather than its market value.

Other shortcomings identified during our interim research include a lack of information regarding debt to equity ratios for most state assets and the absence of individual valuations for some of the state's largest investments, such as highway infrastructure.

Conclusions:

The lack of a state policy regarding asset valuation and management leaves the state with an incomplete list of assets, an inaccurate picture of the market value of its assets, and makes it difficult to determine if the state is using its assets at their highest and best use.

Recommendations:

The Legislature should consider adopting an asset valuation and management policy that includes state agency reporting requirements and valuation parameters for real and personal property, revenue sources, and cash and pension fund balances.

CHARGE 4

Study the funding of county public hospitals and the role neighboring counties without a county hospital should play.

Public Hearing:

The Senate Finance Subcommittee on General Government Issues met on Thursday, September 11, 2008, in the Capitol Extension, Room E1.036, in Austin, Texas, to hear testimony related to the interim charge listed above. The agenda for that hearing, including a list of invited and public witnesses, is attached (see Appendix A).

Background:

According to the U.S. Census Bureau's Current Population Survey (2007), approximately 25% of Texans are without health insurance. While the state maintains programs such as Medicaid and the Children's Health Insurance Program to provide health care coverage to qualified Texans, there is a large population of low-income Texans who do not qualify for these programs, and our state's counties -- along with state-run hospitals, public universities, and not-for-profit hospitals and clinics -- ultimately serve as the health care providers of last resort for these Texans with nowhere else to go.

Texas Counties

Under the Indigent Health Care and Treatment Act passed in 1985, Texas counties must offer basic health care to indigent residents. Counties can provide this care through a hospital district, a public hospital or a county indigent health care program.

Under the indigent health care system laid out in Chapter 61 of the Health and Safety Code, counties are responsible for reimbursing health care providers for basic services rendered to eligible county residents, which is defined in statute as residents with income less than 21% of the federal poverty level. However, the reimbursement requirement is capped at 8% of a county's general revenue tax levy. Counties spending in excess of 8% are eligible for state assistance through the State Assistance Fund.

Uncompensated care

While most Texas counties maintain some basic system of health care for indigent residents, the need for specialized services or higher level trauma care often lead Texans away from their county of residence to neighboring counties offering more advanced services. Large hospital districts with regional medical centers -- such at those found in the state's urban centers -- often attract patients from outside the districts' service areas. However, this situation is not limited to urban-area public hospitals and is a concern for all counties -- regardless of size or method of indigent health care delivery -- who provide services to patients from neighboring counties.

Hospital districts and county hospitals providing health care for non-residents can obtain reimbursement from a patient's county of origin, but only if the services provided to that patient are offered by the county indigent health care program in the patient's county of origin, and the patient meets the county of origin's eligibility requirements.

Emergency rooms services -- which the state's uninsured rely on to treat illnesses that might have been avoided through preventive care -- must be provided, under federal law, to anyone requiring emergency assistance. The state does not require a patient's county of origin to reimburse health care providers for emergency care services provided to non-residents if that patient does not meet his/her home county eligibility requirements.

Senate Bill 10 Medicaid Reform and Medicaid waiver

Senate Bill 10, which was passed by the 80th Legislature, seeks to reform the state's Medicaid program and increase the percentage of Texans with health care coverage.

The reform package was designed to work in conjunction with state efforts to obtain federal approval of using additional money appropriated by the 80th Legislature to draw down additional federal funds for the state's safety-net hospitals, without reducing the federal payments those hospitals currently receive for treating the uninsured.

For more information on Senate Bill 10 and the state's Medicaid reform waiver, please visit http://www.hhs.state.tx.us/medicaid/reform.shtml.

Conclusions:

The question policy makers ultimately must answer is should we restructure the current indigent health care system, which is primarily funded by property taxes, or should the state increase its responsibility under the Medicaid program or other programs that increase health care coverage?

When the Legislature passed Senate Bill 10 last session and applied for the federal waiver referenced above, they embarked on a path that should begin the process of removing much of the indigent health care burden from property tax payers, decrease uncompensated care costs for county public hospitals and bring more of our federal dollars back to Texas.

Ultimately, the state's goal should be to make insurance available for more Texans and optimize the health care provided for each tax dollar invested.

Recommendations:

1. The Legislature should continue to pursue innovative opportunities to make health insurance available for uninsured Texans, such as health care co-ops, three share programs and tax incentives for employers who provide private coverage for their employees.
2. The Legislature should support the state's effort to win approval of the Medicaid waiver.

CHARGE 5

Review and evaluate appropriate state regulation of a private operator of the state lottery should the state receive bids for a lease of the lottery that merit strong consideration. Provide recommendations for ensuring the security and integrity of the lottery and for adequate consumer protections. (Joint charge with Senate State Affairs Committee)

Public Hearing:

The Senate Finance Subcommittee on General Government Issues met in a joint hearing with the Senate State Affairs Committee on Thursday, August 27, 2008, in the Capitol Extension, Room E1.036, in Austin, Texas, to hear testimony related to the interim charge listed above. The agenda for that hearing, including a list of invited and public witnesses, is attached (see Appendix A).

Background:

On October 16, 2008, the Office of Legal Counsel of the U.S. Department of Justice (DOJ) issued an opinion interpreting federal statutory provisions relating to state-run lotteries. In that opinion, the DOJ concluded that a State must exercise control over a majority of business decisions at the lottery as well as retain most of the equity interest in the profits and losses of the lottery in order for it to be considered to be "conducted by a State" and thereby permissible under federal law. The DOJ concluded that a state-run lottery may enter into a contract to provide goods and services necessary for the operation of the lottery; however, a long-term lease to a private operator would not permissible. *See* Scope of Exemption Under Federal Lottery Statutes for Lotteries Conducted by a State Acting Under the Authority of State Law, 32 Op. Off. Legal Counsel (Oc. 16, 2008). The full text of the DOJ's opinion can be found at http://www.usdoj.gov/olc/2008/state-conducted-lotteries101608.pdf.

Conclusions:

While the full impact of the DOJ's opinion has not yet been determined, its issuance should lead to the cessation of further consideration of lottery privatization until the opinion can be reviewed by the appropriate legal resources and the advisability of investing the state's time and resources in reviewing the question of privatization can be weighed.

While the recent DOJ opinion casts a shadow over the prospect of leasing the lottery to a private operator, the lottery is a state asset that could be included under the state asset valuation and management plan as recommended in the Finance Subcommittee on General Government's interim report on state assets.

Recommendations:

None

SENATE COMMITTEES ON EDUCATION & FINANCE

Joint Report to the 81st Legislature

December 2008

December 2008

The Honorable David Dewhurst
Lieutenant Governor of the State of Texas
Members of the Texas Senate
P.O. Box 12068
Austin, Texas 78711

Dear Governor Dewhurst and Members of the Texas Senate:

The Senate Committees on Education and Finance are pleased to submit their final interim report with recommendations for consideration by the 81st Legislature in preparation for the regular session.

Respectfully submitted,

Senator Florence Shapiro, Chair

Senator Steve Ogden, Chair

Senator Kip Averitt

Senator Judith Zaffirini, Vice-Chair

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Senator Dan Patrick

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Senator Royce West

Senator John Whitmire

Senator Tommy Williams

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CHARGE TO THE SENATE COMMITTEES ON EDUCATION & FINANCE

Joint Charge to the Senate Committees on Education and Finance:

1. Review and make recommendations that address the state's facility infrastructure needs for public schools, ensuring that funding remains stable, reliable and equitable. Examine the need for funding adjustments for factors that affect the need for facilities, such as fast growth, age and condition of facilities, adequacy of space, construction and land costs, and concentration of students requiring smaller class sizes. Assess the impact on property taxpayers of "rolling forward" the Existing Debt Allotment (EDA) each session and the change in biennial appropriations for the Instructional Facilities Allotment (IFA).

Joint Charge - Facilities

1) Make efforts to expedite the IRS approval of the multiplier increase. If this increase proves unlikely in the near future, Texas should explore alternate means of guaranteeing district bond issuances.
2) Combine the existing facilities funding programs, IFA and EDA, into a single tier of equalized facilities funding.
3) Continue to ensure delivery of start-up facilities funding to the state's lowest property wealth districts.
4) Provide predictable state support in facilities assistance for school districts.
5) Provide funding support for the unique facility needs of fast growth districts.
6) Limit what qualifies for state facilities assistance.
7) Provide incentives for cost-effective construction and efficient facility planning and maintenance.
8) Grandfather current lease-purchase agreements, but prohibit future lease purchases.

FACILITIES

Joint Charge to Senate Committees on Education and Finance: Review and make recommendations that address the state's facility infrastructure needs for public schools, ensuring that funding remains stable, reliable and equitable. Examine the need for funding adjustments for factors that affect the need for facilities, such as fast growth, age and condition of facilities, adequacy of space, construction and land costs, and concentration of students requiring smaller class sizes. Assess the impact on property taxpayers of "rolling forward" the Existing Debt Allotment (EDA) each session and the change in biennial appropriations for the Instructional Facilities Allotment (IFA).

The Senate Education Committee and the Senate Finance Subcommittee on General Government Issues held a joint hearing on August 27, 2008 and received both invited and public testimony on the joint interim charge on facilities. Recordings of the hearing are available via the Education Committee's website and may be found at http://www.senate.state.tx.us/75r/senate/commit/c530/c530.htm or the Senate Finance Committee's website at http://www.senate.state.tx.us/75r/senate/commit/c540/c540.htm.

Facilities Programs

Recommendations

1) Make efforts to expedite the IRS approval of the multiplier increase. If this increase proves unlikely in the near future, Texas should explore alternate means of guaranteeing district bond issuances.
2) Combine the existing facilities funding programs, IFA and EDA, into a single tier of equalized facilities funding.
3) Ensure delivery of start-up facilities funding to the state's lowest property wealth districts.
4) Provide predictability in facilities assistance for school districts.
5) Provide funding support for the unique facility needs of fast growth districts.

6) Limit what qualifies for state facilities assistance.
7) Provide incentives for cost-effective construction and efficient facility planning and maintenance.
8) Grandfather current lease-purchase agreements, but prohibit future lease purchases.

Committee Comments

The state operates several facility assistance programs. Under the Texas Constitution, the state guarantees district bonds allowing districts to enjoy the highest bond rating and avoid private bond insurance costs.[1] The guarantee program backs bonds in an amount determined by a multiple of its corpus.

To deal with declining capacity, the 80th Legislature increased the multiplier from 2.5 to up to 5.[2] The IRS must approve the use of a greater multiplier. This review has yet to occur.

At the August 27th hearing, the bond guarantee program could support $57.3 billion in guarantees with $52.2 billion outstanding.[3] This leaves $2 billion in capacity since $3 billion is kept in reserve for emergencies.[4] Along with billions of dollars in district bond authority outstanding and market fluctuations, the program will likely exhaust its capacity.

Alternatives to the bond guarantee program include credit enhancement programs or state-intercept programs. However, these programs will not likely afford the same level of bond guarantee.[5]

Established in 1997, the instructional facilities allotment (IFA) provides state aid for debt service for new instructional facilities, additions or renovations.[6] Eligibility for this allotment is generally based on wealth with other mitigating factors.[7]

The existing debt allotment (EDA) provides state aid for debt service not covered by IFA.[8] It covers debt issued prior to a date established by the legislature. For budget certainty the coverage date includes debt issued prior to the fiscal biennium covered by the appropriations bill. Each session since its inception, the legislature "rolls forward" the coverage date to cover the two years that elapsed since the previous coverage date.

Budgeted State Expenditures on IFA, EDA, and NIFA
$852 million
FY 2009

IFA and EDA create inefficiency and uncertainty in district facility planning. IFA and EDA provide assistance for different types of facilities. Rather than efficiently planning facility needs, the uncertainty in coverage by IFA and EDA causes districts to plan around program eligibility windows. By combining IFA and EDA and ensuring start-up assistance for low wealth districts, the state could create a more predictable and efficient facility assistance program.

Since EDA and IFA decrease the taxes needed by local districts, these programs provide local tax relief.[9] This state assistance resulted in tax reduction of 12 cents in FY 2008 and averaged 12-14 pennies over the last four biennia.[10] The guaranteed yield amounts for EDA and IFA were set at $35/ADA in 2000.[11] The number of pennies guaranteed under EDA increased from 12 to 29 cents in 2001.[12]

The state has no formal definition of a fast growth district. There are 112 districts with 1.9 million children that identify themselves as fast growth districts.[13] In 2007-2008, the average interest and sinking (I&S) rate of these districts was 29 cents, about 10 cents higher than the remaining districts.[14] Currently, only 68.4 percent of students attend fast growth districts that are eligible for state assistance, and this percentage declines each year.[15] This reality compounds the pressure faced by fast growth districts to ensure facilities for the influx of students, a need that often exists prior to the increase in tax base to support the construction. This conundrum can also inhibit districts' efforts to meet state tax issuance limitations on bond issuances, which causes these districts to elongate the life of the bonds costing local taxpayers interest.

Ultimately, school districts propose bond packages and local voters approve or reject them. Some interested parties have concerns regarding district practice in designing, promoting, and using facilities.[16] The state's school performance review identified some recurring problems:

- Lack of formal, comprehensive, board approved facilities master plans that include future maintenance and building needs.
- Failure to analyze the use of current facilities including the use of enrollment projections for that analysis.

- Lack of policies for the use and monitoring of portable classrooms.
- Failure to use building prototype designs to control costs.
- No staff member assigned to oversee facilities planning and construction.[17]

The new instructional facilities allotment (NIFA) provides funds to help offset the start-up costs of new campuses for the first two years.[18] To deal with proration issues, the 80th Legislature provided additional funding.

Charter Schools

Committee Comments

In 1995, Senate Bill 1 allowed the operation of charter schools in Texas.[19] Free from the normal restrictions placed on traditional public schools, charter schools exhibit great variances in their missions, operations, and performance. Some characterize charter schools as the research and development sector of public schools. Some charter schools, such as North Hills Preparatory, consistently rank among the top high schools in the nation according to *Newsweek*.[20] Charters achieve this success with student populations that range from relatively homogenous to traditionally considered "hard to serve."

Charters receive no state funding for facilities and must either dedicate state revenue, which is needed for operations, or raise the money privately.[21] The lack of funds necessary to build adequate instructional facilities inhibits charters' ability to replicate and provide quality options.[22] The lack of equitable funding forces charters to look toward elementary and middle schools rather than urban high schools.[23]

LETTERS FROM MEMBERS

APPENDIX

State Funding for School District Facilities - Legislative Summary

OVERVIEW	Instructional Facilities Allotment (IFA)	Existing Debt Allotment (EDA)	New Instructional Facilities Allotment (NIFA)
Started	FY1998 (75th Leg)	FY2000 (76th Leg)	FY2000 (76th Leg)
Purpose	State aid for debt service for new instructional facilities, additions or renovations	State aid for existing debt service not covered by IFA	State aid to offset "startup" costs of new campuses during initial two years of operation
Eligibility	Districts are ranked by wealth per ADA; districts can have ranking adjusted based on outstanding debt, enrollment growth, or a previous application that was not funded	All districts with eligible debt qualify; eligible debt currently defined as bonded debt for which a payment was made before Sept. 1, 2007	New instructional facilities during initial two years of operation; CH41 districts are eligible
Yield	$35 per ADA per penny, limited to $250 per ADA	$35 per ADA per penny, limited to 29 cents of I&S tax effort	$250 per student attending new campus in year 1, and $250 per additional student in year 2
Appropriations	Limited by appropriation	Not limited by appropriation	Limited to $25 million annually by statute, PLUS an additional $1 million discretionary appropriation annually; awards prorated if eligible applicants exceed limit
# of Districts (FY2008)	371	471	122

EXPENDITURES	Expenditures (in millions)				Legislative Action
Fiscal Year	**IFA**	**EDA**	**NIFA**	**TOTAL**	
1996-97	$170			**$170**	One-time biennial appropriation under School Facility Assistance Program
1998	$65			**$65**	IFA created as $200 million biennial program
1999	$119			**$119**	
2000	$175	$442	$17	**$634**	$50m in new IFA awards; EDA and NIFA created; IFA/EDA yields set at $35 ADA/penny
2001	$221	$478	$24	**$723**	$50m in new IFA awards; EDA limit from 12 to 29 cents (Commissioner authority)
2002	$253	$536	$19	**$808**	$50m in new IFA awards; EDA eligibility date rolled-forward and 29 cent limit put in statute
2003	$288	$431	$25	**$744**	$50m in new IFA awards; NIFA prorated
2004	$272	$481	$22	**$775**	No new IFA awards; EDA eligibility date rolled forward
2005	$284	$430	$19	**$733**	$20m in new IFA awards
2006	$275	$500	$21	**$796**	No new IFA awards; EDA eligibility date rolled forward
2007	$308	$461	$25	**$794**	$50 million in new IFA awards; NIFA prorated
2008 Estimated	$284	$441	$26	**$752**	No new IFA awards; EDA eligibility date rolled forward; NIFA limit increased by $1m
2009 Budgeted	$361	$460	$26	**$847**	$87.5m in new IFA awards; NIFA limit increased by $1m
TOTAL	**$3,076**	**$4,660**	**$224**	**$7,959**	

TAX RATE AVOIDANCE DUE TO STATE FACILITIES AID

- Estimated at approximately **12 pennies for FY2008**
- 12-14 pennies over last 4 biennia

SCIENCE LABORATORY GRANT PROGRAM

- Created in 2007 (HB2237, 80th Legislature, Regular Session)
- **$20 million per year, IF commissioner certifies sufficient excess appropriations for facilities (EDA and IFA)**
- $200 per sq. ft. for new construction; $100 per sq. ft. for renovation
- Districts must demonstrate need, and are ranked based on property wealth per ADA
- **13 districts received funds in FY2008**

ENDNOTES

[1] Texas Constitution, art. VII, sec. 5(d).
[2] Senate Bill 389, 80th Leg., R.S.
[3] Lisa Dawn-Fisher, testimony to Senate Education Committee and Senate Finance Subcommittee on General Government Issues on August 27, 2008, audio available at 41:30, http://www.senate.state.tx.us/avarchive/ramav.php?ram=00003701 (accessed January 7, 2009).
[4] Ibid.
[5] Ibid.
[6] John McGeady, written testimony to Senate Education Committee and Senate Finance Subcommittee on General Government Issues on August 27, 2008, http://www.senate.state.tx.us/75r/Senate/commit/c530 /handouts08/0827-John-McGeady.pdf (accessed January 6, 2009).
[7] Ibid.
[8] Ibid.
[9] Karen Rue, written testimony to Senate Education Committee and Senate Finance Subcommittee on General Government Issues on August 27, 2008, http://www.senate.state.tx.us/ 75r/Senate/commit/c530/handouts08/0827-Karen-Rue.pdf (accessed January 6, 2009), 2.
[10] McGeady.
[11] Ibid.
[12] Ibid.
[13] Rue, 1.
[14] Ibid., 2.
[15] Ibid.
[16] Peggy Venable, written testimony to Senate Education and Finance Subcommittee on General Government Issues on August 27, 2008, http://www.senate.state.tx.us/75r/Senate/ commit/c530/handouts 08/0827-Peggy-M-Venable.pdf (accessed January 6, 2009).
[17] LBB School Performance Review: Common Facilities Management Issues and Targeted Review, Legislative Budget Board. Texas Senate Education and Finance Subcommittee on General Government Issues Joint Public Hearing. August 27, 2008. http://www.senate.state.tx.us/75r/senate/commit/c530/handouts08/0827-Lesli-Cathey.pdf (accessed January 7, 2009).
[18] McGeady.
[19] Chapter 260, Acts of the 74th Leg., R.S.
[20] Philip Montgomery, written testimony to Senate Education and Finance Subcommittee on General Government Issues on August 27, 2008, http://www.senate.state.tx.us/75r/Senate/commit/c530/handouts08/0827-Philip-Montgomery.pdf (accessed January 6, 2009), 1.
[21] Ibid.
[22] Ibid., 3.
[23] Ibid.

Appendix
A

JOINT HEARING AGENDA
Senate State Affairs Committee
Senator Robert Duncan, Chairman and
Senate Finance Subcommittee on General Government Issues
Senator Kip Averitt, Chairman
Wednesday, August 27, 2008, 9:00 a.m.
Capitol Extension E1.036

I. CALL TO ORDER

II. ROLL CALL

III. COMMITTEE BUSINESS

A. Review and evaluate appropriate state regulation of a private sector operator of the state lottery should the state receive bids for a lease of the lottery that merit strong consideration. Provide recommendations for ensuring the security and integrity of the lottery and for adequate consumer protections.

1. Invited Testimony

   a. **Legislative Budget Board** - *Scott Dudley, Manager, Estimates and Revenue Team*

   b. **Goldman, Sachs & Co.** - *John Ma, Managing Director*
   UBS Investment Bank - *Thomas Osborne, Managing Director, Americas Infrastructure/Privatization Group*
   Lehman Brothers - *Bradley Tusk, Senior Vice President*
   Morgan Stanley - *Rob Collins, Head of Municipal Infrastructure*
   Christiansen Capital Advisors, LLC - *Eugene Christiansen*

   c. **Texas Christian Life Commission** - *Suzii Paynter, Director of Christian Life Commission of the Baptist General Convention of Texas*
   Texans Against Gambling - *Weston Ware, Legislative Director*

   d. **Texas Lottery Commission** - Anthony Sadburry, Executive Director

2. Public Testimony

IV. RECESS/ADJOURN

WITNESS LIST

Finance
August 27, 2008 - 9:00 AM

Joint Interim Charge

FOR:

Tusk, Bradley (Lehman Brothers), New York, NY

AGAINST:

Paynter, Susan (Christian Life Commission, Bapt. Convention of Texas), Dallas, TX
Turner, Lucille (Self), Cedar Park, TX
Ware, Weston (Texans Against Gambling), Cedar Hill, TX

ON:

Christiansen, Eugene (Christian Capital Advisors, LLC), New York, NY
Collins, Rob (Morgan Stanley), Chicago, IL
Dudley, Scott (LBB), Austin, TX
Grief, Gary (Texas Lottery Commission), Austin, TX
Kohler, Rob (Christian Life Commission of Baptist General Convention), Austin, TX
Ma, John (Goldman, Sachs & Co.), New York, NY
Osborne, Thomas R. (UBS Investment Bank), New York, NY
Parrish, Deborah (Self), San Antonio, TX
Sadberry, Anthony J. (Texas Lottery Commission), Austin, TX

Registering, but not testifying:

Against:

Baker, Lula (Self), Liberty Hill, TX
Bradley, Frances (Self), Cedar Park, TX
Payne, Nellie (Self), Cedar Park, TX
Wentworth, Zevertine Z. (Self), Leander, TX

On:

Anger, Michael (Texas Lottery Commission), Austin, TX
Bresnen, Steve (Bingo Interest Group), Austin, TX
Cox, Jr., James A. (Texas Lottery Commission), Austin, TX
Pyka, Kathy (Texas Lottery Commission), Austin, TX
Thomas, Ajay (Morgan Stanley), Austin, TX

Providing written testimony:

For:

Miterko, John A. (Texas Coalition of Veteran Organizations), Austin, TX

AGENDA

Wednesday, August 27, 2008

Capitol Extension, E1.036

11:00 a.m. or 30 minutes upon adjournment of the Senate Committee on State Affairs and the Finance Subcommittee on General Government Issues

I. Call to order

II. Committee Business

III. Opening Remarks

IV. Interim Charge: Review and make recommendations that address the state's facility infrastructure needs for public schools, ensuring that funding remains stable, reliable and equitable. Examine the need for funding adjustments for factors that affect the need for facilities, such as fast growth, age and condition of facilities, adequacy of space, construction and land costs, and concentration of students requiring smaller class sizes. Assess the impact on property taxpayers of "rolling forward" the Existing Debt Allotment (EDA) each session and the change in biennial appropriations for the Instructional Facilities Allotment (IFA).

1. Invited Testimony
   John McGeady, Manager, Legislative Budget Board Public Education Team
   Lisa Dawn-Fisher, Deputy Associate Commissioner School Finance, Texas Education Agency
   Karen Rue, Ed.D., Superintendent of Northwest ISD, and Chair, Fast Growth School Coalition
   Wayne Pierce, Ed.D., Executive Director, Equity Center
   Peggy M. Venable, State Director of Americans for Prosperity, Member of the Texas Center for Education Research Board
   Phil Montgomery, Chairman, Uplift Education

V. Public Testimony

VI. Recess

WITNESS LIST

Finance
August 27, 2008 - 11:00 AM or 30 minutes upon adjournment

Joint Interim Charge

FOR:

Torres, George H. Deputy Superintendent Business (Northside ISD), San Antonio, TX

Wheat, Laura Mayor - Town of Westlake; Board President (Westlake Academy), Westlake, TX

ON:

Anderson, David General Counsel (Texas Education Agency), Austin, TX

Colbert, Paul Consultant (Self; El Paso ISD), Houston, TX

Dawn-Fisher, Lisa Depty Assoc. Comm. for School Finance (Texas Education Agency), Austin, TX

McGeady, John Manager, Public Education Team (LBB), Austin, TX

Montgomery, Philp Chairman of the Board (Uplift Education), Dallas, TX

Parrish, Deborah L. Retired Texas Teacher (Self), San Antonio, TX

Pierce, Wayne Executive Director (Equity Center), Pflugerville, TX

Rue, Karen Superintendent, Northwest ISD (Fast Growth School Coalition and Northwest ISD), Fort Worth, TX

Venable, Peggy Director (Americans for Prosperity), Austin, TX

Providing written testimony:

On:

Duncan, Wesley Assistant Director for Governmental Relations (Texas Association of School Boards), Austin, TX

1

HEARING AGENDA

SENATE FINANCE SUBCOMMITTEE ON GENERAL GOVERNMENT ISSUES
SENATOR KIP AVERITT, CHAIRMAN
WEDNESDAY, SEPTEMBER 10, 2008, 10:00 A.M.
CAPITOL EXTENSION E1.036

I. Call to Order
II. Roll Call
III. Committee Business

Charge #1: Study the effectiveness of cash management strategies of the state. Review the quarterly amount of cash on hand and its use and potential to generate excess returns. Include an assessment of cash flow problems that exist in school districts and request that the Comptroller of Public Accounts report on the additional short-term borrowing needed and the potential impact on bond ratings if legislation is not passed which allows for the "smoothing" of state payments to school districts.

A. Invited Testimony

1. Comptroller of Public Accounts - *John Heleman, Chief Revenue Estimator*

2. Texas Education Agency - *Lisa Dawn-Fisher, Deputy Associate Commissioner School Finance*

3. Texas Association of School Business Officials - *Gwen Santiago, Executive Director*

B. Public Testimony

Charge #3: Compile a list of significant state assets and infrastructure, including but not limited to the state lottery and state real property, and determine if each asset is being used to the highest and best use possible in the interest of taxpayers of Texas. Where appropriate, provide analysis of alternative uses of underperforming assets, potential cost savings or revenue gains and the legislative actions that would be needed to make the changes that are in the best interest of taxpayers.

C. Invited Testimony

1. Legislative Budget Board - *Keith Yawn, Analyst*

2. Texas Facilities Commission - *Edward Johnson, Executive Director*

3. General Land Office - *Hal Croft, Deputy Commissioner Asset Management*

D. Public Testimony

IV. Recess/Adjourn

WITNESS LIST

Finance
September 10, 2008 - 10:00 AM

Interim Charge #1

ON:

Dawn-Fisher, Lisa Deputy Associate Commissioner School Finance (Texas Education Agency)

Heleman, John Chief Revenue Estimator (Comptroller of Public Accounts)

Santiago, Gwen Executive Director (Texas Association of School Business Officials)

Providing written testimony:

On:

Duncan, Wesley (Texas Association of School Boards)

Interim Charge #3

ON:

Croft, Hal Deputy Commissioner - Asset Management Division (General Land Office)

Johnson, Edward Executive Director (Texas Facilities Commission)

Yawn, Keith Staff (LBB)

HEARING AGENDA

SENATE FINANCE SUBCOMMITTEE ON GENERAL GOVERNMENT ISSUES
SENATOR KIP AVERITT, CHAIRMAN
THURSDAY, SEPTEMBER 11, 2008, 10:00 A.M.
CAPITOL EXTENSION E1.036

I. Call to Order
II. Roll Call
III. Committee Business

Charge #4: Study the funding of county public hospitals and the role neighboring counties without a county hospital should play.

A. Invited Testimony

1. Health and Human Services Commission - *Tom Suehs, Deputy Executive Commissioner for Financial Services*

2. Comptroller of Public Accounts - *Robert Wood, Director Local Government Assistance and Economic Development*

3. County Judges and Commissioners Association of Texas - *James P. Allison, General Counsel*

4. Conference of Urban Counties - *Donald Lee, Executive Director*

5. Texas Hospital Association - *Charles Bailey, Senior Vice President/General Counsel*

6. Teaching Hospitals of Texas - *John Guest, President/CEO*

7. Texas Organization of Rural and Community Hospitals - *David Pearson, President/CEO*

B. Public Testimony

Charge #2: Explore the policy implications of allowing school districts, or other public agencies, to participate in a permissive pooled collateral program which provides for the centralization of collateral in a pool which will be tracked and verified to meet state requirements.

C. Invited Testimony

1. Comptroller of Public Accounts - *Tom Smelker, Director, Treasury Operations*

2. Texas Bankers Association - *Fredrick M. Smith, Sr., President/CEO*

3. Independent Bankers Association of Texas - *Steve Scurlock, Executive Vice President*

4. County Treasurers - *Dolores Ortega Carter (Travis County) and Vivian Wood (Williamson County)*

D. Public Testimony

IV. Recess/Adjourn

WITNESS LIST

Finance
September 11, 2008 - 10:00 AM

Interim Charge #2

FOR:

Foley, Patrick Banking (Wells Fargo Bank), Las Vegas, NV

Smith, Frederick M. Trade Association Executive (Texas Bankers Association)

AGAINST:

Alfaro, Art City Treasurer, City of Austin (Government Finance Officers Association of Texas)

ON:

Ortega Carter, Dolores County Treasurer (County Treasurers)

Scurlock, Steve Association Executive (Independent Bankers Association of Texas), Austin, TX

Smelker, Tom Director, Treasury Operations (Comptroller of Public Accounts), Austin, TX

Wood, Vivian L. Williamson County Treasurer (County Treasurers Association of Texas), Georgetown, TX

Registering, but not testifying:

On:

Mayes, Mary E. Investment Manager (Government Treasurers Organization of TX), Austin, TX

Interim Charge #4

AGAINST:

Adams, Chad County Judge (Ellis County)

ON:

Allison, Jim General Counsel (County Judges and Commissioners Assn. of TX), Austin, TX

Bailey, Charles Attorney (Texas Hospital Association), Austin, TX

Delgado, Evelyn Asst. Commissioner (Tx Dept of State Health Svcs), Austin, TX

Guest, John A. President/CEO (Teaching Hospitals of Texas), Austin, TX

Lee, Donald Executive Director (Texas Conference of Urban Counties), Austin, TX

Pearson, David Association Executive (Tx Organization of Rural and Community Hospitals)

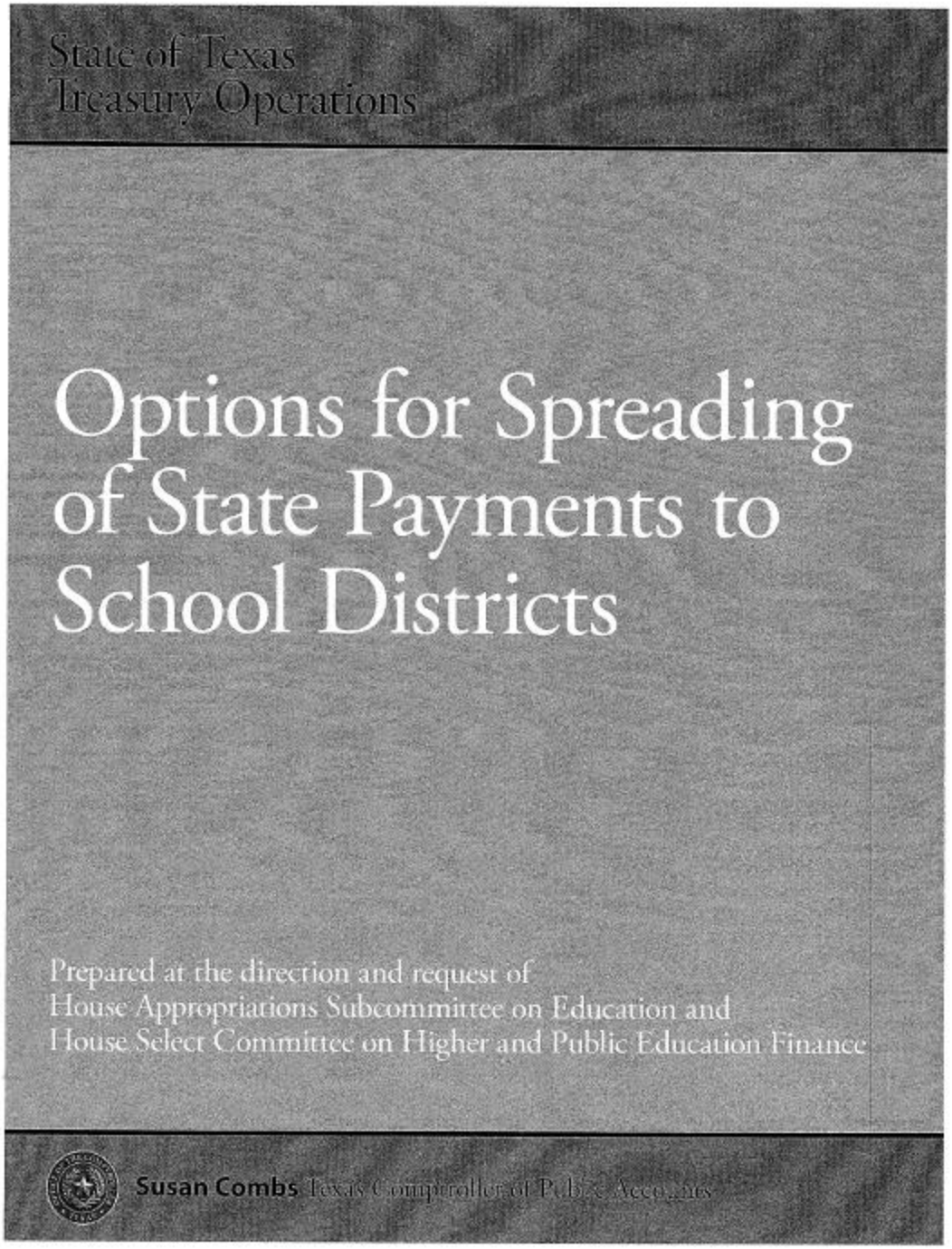
Self, Keith Collin County Judge (Collin County)

Suehs, Thomas Deputy Executive Commissioner for Finance (HHSC)

Wood, Robert Director, Local Govt Assistance and Economic Development (Comptroller of Public Accts)

1

Appendix
B


State of Texas
Treasury Operations
Options for Spreading of State Payments to School Districts
Prepared at the direction and request of
House Appropriations Subcommittee on Education and
House Select Committee on Higher and Public Education Finance
Susan Combs Texas Comptroller of Public Accounts

Options for Spreading of State Payments to School Districts

Table of Contents

OVERVIEW

Historically, school districts do not begin to receive their local revenue from property taxes until December. In 1995, the Texas Legislature adopted a payment schedule that shifts more state payments to districts in the first quarter (September through November) of the fiscal year.

Following the passage of H.B. 1, 79th Legislature, 3rd C.S., state payments to school districts each month NOW include the additional state money to offset the reduction of local property taxes. The property tax relief in H.B. 1 significantly increased the state's payments to school districts, increasing the maximum cash need in the General Revenue Fund in the first quarter of the fiscal year.

Trying to solve the revenue and expenditures mismatch is a complex issue with no simple solution and many ways to approach this issue.

The Comptroller of Public Accounts used Fiscal Year 2011, the second year of the 2010-2011 biennium, as the model year when developing the five proposed options. Expenditures are typically higher in the second year of the biennium. Fiscal Year 2010 is the first year the Texas Legislature may use the $3.0 billion set aside in the Property Tax Relief Fund by the 80th Legislature to pay for property tax relief. The following information was used to estimate the fiscal impact of the following options. These figures are estimates.

- **General Revenue Fund** – In Fiscal Year 2011, the cash flow low point is estimated to be $10.0 billion and will occur in mid-December.
- **State Expenditures for Education** – In Fiscal Year 2011, state payments to school districts are expected to total $20.2 billion, including the increased state payments to school districts. During September through November of Fiscal Year 2011, school districts would receive $10.0 billion. The remaining $10.0 billion would be disbursed later in the year.
- **State Revenue Collection** – In Fiscal Year 2011, the Franchise Tax (now based on margin) is estimated to generate $6.0 billion in state revenue, the majority of which will be received in May of 2011 with a settle-up in August.
- **State Cash Management Tool** – The state sells Tax and Revenue Anticipation Notes (TRANs) to generate cash in the first quarter of the fiscal year (September – November). In Fiscal Year 2011, the estimated TRAN amount is $10.0 billion.

The options are presented in the order of how much they reduce the state's cash flow borrowing need.

These options were prepared solely in response to the directive received by this office during the hearing held by the House Appropriations Subcommittee on Education and House Select Committee on Higher and Public Education Finance on January 16, 2008, and should not be construed as this agency's recommendation, support or endorsement of any or all of these options.

OPTION 1

Collect the Franchise Tax on March 15 and Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to January through March

	Change	Description
State Payments to Independent School Districts (ISDs)	Yes	Shift $7.0 billion of state payments to ISDs to January through March.
State Revenue Collection – Franchise Tax	Yes	Move the Franchise Tax collection to March 15. (currently May 15).
State Projected Borrowing – TRAN	Yes	Projected TRAN would be $8.0 billion. (currently $10.0 billion).
State Cash Flow in General Revenue Fund	Yes	Collecting the Franchise Tax 2 months earlier helps GR Fund's cash flow.

Description

- Amend the Tax Code to move the original due date of the Franchise Tax to March 15, from May 15.
- Franchise Tax is estimated to bring in $6.0 billion per fiscal year.
- State payments to ISDs now include property tax relief increasing the state's obligation. (H.B. 1, 79th Legislature, 3rd C.S.).
- Amend Education Code to shift the increased funding associated with H.B.1, 79th Legislature, 3rd C.S. portion of state payments to ISDs and shift payments to the months of January through March.

Stakeholder Impact

- 750,000 businesses would be required to pay the Franchise Tax two months earlier.
- An estimated 250,000 Franchise Tax payments from businesses would be received, with the remaining businesses having no liability.
- State payments to ISDs would change. ISDs would receive less funding in the months of September through November.
- Total annual state funding for schools, however, would not change, as $7.0 billion would be smoothed out in the months of January through March.

Pros

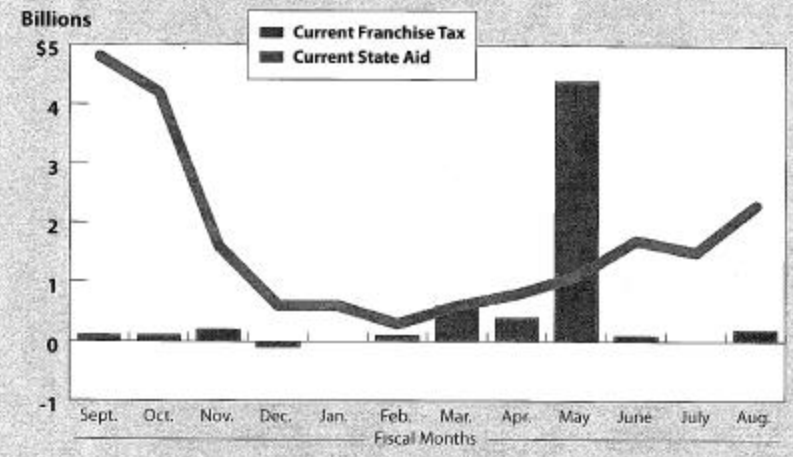
- State's projected borrowing (TRAN) would be reduced by $2.0 billion.
- Earlier collection of the Franchise Tax helps state's cash flow.
- Total annual state funding for schools would not change.
- State payments to ISDs would be a slightly modified version of Fiscal Year 2006 prior to the implementation of property tax relief.

Cons

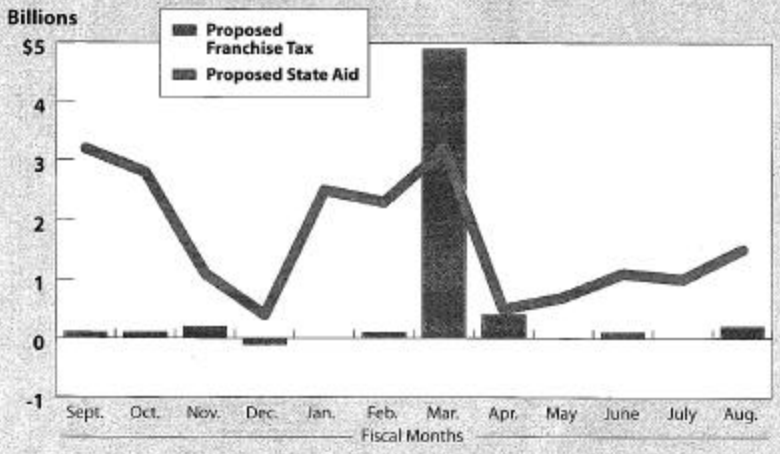
- State payments to ISDs would be smaller in the months of September through November beginning in Fiscal Year 2011.
- State may still have large borrowing needs. State may be required to use commercial paper or secondary markets to sell the TRAN to generate more cash flow for state expenditures.

OPTION 1

Current Law



Collect the Franchise Tax on March 15 and Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to January through March



OPTION 2

Collect the Franchise Tax Semi-Annually and Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to December through March

	Change	Description
State Payments to ISDs	Yes	Shift $7.0 billion of state payments to ISDs to December through March.
State Revenue Collection – Franchise Tax	Yes	Tax would be collected in January and May. (currently collected annually May 15).
State Projected Borrowing – TRAN	Yes	Projected TRAN would be $7.9 billion. (currently $10.0 billion).
State Cash Flow in General Revenue Fund	Yes	Semi-annual collection helps GR Fund's cash flow.

Description

- Amend the Tax Code to collect the Franchise Tax revenue due on the original due date semi-annually, instead of annually (May 15).
- Tax would be collected in January and May, with a settle-up payment in August.
- Franchise Tax is estimated to bring in $6.0 billion per fiscal year.
- State payments to ISDs include property tax relief which increased the state's obligation. (H.B. 1, 79th Legislature, 3rd C.S.).
- Amend the Education Code to shift the increased funding associated with H.B.1, 79th Legislature, 3rd C.S. portion of state payments to ISDs and shift payments to the months of December through March.

Stakeholder Impact

- 750,000 businesses would be required to pay the Franchise Tax on a semi-annual basis.
- An estimated 250,000 Franchise Tax payments would be received, with the remaining businesses having no liability.
- State payments to ISDs would change. ISDs would receive less funding in the months of September through November.
- Total annual state funding for schools, however, would not change, as $7.0 billion would be smoothed out in the months of December through March.

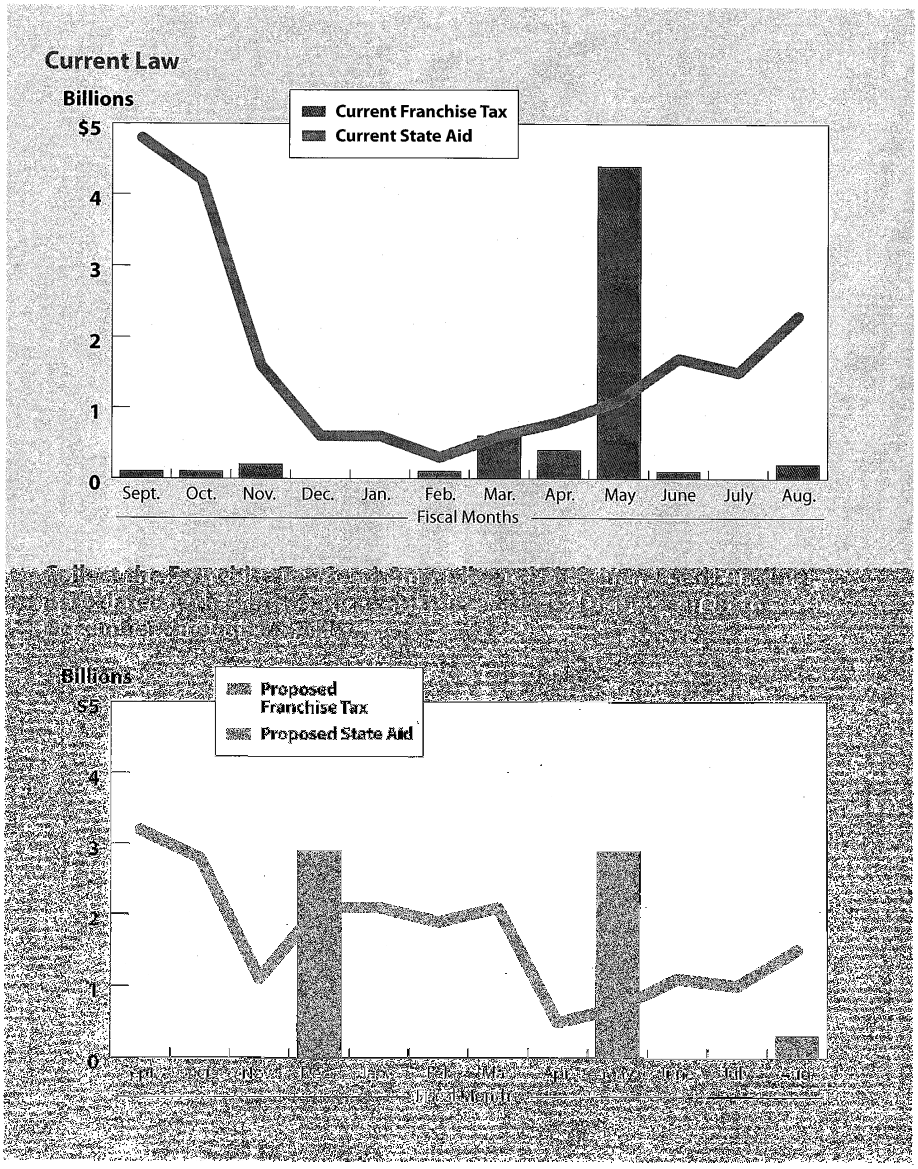
Pros

- Earlier collection of the Franchise Tax helps the state's cash flow.
- State's projected borrowing (TRAN) would be reduced by $2.1 billion.

Cons

- State payments to ISDs would be smaller in the months of September through November beginning in Fiscal Year 2011.
- No significant impact on the state's borrowing needs over time.
- State's projected TRAN would be $7.9 billion.
- State may still have large borrowing needs. State may be required to use commercial paper or secondary markets to sell the TRAN to generate more cash flow for state expenditures.

OPTION 2


Current Law
Billions
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Current Franchise Tax
Current State Aid
Sept.
Oct.
Nov.
Dec.
Jan.
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Mar.
Apr.
May
June
July
Aug.
Fiscal Months
Billions
$5
4
3
2
1
0
Proposed Franchise Tax
Proposed State Aid

OPTION 3

Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to January through May (exclude Wealth Category 1 Districts)

	Change	Description
State Payments to ISDs	Yes	Shift $7.0 billion of state payments to ISDs to January through May.
State Revenue Collection – Franchise Tax	No	No change.
State Projected Borrowing – TRAN	Yes	Projected TRAN would be $7.0 billion. (currently $10 billion).
State Cash Flow in General Revenue Fund	Yes	Smoothing $7.0 billion of state payments to ISDs helps GR Fund's cash flow.

Description

- State payments to ISDs include property tax relief which increased the state's obligation. (H.B. 1, 79th Legislature, 3rd C.S.).
- Districts are divided by wealth category in the Education Code. Category I school district means a school district having a wealth per student of less than one-half of the statewide average wealth per student. Category II school district means a school district having a wealth per student of at least one-half of the statewide average wealth per student but not more than the statewide average wealth per student. Category III school district means a school district having a wealth per student of more than the statewide average wealth per student.
- Only the increased funding associated with H.B.1, 79th Legislature, 3rd C.S. portion of state payments to ISDs in Category II and Category III would be smoothed or shifted to the months of January through May.

Stakeholder Impact

- State payments to ISDs in Category II and Category III would change. Those ISDs would receive less funding in the months of September through November.
- Total annual state funding for schools, however, would not change, as $7.0 billion would be smoothed out in the months of January through May.

Pros

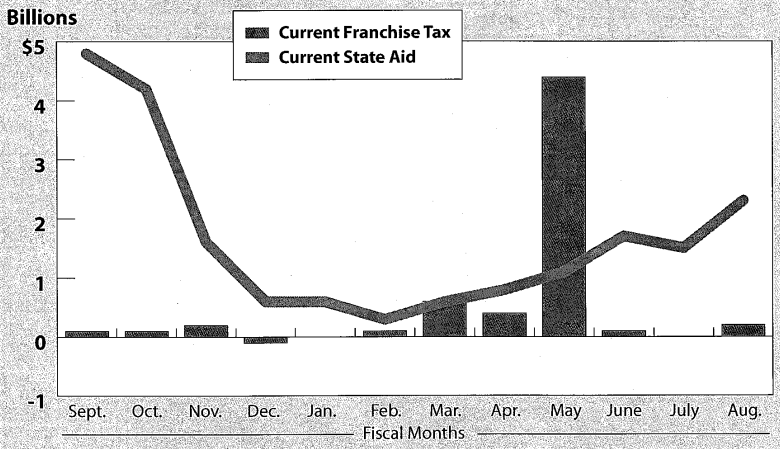
- State's projected borrowing (TRAN) would be reduced by $3.0 billion.
- State payments to ISDs in Category II and Category III would be a slightly modified version of payments in Fiscal Year 2006 prior to the implementation of property tax relief.
- Total annual state funding for ISDs would not change.
- State payments to Category I ISD's would remain the same.

Cons

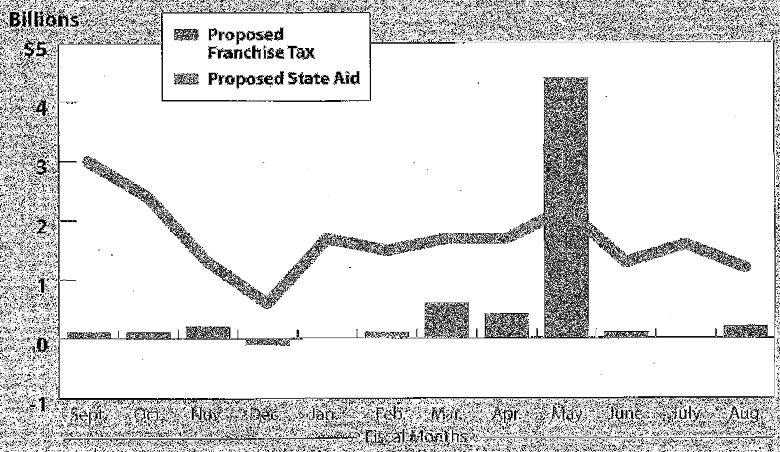
- State payments to ISDs in Category II and Category III would be smaller in the months of September through November beginning in Fiscal Year 2011.

OPTION 3

Current Law



Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to January through May (exclude Wealth Category 1 Districts)



OPTION 4

Adopt a 1/12th Allocation to School Districts and School District Property Taxes Paid in Semi-Annual Installments

	Change	Description
State Payments to ISDs	Yes	Smooths or levels state payments to ISDs throughout year.
State Revenue Collection – Franchise Tax	No	No change.
State Projected Borrowing – TRAN	Yes	Projected TRAN would be $6.6 billion. (currently $10.0 billion).
State Cash Flow in General Revenue Fund	Yes	Helps GR Fund's cash flow.

Description

- Amend the Education Code to smooth state payments to school districts. State would make twelve equal payments – approximately $1.7 billion per month – to districts.
- Amend Tax Code to have homeowners pay property taxes semi-annually due in two installments before August 1 and February 1.

Stakeholder Impact

- State payments to ISDs would change. ISDs would receive less funding in the months of September through November.
- Total annual state funding for schools, however, would not change.
- All property taxpayers would be affected.
- To avoid delinquency, one-half of estimated annual property taxes would be paid before August 1 and the remaining balance would be paid before the current delinquency date of February 1.
- For taxpayers having an escrow account, mortgage companies and banks would be required to remit semi-annual payments on their behalf.
- Local tax offices would be affected. Tax offices would be required to send out two tax due notices, collect two payments per year and administer two delinquency dates.

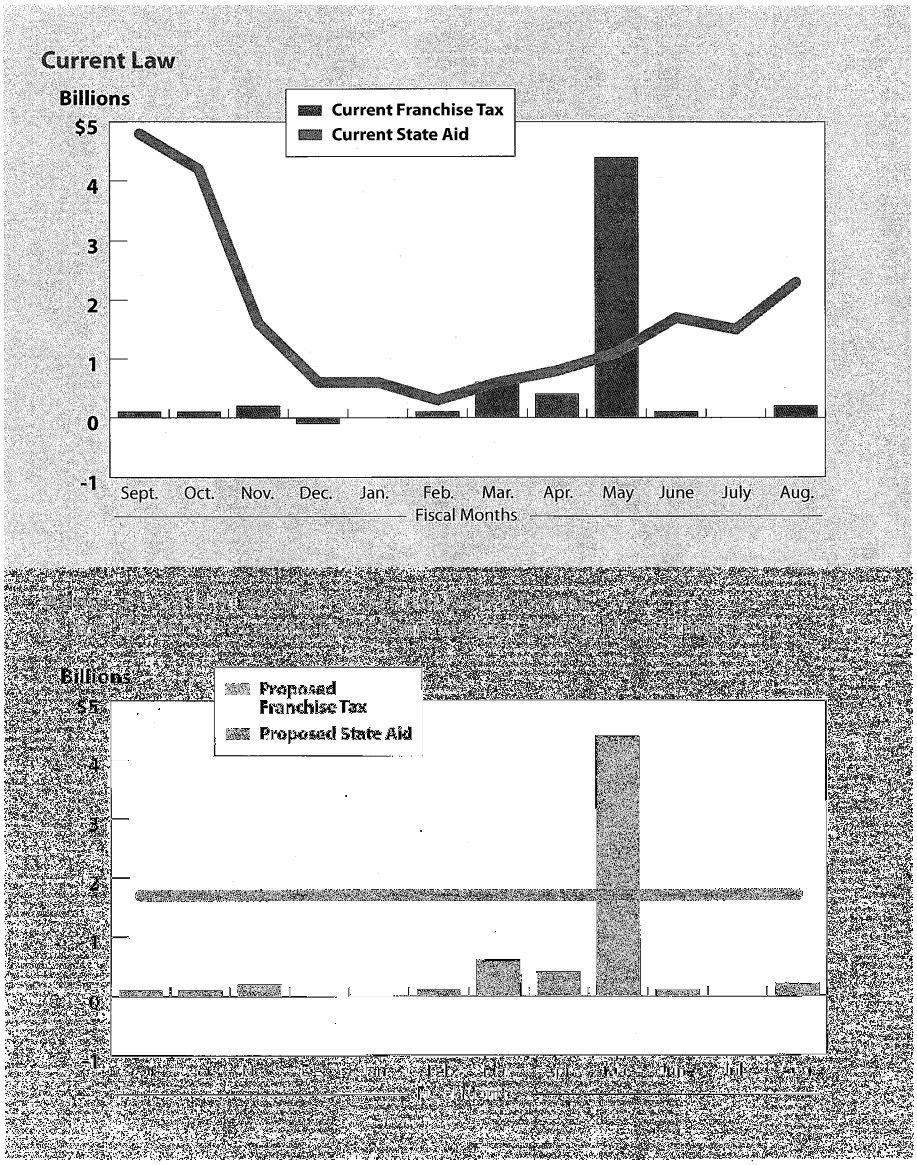
Pros

- State's projected borrowing (TRAN) would be reduced by $3.4 billion.
- Total annual state funding for schools would not change.
- The 1/12th allocation would align education expenditures with those of other major state expenditure categories.
- Local school districts would collect one-half of property taxes (approximately $10.0 billion) prior to the beginning of the school year.

Cons

- State payments to ISDs would be smaller in the months of September through November beginning in Fiscal Year 2011.
- Property taxpayers could be required to adjust their mortgage escrows to compensate for paying one-half of their property taxes prior to August 1.
- Local tax offices would have an undetermined amount of increased administrative costs.

OPTION 4



10 *State of Texas Treasury Operations – Options for Spreading of State Payments to School Districts*

OPTION 5

Collect Franchise Tax on March 15 and Shift Increased Funding Associated with H.B.1, 79th Legislature, 3rd C.S. Disbursement to January through May

	Change	Description
State Payments to ISDs	Yes	Shift $7.0 billion of state payments to ISDs to January through May.
State Revenue Collection – Franchise Tax	Yes	Moves the Franchise Tax collection to March 15. (currently May 15).
State Projected Borrowing – TRAN	Yes	Projected TRAN would be $6.2 billion. (currently $10.0 billion).
State Cash Flow in General Revenue Fund	Yes	Collecting the Franchise Tax 2 months earlier helps GR Fund's cash flow.

Description

- Amend the Tax Code to move the original due date of the Franchise Tax to March 15, from May 15.
- Franchise Tax is estimated to bring in $6.0 billion per fiscal year.
- State payments to ISDs include property tax relief increasing the state's obligation. (H.B. 1, 79th Legislature, 3rd C.S.).
- Amend the Education Code to shift increased funding associated with H.B.1, 79th Legislature, 3rd C.S. portion of state payments to ISDs and shift payments to the months of January through May.

Stakeholder Impact

- 750,000 businesses would be required to pay the Franchise Tax two months earlier.
- An estimated 250,000 Franchise Tax payments from businesses would be received, with the remaining businesses having no liability.
- State payments to ISDs would change. ISDs would receive less funding in the months of September through November.
- Total annual state funding for schools, however, would not change, as $7.0 billion would be smoothed out in the months of January through May.

Pros

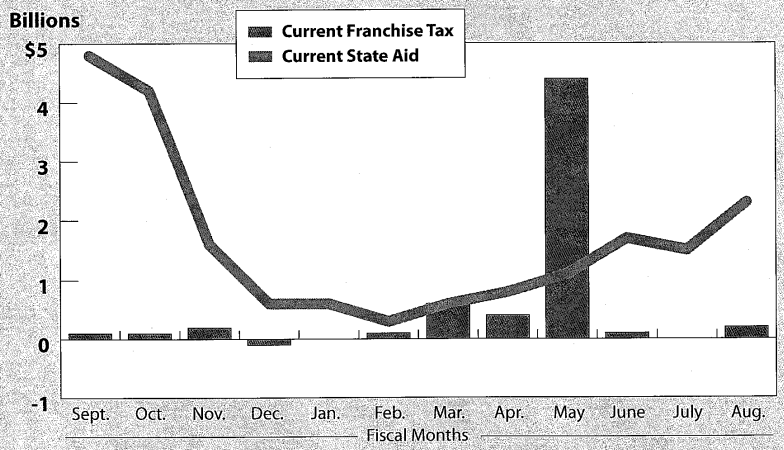
- State's projected borrowing (TRAN) would be reduced by $3.8 billion.
- Earlier collection of the Franchise Tax helps state's cash flow.
- Total annual state funding for schools would not change.
- State payments to ISDs would be a slightly modified version of Fiscal Year 2006 prior to the implementation of property tax relief.

Cons

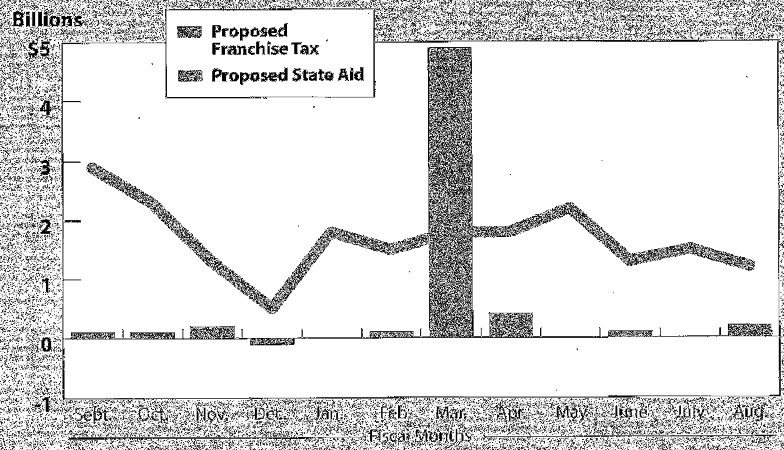
- State payments to ISDs would be smaller in the months of September through November beginning in Fiscal Year 2011.

OPTION 5

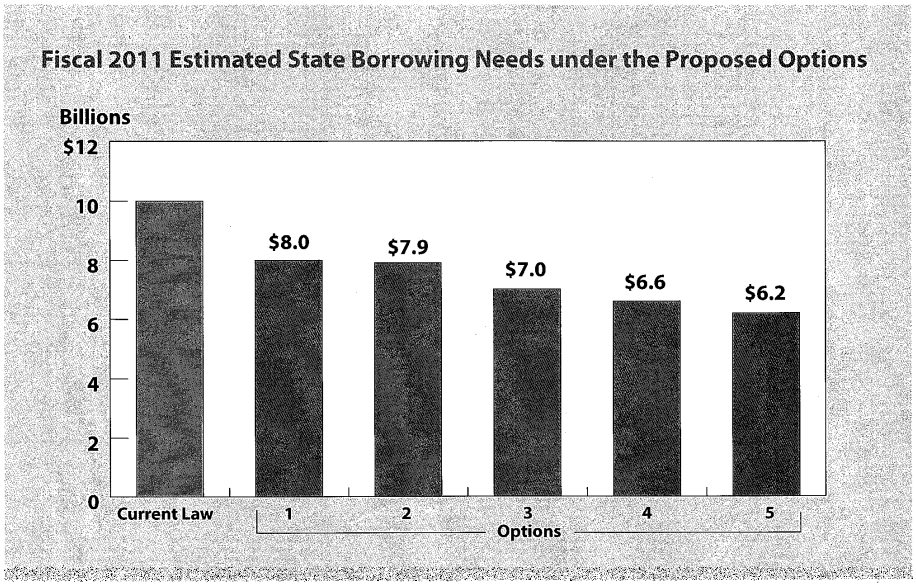
Current Law



Collect Franchise Tax on March 15 and Shift Increased Funding Associated with H.B. 1, 78th Legislature, 3rd C.S., Disbursement to January through May



GRAPH


Fiscal 2011 Estimated State Borrowing Needs under the Proposed Options
Billions
$12
10
8
6
4
2
0
$8.0
$7.9
$7.0
$6.6
$6.2
Current Law
1
2
3
4
5
Options

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