

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

**FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION**

**April 27, 2005**

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

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

**IN RE: HB1445** by Madden (Relating to the creation and operation of a state virtual school network to provide education to students through electronic means. ), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB1445, Committee Report 1st House, Substituted: a negative impact of (\$13,130,947) through the biennium ending August 31, 2007.

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
2006	(\$1,011,459)
2007	(\$12,119,488)
2008	(\$18,389,486)
2009	(\$26,759,488)
2010	(\$26,759,488)

**All Funds, Five-Year Impact:**

Fiscal Year	Probable Savings/ (Cost) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/ (Cost) from <i>FOUNDATION SCHOOL FUND 193</i>	Probable Revenue Gain/(Loss) from <i>GENERAL REVENUE FUND 1</i>	Change in Number of State Employees from FY 2005
2006	(\$1,147,601)	\$0	\$136,142	17.0
2007	(\$10,244,973)	(\$2,100,000)	\$225,485	26.0
2008	(\$13,364,971)	(\$5,250,000)	\$225,485	26.0
2009	(\$16,484,973)	(\$10,500,000)	\$225,485	26.0
2010	(\$16,484,973)	(\$10,500,000)	\$225,485	26.0

**Fiscal Analysis**

Section 1 of the bill would authorize a state virtual school network under the governance of the State Board of Education (SBOE). Subchapter A describes the mission of the board with respect to electronic courses or programs.

Subchapter B would give SBOE governance over the virtual school network. It would require the SBOE to present a budget request to the legislature, and directs the board to employ staff or enter into contracts with the Texas Education Agency (TEA) to employ staff for support of the network.

Subchapter C requires the SBOE to establish criteria for electronic courses and programs, use the criteria to evaluate electronic courses offered by provider school districts and charters, place courses on an approved list for state use, place courses on an approved list for use by local provider districts, and provide access to the list to the public. The SBOE is directed to create a list of subjects and courses for which there are essential knowledge and skills or other content requirements, identify which courses have no electronic course or program, identify demand for such courses, publicize the interest level, and solicit local providers to offer such courses. The SBOE must establish objective criteria for quality of an electronic course or program. The SBOE must establish a schedule for approval of courses, and providers may appeal a decision of the board to the commissioner. The SBOE must adopt procedures to verify attendance of students enrolled in electronic courses, and set the cost of providing an electronic course or program at a maximum amount of \$400 per student per course or \$4,800 per full-time student. The bill directs the commissioner to recover the cost of evaluating and approving electronic courses or programs from the districts and schools submitting them, although the fee would be waived under certain circumstances.

The bill would allow only school districts rated academically acceptable or higher, or charter schools recognized or higher, to be course providers. Students enrolled in a district or charter school full-time would be allowed to take one or more courses from any provider; students residing in Texas but not enrolled in public schools full-time would be allowed to enroll on a fee-basis in up to two electronic courses per semester.

Subchapter D describes the funding provisions. The state bears the cost of operating the virtual network. The bill would entitle the home district or charter to funding equal to the course cost established by the SBOE (maximum of \$400) plus 20% for students enrolled in that district who are participating in an electronic course. Districts may enter into agreements with other districts and charter schools to provide electronic courses for their students, and retain 20% of the course cost to cover administrative expenses. For students not enrolled in a district or charter, the bill would direct foundation school program funds in an amount established by the SBOE (maximum of \$350 per course). Participation for non-enrolled students would be limited to 6,000 electronic courses in 2006-07 and 15,000 in 2007-08. The limitation would expire August 1, 2008. Funding also would be provided for students who are attempting to accelerate education through a state provider district.

The bill would allow the state virtual school network to provide professional development for teachers of electronic courses.

The bill would take effect September 1, 2005 and would require implementation beginning with the 2006-07 school year.

## **Methodology**

It is estimated that additional staffing would be needed to review and approve electronic courses. Based on TEA experience from a recent pilot electronic course review program, and assuming the volume of courses proposed for approval would be approximately 75 (less than one per grade level per subject) each year, TEA estimates that a staff of approximately 18 trained specialists would be required. There would also likely be a need for continued review of approved courses due to updates of course materials. It is estimated that three supervisory positions and three administrative support positions would also be required. It is assumed that the review staff would not be needed until midway through fiscal year 2006, since the criteria for course approval must be in place at least six months prior to use, entailing a total of 15 full-time equivalents in 2006 and 24 in 2007 and beyond. The salary, benefit, and other related administrative costs associated with these full-time equivalent positions is estimated to be \$544,567 in fiscal year 2006, increasing to \$901,939 each year thereafter as staffing increases to the full level. However, the bill directs districts submitting electronic courses for approval to pay a fee covering the reasonable costs of the agency's evaluation and approval, with the board waiving that fee under certain circumstances. For the purpose of this fiscal note, it is assumed that these fees would defray approximately 25% of the staff costs, yielding a net state cost of \$408,425 in 2006 and \$676,454 each year thereafter.

Second, it is estimated that administration of the web site maintained by the network would require two additional staff positions, with related administrative costs of \$103,034 each year. Based

on the provisions of the bill, various lists would be published and revised on a regular basis as new courses are approved. The web site would also serve as a vehicle for collecting information concerning interest levels for courses.

It is estimated that the network requirements to allow for assignment of responsibility for students based on course completion or contact hours, and the requirement to identify students whose participation in electronic courses represents an excess of a normal course load, would require an overhaul of attendance accounting procedures and related data collection. It is estimated that the software changes to accomplish this would be \$0.5 million in one-time contracted development costs.

The bill would direct the SBOE to establish an approved course cost of up to \$400 per student per course or \$4,800 per full-time student. This amount plus 20%, or \$480 per course, would be paid to the district in which a student participating in an electronic course is enrolled. Home districts may then pay a district or school providing the electronic course the SBOE-approved cost (\$400) and keep the additional 20% to cover administrative costs. The bill does not appear to reduce or offset the amount that can be earned under the Foundation School Program for the student's participation in a virtual course, to the extent that such participation does not drop the student below the 4-instructional hours per day threshold for full-time average daily attendance (ADA). Thus, it is assumed that the costs of such courses represent additional state cost.

In a virtual school pilot program implemented by the agency in the 2001-02 school year, participating districts, which represented approximately 17% of statewide enrollment, reported 2,200 enrollments in electronic courses developed by those districts, primarily in the high school grades. Applied to all students in the state, this rate of enrollment would suggest a estimate of electronic course enrollment in 2007 of approximately 13,000. For the purpose of this fiscal note, it is assumed that districts would expand electronic course enrollments, doubling to 26,000 by 2009, with enrollment remaining stable at that level thereafter. This level of participation would represent between 1% and 2% of 10th, 11th and 12th grade enrollment taking one electronic course per semester. At these enrollment levels the additional state cost, assuming the maximum \$480 per course, is estimated to be \$6.2 million in fiscal year 2007 increasing to \$12.5 million annually in fiscal year 2009 and beyond.

For students who are residents of the state but are not enrolled in a district or charter full-time, the bill would authorize enrollment in up to two electronic courses per semester. For the purpose of this fiscal note, it is estimated that some private- and home-schooled students, estimated to be approximately 300,000 in Texas, would participate in electronic courses, representing an additional cost to the Foundation School Program. The bill would limit this exposure to \$350 per course and would also limit the number of courses to 6,000 for 2006-07, 15,000 for 2007-08 and no limit thereafter. For 2007 and 2008, the limits suggest a maximum state cost of \$2.1 million and \$5.25 million, respectively. For 2008-09 and subsequent years, it is assumed that 5% of home-schooled students (approximately 7,500) and 5% of private school students (also 7,500) would ultimately enroll in the maximum allowed 2 courses per semester, costing approximately \$10.5 million in 2009 and subsequent years.

The bill would permit students to generate additional funding when attempting to complete more than a traditional load of courses. Using the 3,800 students that graduate early as a proxy, the agency estimates that approximately 25 percent of this number, or around 950 students in 11th grade and another 950 in 12th grade could be reasonably expected to take a larger course load. Assumed to be 2 additional courses each school year, this would be the equivalent of 630 full-time students, drawing state aid of about \$4,800 (current funding formula average entitlement for a regular program student), or approximately \$3 million a year.

For the purpose of this fiscal note, it is assumed that the cost of providing professional development courses would be covered by existing state and federal resources available to the agency for professional development.

## **Technology**

The agency estimates a one-time development cost of \$0.5 million in 2006 to overhaul the state's attendance accounting to accommodate dual enrollment and fractional attendance.

## **Local Government Impact**

It is expected that many school districts would face the need to have vendors modify attendance accounting systems to accommodate the potential for dual enrollment of students and the likely changes in calculation of attendance for funding purposes.

School districts providing electronic courses to students would realize additional state funding under the provisions of the bill.

**Source Agencies:** 701 Central Education Agency

**LBB Staff:** JOB, CT, UP, JGM