

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

February 19, 2007

TO: Honorable Florence Shapiro, Chair, Senate Committee on Education

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

IN RE: SB4 by Shapiro (Relating to open-enrollment charter schools and the creation of public charter districts.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB4, As Introduced: a negative impact of (\$174,049,907) 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	(\$85,800,000)
2009	(\$88,249,907)
2010	(\$77,549,907)
2011	(\$77,249,907)
2012	(\$47,949,907)

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	(\$85,800,000)	\$0	7.0
2009	(\$86,800,000)	(\$1,449,907)	7.0
2010	(\$75,300,000)	(\$2,249,907)	7.0
2011	(\$76,700,000)	(\$549,907)	7.0
2012	(\$47,400,000)	(\$549,907)	7.0

Fiscal Analysis

The bill would dissolve existing open-enrollment charters if the charter holder fails to meet certain financial and student performance standards as established in the bill. The bill also would revise financial and performance standards that serve as the basis for charter revisions, placement on probation, and revocation.

Section 11A.201 would revise the calculation of state funding for charter school operations. Currently, funding for charter schools in operation prior to September 1, 2001 is in transition from a system based on students' resident districts to one based on statewide average formula values. This section would accelerate that transition, making the funding for all charter districts based on average

formula values. Additionally, charters would be guaranteed the greater of (1) average formula values, (2) 2005-06 funding per weighted student in average daily attendance (WADA), or (3) 2006-07 funding per WADA. This provision would expire on September 1, 2014.

Section 11A.202 would create an instructional facilities allotment for charter districts that has (1) received an exemplary or recognized rating for each campus in the two prior years, and (2) satisfied financial auditing standards. The allotment would provide \$1,000, or a different amount by appropriation, for each student in average daily attendance during the preceding school year, to be used to purchase or lease real property, for debt service, or to maintain and operate instructional facilities.

Subchapter I would establish a blue ribbon charter campus pilot program.

Subchapter J would establish receivership procedures for charter schools.

The changes in law made by Sections 1, 4-63, and 65 of this Act apply beginning on August 1, 2008. The changes in law made by Sections 2, 3, and 64 would take effect on September 1, 2007, or immediately upon approval by the appropriate voting majorities.

Methodology

The Texas Education Agency estimates that the agency would require 7 new full-time equivalent positions (FTEs) to implement this legislation. Five would be auditor positions to conduct reviews of the operations of charter schools, review quarterly reports, and to assist with closing charter districts not meeting standards. One FTE would be responsible for updating and maintaining the charter accountability system and another would be added to the Charter School Division to assist with application reviews and technical assistance. These 7 FTEs would require approximately \$449,907 annually in salary, benefits, travel and other operating expenses. Also, the agency estimates the need for additional temporary staff to assist during the transition period as charters are being closed, at an estimated cost of \$200,000 in 2009 and \$100,000 in 2010.

Based on current data and the criteria set forth in the bill, the agency estimates that as many as 50 schools could be scheduled for closure on January 1, 2008. The agency anticipates that teams of 2 contractors, working an average of 44 days, would handle approximately 16 closures in FY2009. At an estimated cost of \$480 per person per day, plus travel costs, this would entail a cost of \$800,000 in FY2009. The agency estimates that another 34 closures would occur in FY2010, at a cost of \$1.7 million. After the initial rounds of closures, the agency assumes that approximately 2 schools would be subject to closure each year, incurring a \$100,000 annual cost.

The bill would establish a floor on the amount of state funding guaranteed to a charter school at the greater of (1) average formula values, (2) 2005-06 funding per WADA, or (3) 2006-07 funding per WADA. This is estimated to be a higher level of funding than would have occurred under current law, incurring a FY2008 cost to the Foundation School Program of approximately \$79.7 million. For the purpose of this fiscal note, it is assumed that all charter schools currently in operation would be eligible for revised formula funding under the bill's provisions in FY2008. To the extent that some current charter schools would not be eligible for the revised formula funding, state costs of formula funding to districts would decrease. Under current law, the cost of charter formula funding is estimated to increase as the system completes the transition to statewide average formula values. As a result, and due to the projected closing of a significant number of charter schools in FY2009 and FY2010, the cost of the bill compared to current law would be an estimated \$80.0 million in FY2009, \$67.7 million in FY2010, \$68.3 million in FY2011, and \$38.2 million in FY2012.

Based on accountability ratings from the last two years, 11 charter holders would qualify for the instructional facilities allotment as provided by the bill, representing approximately 6,145 in average daily attendance (ADA). Assuming this pattern of eligibility holds, at \$1,000 per ADA this would result in a state cost of approximately \$6.1 million in FY2008. Holding the number of eligible charter districts steady, and assuming a typical charter ADA growth rate of 10% would increase costs by about \$600,000-\$800,000 each year thereafter. However, costs may vary significantly from this estimate depending on charter accountability ratings, which are unpredictable given the general

volatility of charter school performance and the unknown impact of increasing state accountability standards.

Technology

The bill is estimated to have no significant impact to the state's technology costs.

Local Government Impact

Public charter districts would be subject to several new requirements related to financial accountability and governance. Some of the new requirements may involve additional administrative costs to public charter districts, including compliance with financial accountability requirements. Charter districts that fail to meet the financial and performance requirements established by the bill would be subject to closure and receivership procedures.

It is estimated that charter districts that remain open would receive additional state funding through the change in state funding for operations. Eligible charter districts would receive new funding through the instructional facilities allotment.

Source Agencies: 701 Central Education Agency

LBB Staff: JOB, JSp, UP, JGM