

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

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

**May 28, 2009**

**TO:** Honorable Joe Straus, Speaker of the House, House of Representatives

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

**IN RE: HB3646** by Hochberg (relating to public school finance. ), **As Passed 2nd House**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB3646, As Passed 2nd House: a negative impact of (\$1,991,476,035) 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	(\$959,604,855)
2011	(\$1,031,871,180)
2012	(\$1,075,978,018)
2013	(\$1,104,649,659)
2014	(\$1,130,340,646)

**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	Change in Number of State Employees from FY 2009
2010	(\$1,927,680)	(\$957,677,175)	8.0
2011	(\$765,380)	(\$1,031,105,800)	8.0
2012	(\$943,593)	(\$1,075,034,425)	12.0
2013	(\$1,286,609)	(\$1,103,363,050)	16.0
2014	(\$1,348,971)	(\$1,128,991,675)	17.0

**Fiscal Analysis**

The bill would make substantial changes to the formulas and provisions of the Foundation School Program.

The bill would establish a basic allotment based on district's compressed tax rate, where the allotment would be \$4,750 potentially prorated to the degree to which a district's compressed rate is less than the state maximum compressed rate of \$1.00. The equalized wealth level on a district's tax effort represented by its compressed rate would also be established as a dollar amount equal to \$475,000 of wealth per weighted student. The bill would establish the high school allotment as a stand-alone allotment within Subchapter C, Chapter 42, Education Code.

The bill would provide a Foundation School Program (FSP) allotment of \$50 per student enrolled in

two or more advanced career and technology courses or an advanced course as part of a tech-prep program.

The bill would provide a minimum guaranteed increase of \$135 per weighted student in average daily attendance (WADA) over what districts would have received under current law in FY2010.

The bill would establish a limit on the amount of gain in total maintenance and operations (M&O) revenue per weighted student (WADA) a district could receive. For FY2010, the limit on gain would apply to revenue the district would have received under the current law formula in FY2010. Starting in FY2011, the limit would be \$350 per WADA over the non-enrichment M&O revenue received during the preceding school year.

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

The bill would require charter schools and school districts to use the greater amount of \$65 per WADA or \$800 per employee on the minimum salary schedule to provide uniform salary increases to those employees. The bill would provide an equivalent amount of state aid to the Windham School District for the same purpose.

The bill would repeal of Chapter 21, Subchapter N, eliminating the Texas Educator Excellence Grants (TEEG) program.

The bill would authorize the State Board of Education to grant up to 10 new charters for open-enrollment charter schools each year and would allow certain charter holders to establish new campuses without applying for authorization from the State Board of Education. The bill would authorize an unlimited number of new charters to be granted for open-enrollment charter schools intended primarily to serve students with disabilities, including autism. The bill would provide for automatic renewal of a charter for a term of at least 10 years unless a charter is revoked before expiration. The bill would direct the commissioner of education to develop a financial accountability rating system for open enrollment charter schools and would require open enrollment charter schools to prepare and distribute an annual financial management report that is similar to reports required of school districts.

The bill amends the Education Code provisions related to the Texas Virtual School Network (TxVSN). The bill would allow a student to enroll full-time in courses provided through the TxVSN only if the student was enrolled in a Texas public school in the preceding school year.

The bill would require the Texas Education Agency (TEA) to pay reasonable costs to evaluate and approve electronic courses, and provides priorities for course evaluation and approval if the TEA did not have sufficient funds. The bill also would allow TxVSN providers to pay the costs for evaluation and approval of submitted courses if the TEA determined that it would not have sufficient funds to evaluate and approve the courses.

The bill would provide, for each student who successfully completed a TxVSN course as part of a normal course load, an allotment of \$400 to the district or charter school that provided the course and an allotment of \$80 to the district or charter school in which the student was enrolled as reimbursement for administrative costs. The bill also would entitle juvenile probation departments and state agencies to receive comparable state funding for students under their supervision.

The bill would establish a program under which school districts with bonds not covered under the state's existing bond guarantee program could apply for credit enhancement of bonds by certain monies appropriated for the Foundation School Program.

The bill would amend Section 29.915, Education Code to expand the number of school districts participating in the financial literacy pilot program from 25 to 100. The bill would also require the

Texas Education Agency to submit a report to the legislature in January 2011 regarding program implementation and effectiveness.

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

The bill's provisions related to the FSP would take effect September 1, 2009.

## **Methodology**

The bill would have a significant impact on state costs for the Foundation School Program. The bill would establish the basic allotment at \$4,750 for a district with a compressed rate of \$1.00. The equalized wealth level under a district's compressed tax effort would be set to \$475,000. The bill would the limit on revenue gain established by the bill would be \$350 per WADA over current law FY2010 for FY2010, and \$350 per WADA over the preceding year for FY2011 and beyond. The bill would establish a minimum guaranteed increase of \$135 per WADA.

Under these and other provisions of the bill affecting Chapters 41 and 42 of the Texas Education Code, state costs are estimated to increase over current law by approximately \$954.7 million in FY2010 and \$1,025.0 million in FY2011. Costs are expected to increase slightly each year thereafter, with FY2014 costs projected at \$1,113.5 million over current law.

State costs to provide salary amounts to the Windham School District are estimated to cost approximately \$1.1 million in FY2010, increasing slightly in each fiscal year thereafter.

It is assumed for the purpose of this estimate, that the State Board of Education would grant 20 new charters each year, consisting of the 10 traditional open-enrollment charters authorized under the bill and 10 charters under the unlimited authorization for open-enrollment charter schools intended primarily to serve students with disabilities, including autism. In addition, it is assumed that the approximately 165 existing charter holders who would be authorized to establish new campuses without prior SBOE approval would open an estimated 30 new campuses each year.

To the extent that new open-enrollment charter schools and new campuses opened by existing charter holders may enroll some students who would not otherwise enroll in public school districts or existing open-enrollment charter schools, there would be fiscal implications for increased Foundation School Program (FSP) costs of approximately \$5,150 per weighted student. For the purpose of this estimate it is assumed that the average enrollment at each new charter school and each new campus opened by existing charter holders would be 200 students and that 5 percent of new enrollment would represent students who would otherwise not have enrolled in public schools or existing charter schools. Assuming that newly granted charters would most likely begin operations in FY11, FSP costs for FY10 for students who would not otherwise have enrolled in public schools or existing charters is limited to the estimated 30 expansion campuses. On this basis, an FSP cost of approximately \$1.9 million would be anticipated beginning in FY2010. These costs would continue in FY11 and subsequent years and would increase due to new enrollment at an estimated 30 additional expansion campuses and in 20 newly operating charters annually. FSP costs for students who would not otherwise have enrolled in public schools or existing charter schools are estimated to be approximately \$5.0 million in FY11, increasing to \$14.4 million in FY 14.

It is estimated that The Texas Education Agency functions related to funding and audit/financial technical assistance for charter schools would require an additional 5 FTEs beginning in the first year of implementation. As additional charters are granted and existing charters add campuses, additional staffing increasing to 14 ftes by FY14 would be needed to support a variety of functional areas including funding, audit, accountability, assessment, accreditation, monitoring and interventions. Increased costs for staffing, operating expenses, and systems modifications are anticipated to be \$529,000 in FY10, increasing to approximately \$1.1 million by FY14.

The Texas Education Agency estimates that technology-related costs of \$1,313,100 would be incurred in FY10 to develop and maintain a financial accountability rating system for open enrollment charter schools. The Agency estimates that ongoing functions related to administering the ratings system,

providing associated technical assistance to charter holders, and performing fiscal analysis and oversight would require 3.0 additional FTEs. Estimated costs of \$235,815 for these functions in FY10 would be somewhat higher due to start-up expenditures for cubicles and office equipment. Costs for FY11 and subsequent years are estimated to be \$216,615.

The anticipated growth in the Texas Virtual School Network (TxVSN) program would increase the infrastructure costs provided by a contract with Regional Education Service Center (RESC) X. The current contract amount is \$1.2 million annually. Professional fees to support the infrastructure costs are estimated to increase with the growth of the program. The incremental increase to the contract with RESC X would cost an estimated \$700,000 in fiscal year 2010; \$1 million in fiscal year 2011; \$1.44 million in fiscal year 2012; \$1.965 in fiscal year 2013; and \$2.76 million in fiscal year 2014.

The bill would direct the TEA to pay reasonable costs to review electronic courses for the TxVSN. RESC IV has a current contract to review courses for a cost of \$300,000 per year. RESC IV has proposed to review 100 courses in fiscal year 2010 for an incremental increased cost of \$450,000 in fiscal year 2010 for 100 courses, with additional reviewed courses increasing out year costs steadily to an estimated \$1.3 million in fiscal year 2014 for 350 courses.

For the purposes of this estimate, it is assumed that one percent of the state high school population, or approximately 13,000 students, would enroll in an online course in FY2010. This generally reflects participation rates in online program provider districts that are currently serving other school districts. These courses at the \$400 per course allotment would entail a \$6.24 million state cost in FY2010. For the purposes of this fiscal note, it is assumed that virtually all online courses taken are completed, thus earning the state allotment. Course completions are assumed to increase by approximately 10,000 in each of the next 4 years, resulting in state allotment cost increases of \$4 million each year.

The bill would also provide an \$80-per-student administrative overhead allotment for districts with students enrolled in TxVSN electronic courses, also known as receiving districts. Based on the assumptions described above, the administrative cost would be \$1,040,000 in FY2010, increasing by \$800,000 each year thereafter as course completions increase.

For the purposes of this fiscal note, it is assumed that costs associated with TxVSN would be covered by appropriations already approved for this purpose by the conference committee in the General Appropriations bill.

The bill's provisions related to the credit enhancement of school district bonds would have an impact on the operations of the Texas Education Agency (TEA) by requiring the operation of an additional program. The TEA believes that the additional workload could be managed within existing personnel resources.

The Texas Education Agency estimates a one-time cost of \$150,000 in FY10 to complete the proposed report concerning program implementation and effectiveness of the financial literacy pilot program.

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. For the purposes of this fiscal note, it is assumed that this cost would be covered by appropriations already approved for this purpose by the conference committee in the General Appropriations bill.

## **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 \$200,000 in FY2010.

With regard to the bill's provisions concerning charter schools, one-time costs for systems modifications totaling \$240,000 are anticipated with \$90,000 incurred in FY10 and \$150,000 in FY11 to accommodate campus level calculation of funding for school districts and that enter into educational services agreements with charter schools and are entitled to state aid that represents the greater of the amount the charter school would receive for the student or the amount the district would

receive. Development costs for the charter schools financial accountability ratings system of \$1,313,100 would be anticipated in FY10.

### **Local Government Impact**

All districts would realize an increase in M&O revenue under their compressed rate compared to what they would have received under current law in FY2010. The minimum increase would be \$135 per WADA over current law FY2010.

The state's bond guarantee program currently has no capacity under federal regulations to guarantee additional bonds. The bill would allow school districts to continue to benefit from a state program that can reduce their interest costs for general obligation bonds.

The bill would authorize school districts to enter into contracts with institutions of higher education to contribute school district resources to pay a portion of the costs of the design or construction of an instructional facility, stadium, or other athletic facility that is owned by or under the control of the institution. The contribution of school district resources would be authorized only if the district and institution of higher education enter into a written agreement authorizing the district to use the facility. It is assumed that affected districts would consider any potential implications for increased local cost or savings prior to executing the authorized contractual arrangements.

School districts (provider districts) would receive \$400 for each course through the Texas Virtual School Network that they provided that was successfully completed by a student. School districts receiving services for electronic courses for their students (receiving districts) would receive an administrative allotment of \$80 per student.

Some school districts receiving funds for campuses participating in the TEEG program may see reduced funding, but the actual fiscal impact may depend on the Texas Education Agency's implementation of the remaining District Awards for Teacher Excellence (DATE) program.

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

**Source Agencies:** 701 Central Education Agency

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