

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 24, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB1553** by Lozano (Relating to permitting a school district that has failed to satisfy performance standards to partner with an institution of higher education to improve district performance.), **As Passed 2nd House**

Assuming the grant program is fully funded with donations, there would be no significant impact to the state.

As noted below, the biennial cost of the program is estimated to be \$12.3 million; to the extent insufficient donations are collected, these costs could be borne by General Revenue or other state funds. As the scope of the grant program in the legislation is broad, costs could be higher or lower depending on actual program implementation.

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 |
|--------------------|---|
| 2018 | \$0 |
| 2019 | \$0 |
| 2020 | \$0 |
| 2021 | \$0 |
| 2022 | \$0 |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>All Funds</i> | Change in Number of State Employees from FY 2017 |
|-------------|--|---|
| 2018 | (\$5,143,611) | 1.0 |
| 2019 | (\$7,135,611) | 1.0 |
| 2020 | (\$5,135,611) | 1.0 |
| 2021 | (\$7,135,611) | 1.0 |
| 2022 | (\$5,135,611) | 1.0 |

Fiscal Analysis

The bill would amend the Education Code to allow the Commissioner to accept a gift, grant, donation, or other contribution on behalf of a public school system and agency, and use the contribution as determined by the Commissioner unless otherwise directed by the donor. This section would apply to a wide variety of programs administered by the agency.

The bill would allow the Commissioner to take certain actions related to grant compliance, including adopt rules, require grant recipients to provide certain information, and direct the Texas Education Agency (TEA) to make a site visit. The bill would allow the Commissioner to take certain actions if it is determined a grant recipient is not in compliance with grant requirements and would specify the Commissioner's decision regarding grant compliance to be final.

The bill would require the Commissioner to establish a competitive grant program to assist school districts and open-enrollment charter schools in implementing high-quality educational programs or enhance a current educational program in order for the program to operate as a high-quality educational program. The bill would allow the Commissioner to adopt rules related to determining eligibility, award amount, and any restrictions related to the grant; authorize a grant recipient or a tax-exempt organization contracting with the recipient to use grant funds for facility purposes and performance-based incentives; and make grants from available sources, including gifts, grants, and donations. The bill would require the Commissioner to consider the availability of existing resources, including funds and equipment, to students in the school district or open-enrollment charter school when selecting grant recipients.

This bill would establish a framework to dispose of property held by a charter school that has ceased to operate. This includes allowing a charter that has purchased real property with local funds to retain a proportional ownership share, procedures for the state to sell or transfer real property, and the ability for a former charter to retain the property by buying out the state interest.

The bill would restrict the use of charter funds from being pledged or used to secure loans or bonds for another organization, including a non-charter operation or out-of-state operation conducted by the charter holder or a related party. The bill also allows an audit of a charter school to examine real property transactions between the charter holder and a related party and allows the commissioner to take action to protect the school's interest.

The bill would specify the allowable uses of the charter liquidation fund, including agency personnel costs associated with managing and closing charter schools. The bill's provisions direct the Commissioner of Education to transfer excess funds in the charter liquidation fund to a high quality education grant or to supplement the bond guarantee reserve fund.

The bill would allow the Commissioner to authorize a district that has not satisfied the accreditation criteria under Section 39.052, the academic performance standards under Section

39.053 or 39.054, or any financial accountability standard as determined by commissioner rule, or if considered appropriate by the Commissioner on the basis of a special accreditation investigation under Section 39.057, to enter into a memorandum of understanding (MOU) with an institution of higher education (IHE) so that the IHE can assist in improving the district's performance.

The bill would take effect September 1, 2017.

Methodology

This analysis estimates the costs of implementing the provisions of the bill assuming that either the Legislature appropriates money specifically for that purpose or that the agency identifies available funds. Based on implementation plans provided by The Texas Education Agency, this estimate assumes establishing a competitive grant program and awarding grants to assist school districts and open-enrollment charter schools in implementing high-quality educational programs would result in a cost of approximately \$5.1 million in fiscal year 2018 and \$7.1 million in fiscal year 2019, with similar costs in the following biennium. This analysis assumes the competitive grant would be funded through General Revenue Funds or other available funds as specified in the legislation; however, General Revenue costs would be reduced to the extent that gifts, grants, donations, or other contributions were made available to implement the grant program. The agency anticipates that the grant program would be funded by philanthropic donations.

The bill would allow the Commissioner to adopt rules on the use of grant funds, including rules determining eligibility, award amount, and any restrictions. For purposes of grant implementation, the Texas Education Agency (TEA) estimates the grants would provide financial support and technical assistance for school districts and open-enrollment charter schools to identify schools that serve low income students well and replicate those models. TEA intends to award two-year grants to 10 eligible entities every other year with grants structured to allow for 12 months of planning and 12 months of implementation support. According to TEA, eligible entities would receive \$500,000 in year one and \$700,000 in year two for a total grant award of \$1.2 million per grantee over a two-year period. Based on the information provided by TEA, grant costs would total \$5.0 million (\$500,000/grantee in year one x 10 grantees) in fiscal year 2018 and \$7.0 million in fiscal year 2019 (\$700,000/grantee in year two x 10 grantees). Following the 2018-19 biennium, TEA anticipates awarding grants in a similar way so that two-year grants are awarded every biennium.

To the extent the agency implements the program in a different manner, costs could be significantly higher or lower.

This analysis estimates one FTE would be required to determine eligibility for the grant, provide planning and ongoing technical assistance to grantees, and to make necessary site visits during the two-year grant award. The estimated cost of the FTE, including salary, benefits, and other operating expenses, would be \$143,611 in fiscal year 2018 and \$135,611 in subsequent years.

Local Government Impact

School district and open-enrollment charter school participation in the grant program is voluntary. TEA estimates that if districts and charters chose to participate they would likely incur cost associated with developing a school replication plan and application. TEA estimates the development of such a plan and application would not exceed \$25,000 per application and that any additional costs of the actual replication would be covered if the districts application were to be win a grant award.

In addition, districts may incur costs associated with entering into a MOU with an IHE. However, the fiscal impact to the district would depend on any commitment of funds expressed in the memorandum of understanding between the district and the IHE.

Source Agencies: 701 Texas Education Agency, 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 768 Texas Tech University System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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