

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

February 19, 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.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB277, As Introduced: a negative impact of (\$13,502,373) 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) Impact to General Revenue Related Funds |
|-------------|--|
| 2008 | (\$1,657,545) |
| 2009 | (\$11,844,828) |
| 2010 | (\$21,234,828) |
| 2011 | (\$26,484,828) |
| 2012 | (\$26,484,828) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>FOUNDATION SCHOOL FUND 193</i> | Probable Savings/(Cost) from <i>GENERAL REVENUE FUND 1</i> | Change in Number of State Employees from FY 2007 |
|-------------|--|--|---|
| 2008 | \$0 | (\$1,657,545) | 22.0 |
| 2009 | (\$10,340,000) | (\$1,504,828) | 31.0 |
| 2010 | (\$19,730,000) | (\$1,504,828) | 31.0 |
| 2011 | (\$24,980,000) | (\$1,504,828) | 31.0 |
| 2012 | (\$24,980,000) | (\$1,504,828) | 31.0 |

Fiscal Analysis

Section 1 of the bill adds a new Chapter 30A to the Education Code. The new chapter authorizes a state virtual school network under the governance of the State Board of Education. Subchapter B gives the board governance over the virtual school network, and jurisdiction over the physical assets of the network. It requires the board to present a budget request to the legislature, and directs the board to employ staff or enter into contracts with the Texas Education Agency or regional education service centers to employ staff for support of the network.

Subchapter C requires the board to establish criteria for electronic courses and programs, use the criteria to evaluate electronic courses offered by provider school districts, 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 board 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 board must establish objective criteria for quality of an electronic course or program. The board must establish a schedule for approval of courses, and providers may appeal a decision of the board to the commissioner. The board must adopt procedures to verify attendance of students enrolled in electronic courses.

Subchapter D describes the funding provisions. The state bears the cost of operating the virtual network. Students enrolled in a district or charter school who take a course offered by a provider school district through the virtual network are funded from the foundation school fund in an amount set by the SBOE, not to exceed \$400 per course, plus 20%, based on contact hours, successful progress or course completion, as determined by the SBOE. For students not enrolled in a district or charter school but who are enrolled in electronic courses, state funding would be provided at an amount set by the SBOE not to exceed \$350 per course. The number of electronic courses offered to these students would be limited to 6,000 in FY2009 and 15,000 in FY2010. This limit expires on August 1, 2010. Funding would be provided for full-time students attempting to accelerate education by taking courses through the virtual network for no more than two courses. The SBOE would be required to adopt rules that establish a limit on the total amount of funding available to pay for accelerated students, and the legislature may also limit funding and number of eligible course hours.

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 10 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 five 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. 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 fiscal year 2009, 15,000 for fiscal year 2010 and no limit thereafter, yielding a maximum state cost of \$2.1 million and \$5.25 million, respectively. For fiscal year 2011 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 2011 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 2,800 students that graduated early in 2005 as a proxy, the agency estimates that 50% of this number of juniors the same number of seniors would pursue two electronic courses annually, or around 2,800 students total. Two additional courses each school year at an assumed limit of \$350 each course yields an annual cost of approximately \$2 million, starting in fiscal year 2009.

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