LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 8, 2003

TO: Honorable Kent Grusendorf, Chair, House Committee on Public Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB2465** by Grusendorf (Relating to an education freedom pilot program for certain children in certain school districts.), **Committee Report 1st House, Substituted**

No significant fiscal implication to the State is anticipated.

The bill would create a scholarship program for public school students to attend private schools. It defines eligibility of students to include only a subset of students in certain large school districts that have more than 40,000 students enrolled and have a majority of students eligible for free or reduced-price lunches. To be eligible, the students must be from a family with income no more than 200% of the level that qualifies for the free or reduced lunch program, resides in an eligible district, and attended a public school in the preceding full semester.

The scholarship amount is the total state and local funding for maintenance and operations per student in the preceding school year from all sources excepting the available school fund, federal funds and the special education allotment. The Comptroller is charged with establishing rules for distribution of payments for both public and private schools. The Comptroller issues a scholarship certificate to the parents of an eligible child, which may only be redeemed by a participating private school. The Comptroller is charged with distributing the per capita allocation to the district of residence, 10% of the scholarship amount to the district of residence, and 90% of the scholarship (or a lesser amount) to the private school.

Private schools must test students annually either with the TAKS test or a norm-referenced instrument, and must publish the aggregate results. School districts must provide eligible children transportation to the public school they would have attended. Students attending private schools on scholarship must be counted in the attendance of the district of residence.

Beginning in 2006, any school district may opt into the program. The Comptroller is given rule-making authority for the program, and must designate one or more independently funded nonprofit organizations to operate schools of choice resource centers in each eligible district until the end of calendar 2008. The Comptroller and the Dana Center must evaluate the program.

Lastly, the bill extends public education grant weighted funding to each student attending a private school under the scholarship program.

Because the state funds used for the scholarships to private schools are estimated to be equivalent to the amount which would have been sent to the students' home districts had they remained enrolled there, the Foundation School Program incurs no costs as a result of the bill.

As a result of the bill, the Texas Education Agency (TEA) would incur costs related to necessary modifications to its data systems to meet the accountability requirements. TEA estimates costs related to modifying the Public Education Information Management System (PEIMS) data standards and attendance processing, build new edit routines, and modify the accountability ratings system to incorporate a new category of private schools and scholarship students. TEA is expected to be able to make these changes with existing resources. The commissioner and the

Dana Center would be required to create a ratings system under which a scholarship recipient is rated based on yearly academic progress. It is assumed that this ratings system would be substantively similar to one being developed for public school students as a requirement of the No Child Left Behind Act, and thus would entail no significant additional cost

The bill charges the Comptroller with distributing scholarships and payments to school districts and private schools on a monthly pro rata basis, and based on rules the Comptroller adopts for the calculation and distribution of these payments. The Comptroller also must work with the Dana Center to evaluate the program and contract for a study of the program. The comptroller estimates costs related to these requirements, including costs of an internet-based information reporting system, phone banks, and publication costs, would be approximately $2 million for the 2004-2005 biennium, as well as three full-time employees in 2004 and another eight in 2005 (for a total of 11 additional employees), with costs stabilizing at $842,000 in the outlying years. Section 29.354(f) of the bill allows the Comptroller to deduct from the scholarship funds sent to private schools an amount sufficient to cover the costs of administering the program.

It is unclear whether there will be any savings to the state when or if tuition amounts are less than the scholarship. The law allows the payment to the private school to be less than 90% of the calculated scholarship amount when the school's average annual cost per student is less. The bill does not describe the methods for calculating average annual cost.

Local Government Impact

TEA estimates that the number of eligible students in the eleven districts that meet the eligibility criteria would be at least 639,000. However, a major constraint on the number of students with an opportunity to use a scholarship under the bill is the capacity of private schools. TEA estimates that, based on a 2001-02 private school enrollment of 152,000 and an assumption that this represents 85% of current operating capacity, about 22,800 slots would be available for scholarship students. Further limiting the estimated number is the willingness of private schools to accept tuition in the amount of the scholarship. Most high school tuition amounts at private schools appear to be higher than the likely scholarship amount. Lastly, the bill as substituted limits the number of scholarships in a given district by limiting them to the lesser of either 5% of the eligible population or a number of students whose scholarships total to 3% of the districts maintenance and operations revenue in the preceding year.

Due to these factors, TEA estimates that 8,000 students would use a scholarship in 2004, and 15,000 students in 2005. School districts will incur losses in revenue as a result of the departure of these students. At the level of participation cited above, the aggregate cost would be about $40 million in 2004 and $75 million in 2005. It may be difficult for the districts to reduce operating expenses to offset the funds that must be paid in the scholarship program, since losses of small numbers of students, particularly throughout a school district, may have no significant impact on cost structure. It should be noted that in this situation, unlike when a student withdraws to enter private school, a school district will retain the per capita allocation and 10% of the remaining scholarship amount (roughly $530), which will probably cover the cost to administer the program. School districts must provide transportation to eligible students in the same manner as they would under current law. It is anticipated that the expense would be covered by the amount a district receives from the Comptroller.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

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