

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 5, 2005

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

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

IN RE: HB3042 by Riddle (Relating to a public education voucher program for elementary and secondary students.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3042, As Introduced: a negative impact of (\$33,547,766) 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	(\$14,961,383)
2007	(\$18,586,383)
2008	(\$22,814,383)
2009	(\$27,148,383)
2010	(\$31,590,383)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from <i>GENERAL REVENUE</i> <i>FUND</i> 1	Probable (Cost) from <i>FOUNDATION SCHOOL</i> <i>FUND</i> 193	Change in Number of State Employees from FY 2005
2006	(\$1,461,383)	(\$13,500,000)	18.0
2007	(\$961,383)	(\$17,625,000)	18.0
2008	(\$961,383)	(\$21,853,000)	18.0
2009	(\$961,383)	(\$26,187,000)	18.0
2010	(\$961,383)	(\$30,629,000)	18.0

Fiscal Analysis

This bill would create a voucher program for public education. Eligible students would be any resident student eligible to attend public schools that attended a public school full time in the final semester of the preceding school year, or a student that previously received a voucher. Qualifying schools are public schools and nongovernmental primary educational organizations that are not in a home setting, taught by a parent, or limited to relative's of school staff.

The bill would set the amount of the voucher at \$5,500, adjusted annually by the consumer price index for urban consumers in Dallas and Houston. It would allow a parent to designate a portion or all of the voucher to pay tuition, and any remainder can accumulate in a special voucher account for each student. The amounts in the voucher account would be allowed to accumulate and be used for future

tuition or for tuition and fees at a college or university.

The bill would require that the parent of the child ensure that the student is tested using a nationally recognized norm-referenced test each year, and that those results be forwarded to the commissioner.

Methodology

Approximately 3.8 million students would be eligible to receive a voucher under the provisions of the bill (4.4 million enrolled students, less 240,000 graduating students and 315,000 new entering students). Information from the association of private schools suggest that there are approximately 245,000 students enrolled in private schools in Texas. Under the assumption that these schools are operating at 85 percent of maximum capacity, there is a potential of 36,700 vouchers. Given limitations due to locational availability and willingness of private schools to accept vouchers, it is further assumed for the purpose of this fiscal note that 30,000 students will be able to use vouchers annually.

The fiscal impact on the state of the vouchers is a function of the difference between the state cost of the vouchers as established by the bill (\$5,500 per student in 2006) and the state savings due to decreased attendance in regular public school. On a per enrollment basis, the average cost of a regular program student is approximately \$4,600 in Tier 1 and 2; for a low income student not served by any other special program, the cost is around \$5,500 per student. Assuming that primarily regular program students participate in the voucher program, and that many of them are low income, it is estimated that the average formula cost per student would be \$5,050, or \$450 less than the voucher cost.

Thus, at a participation level of 30,000 students annually, the expected additional cost to the state would be approximately \$13.5 million in 2006. The bill would provide for annual increases in the voucher amount based on Dallas and Houston Consumer Price Index values, increasing the cost to \$5,638 in 2007, \$5,778 in 2008, \$5,923 in 2009 and \$6,071 in 2010. Given that there is no inflation adjustment in the current law funding formulas, it is assumed that state costs of the voucher program would rise commensurately.

It should be noted that under the bill's provisions, a student may become eligible for a voucher for the duration of his/her educational career simply by attending one semester of public school. It is likely that an undetermined number of students who otherwise would attend private school would enroll for one semester to qualify for a voucher for the rest of their school careers, then return to private school. To the extent that this behavior takes place, it would represent a significant cost to the state beyond the amounts estimated in this fiscal note.

The Texas Education Agency would face some administrative expenses due to the provisions of the bill. The agency anticipates the need for 8 additional full-time equivalent (FTE) positions to handle the processing of voucher applications, which could exceed 40,000, as well as generating voucher documents and receiving testing results. The agency also would be responsible for making monthly payments to private schools and verifying their services; based on similar work done for charter schools, the agency estimates that it would need 10 FTEs for payment processing, with \$539,736 in supporting administrative costs, as well as a one-time amount of \$500,000 to develop an electronic payment processing system.

The Office of the Comptroller also may face administrative costs. Specifically, the Comptroller would be required to hold any voucher dollar amounts not used to pay tuition and fees in an account in the child's name. The Comptroller estimates that the creation and maintenance of each account would cost between \$10 and \$25 annually, depending on the number of accounts. If half of the 30,000 students held funds in a voucher account, the cost would be between \$150,000 and \$375,000 annually. Although the bill language suggests that the comptroller may assess administrative fees on these accounts, the comptroller is not given explicit direction to do so. For the purposes of the fiscal note, it is assumed that the Comptroller may assess these administrative fees; if this assumption is incorrect, there would be an annual state cost of \$150,000 to \$375,000.

Technology

It is anticipated that the Texas Education Agency would incur a one-time cost of \$500,000 to modify its electronic payment processing system.

Local Government Impact

School districts would be expected to lose funding as a result of transfers to private schools as a result of the voucher program. At an estimated 30,000 students transferring, it is estimated that school districts will lose about \$151.5 million per year in revenue. It is unclear whether school districts would be able to reduce costs by a comparable amount of money given the small numbers of students estimated to leave each district, although some savings are likely.

It should be noted that a characteristic of the bill suggests the possibility that the local district impact of the voucher program could be significantly higher than estimated in this fiscal note. Specifically, under the bill's provisions there would be relatively few barriers to the creation of new, qualifying private schools because the schools would not be required to be accredited. This could increase voucher participation significantly beyond the estimates of this fiscal note. However, the degree to which this occurs cannot be estimated and thus potential costs are not included in the fiscal note.

Source Agencies: 701 Central Education Agency

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