

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

**FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION**

**April 24, 2007**

**TO:** Honorable Rob Eissler, Chair, House Committee on Public Education

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

**IN RE: HB277** 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 HB277, Committee Report 1st House, Substituted: a negative impact of (\$13,290,374) through the biennium ending August 31, 2009.

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)<br>Impact to General Revenue Related<br>Funds |
|-------------|--|
| 2008        | (\$1,657,545)  |
| 2009        | (\$11,632,829)   |
| 2010        | (\$19,072,829)   |
| 2011        | (\$19,072,829)   |
| 2012        | (\$19,072,829)   |

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

| Fiscal Year | Probable Savings/(Cost) from<br><i>GENERAL REVENUE FUND</i><br>1 | Change in Number of State Employees<br>from FY 2007 |
|-------------|--|---|
| 2008        | (\$1,657,545)  | 22.0  |
| 2009        | (\$11,632,829)   | 31.0  |
| 2010        | (\$19,072,829)   | 31.0  |
| 2011        | (\$19,072,829)   | 31.0  |
| 2012        | (\$19,072,829)   | 31.0  |

**Fiscal Analysis**

The bill would authorize a state virtual school network under the governance of an administering authority, as designated by the commissioner of education. Only students younger than 21 on September 1 of the school year, have not graduated from high school, and are otherwise eligible to enroll in a public school in this state could enroll in electronic courses. Full-time enrollment would be restricted to students who had been enrolled in the state in the preceding year or were military dependents that were previously enrolled in high school in the state and no longer reside in this state due to a military deployment or transfer.

The administering authority would publish criteria for electronic courses, use the criteria to evaluate submitted electronic courses, place courses on an approved list, and provide access to the list to the

public. To ensure that a full range of courses were available, the administering authority would create a list of subject and courses designated by the State Board of Education (SBOE) to meet specific requirements. The SBOE would establish objective criteria for electronic course to ensure alignment with the Texas essential knowledge and skills (TEKS). The criteria would have to be in place six months before use in the evaluation of courses.

The administering authority would be required to establish the cost of providing an electronic course not to exceed \$400 per student per course or \$4,800 per full-time student. Course providers would be required to pay a fee in an amount established by the commissioner as sufficient to recover reasonable costs for evaluating and approving electronic courses. The fee could be waived under certain circumstances.

A provider school district or charter school could offer courses to students enrolled in this state or students outside this state who met the eligibility requirements according to the provisions in this bill. A student enrolled in a Texas district as a full-time student would be able to take one or more electronic courses. A student who resided in the state but was not enrolled in a district or open-enrollment charter full time, would not be able to take more than two electronic courses per semester through the network.

The state would bear the cost of operating the virtual school network. These costs could not be charged to a school district or charter school. The cost of professional development courses could be paid with state funds appropriated for that purpose or federal funds that may be used for that purpose. State funds received by provider districts or schools under the provisions of this bill would be in addition to any amounts the district or school was entitled to under Chapter 12, 41, or 42 and not subject to reduction under any provision of those chapters.

Students enrolled in a district or open-enrollment charter full-time who took an electronic course offered by provider school districts through the virtual network would be funded from state and local funds in an amount equal to the cost of providing the electronic course plus 20%. Funding would be provided for full-time students who were attempting to accelerate education by taking courses through the virtual network, which may be limited by commissioner rule or by the legislature in the General Appropriations Act.

Provider districts could charge fees to students who do reside in Texas and whose enrollment in courses exceeds that normally taken by students at that grade level, but they did not qualify for accelerated funding. The fee would also be charged to students who are not enrolled in a school district or charter school full-time. The fee could not exceed the cost of providing the course or \$400 per student, and provider schools would not be permitted to charge additional fees.

Section 3 would direct the commissioner to begin operation of the state virtual network with the 2008-2009 school year. In the 2008-2009 school year, the network would only offer electronic courses for grades 9 through 12. In school year 2009-2010, electronic courses would be expanded to grades 6 through 8 and in school year 2010-2011, the network would provide electronic courses for all grades.

## **Methodology**

It is estimated that additional staffing would be needed to review and approve electronic courses. Based on agency 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, the agency estimates that a staff of approximately 18 trained specialists would be required. It is assumed that the review staff would not be needed until midway through fiscal year 2008, since the criteria for course approval must be in place at least six months prior to use. The salary, benefit, and other related administrative costs associated with these additional 9 full-time equivalent positions is estimated to be \$529,710 in fiscal year 2008, increasing to \$1,059,419 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 SBOE 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 \$397,283 in fiscal year 2008, and \$794,564 each year thereafter.

According to the agency, there would likely be a need for continued review of approved courses due to updates of course materials, as well as rule development and annual reporting, requiring an additional 5 program specialists. This staff also would require 2 managerial positions and 3 administrative support staff positions. The salary, benefit, and other related administrative costs associated with these additional 10 full-time equivalent positions is estimated \$530,386 annually.

Finally, the agency estimates that administration of the web site maintained by the network would require three additional staff positions, with related administrative costs of \$179,878 each year. Various lists must 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 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, 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 an estimate of electronic course enrollment in 2009 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 2010, 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 2009 increasing to \$12.5 million annually in fiscal year 2010 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. 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 state. For the purpose of this fiscal note, it is assumed that 2.5% of this population, or 7,500 students, would participate in electronic courses in 2009, increasing to 5%, or 15,000 in 2010 and stabilizing at that level for subsequent years. At the maximum 2 courses each, this would yield 15,000 course enrollments in 2009 and 30,000 in 2010 and beyond. Because the bill directs districts enrolling these students in the virtual school network to charge a fee not to exceed \$400 per course or district cost, the state is obligated to pay districts the additional 20% administrative cost, or \$80 per course, for these course enrollments. Under these assumptions, the state cost for these enrollments would be \$1.2 million in 2009 and \$2.4 million each year thereafter.

The bill would permit students to generate additional funding when attempting to complete more than a traditional load of courses. Using the 2,800 students that graduated early in 2005 as a proxy, the agency estimates that 50% of this number of juniors and the same number of seniors would pursue two electronic courses annually, or around 2,800 students total. Two additional courses each school year at the \$480 maximum cost for each course yields an annual cost of approximately \$2.7 million, starting in fiscal year 2009. To the extent that eligibility under this provision is limited by commissioner rule or legislative appropriation, this estimate could decrease.

## **Technology**

It is estimated that a one-time development cost of \$0.5 million in 2008 to revamp the state's attendance accounting to accommodate dual enrollment and related data collection.

## **Local Government Impact**

It is expected that many school districts would 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, JSp, UP, JGM