LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 80TH LEGISLATIVE REGULAR SESSION

March 28, 2007

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

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

IN RE: **SB1506** by Janek (Relating to an urban school choice pilot program for certain public school students.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1506, As Introduced: a negative impact of ($311,400,000) through the biennium ending August 31, 2009.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2008	($125,500,000)
2009	($185,900,000)
2010	($246,700,000)
2011	($306,700,000)
2012	($366,700,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Probable Savings/(Cost) from *FOUNDATION SCHOOL FUND* 193	Change in Number of State Employees from FY 2007
2008	($4,500,000)	($121,000,000)	30.0
2009	($4,900,000)	($181,000,000)	35.0
2010	($5,700,000)	($241,000,000)	40.0
2011	($5,700,000)	($301,000,000)	40.0
2012	($5,700,000)	($361,000,000)	40.0

Fiscal Analysis

This bill would create a scholarship program for the education of certain students in qualifying nongovernmental educational establishments, establish eligibility for districts and students, and provide state funding for eligible students to enroll in the non-governmental establishments. Participating districts would be those located in a county with a population of at least 750,000, be the largest district in the county with more than 50% low income students, or have more than 90% low income students. Once a school district established eligibility for the program, the school district would maintain eligibility.

To be eligible, students would have to reside in a household in an eligible district and have a family income that does not exceed 200% of the qualifying income for the federal reduced-price lunch program and meet one of several criteria:

· have previously dropped out of school,

- have started school in the state for the first time,
- be classified as at risk of dropping out,
- be the victim of certain criminal offenses by another student or the sibling of a victim,
- be a student in grades K-12 and be eligible for special education services,
- be limited English proficient, or
- have attended a public school for the majority of the preceding semester.

The bill would provide a scholarship amount equal to the lesser of 90% of the district's previous year operating expenditures per student published in the Texas Education Agency's (TEA) Academic Excellence Indicator System (AEIS) or the qualifying school's (the private school's) average actual annual cost per student. If a student receives special education services or bilingual education, the amount of the scholarship is increased by the amount of the special education or bilingual education Tier 1 allotment.

The Comptroller of Public Accounts (CPA) would also pay 10% of the total operating expenditures per student for the preceding school year as calculated in the AEIS report to the school district where the student was enrolled prior to transfer. The 10% of total operating expenditures would be paid to the eligible school district for five years after the student transferred or until the time the student would have been expected to graduate or until the student transfers back to the public school district.

The bill would provide a limitation on the number of students that could enroll in the program. The annual new enrollment would be limited to 5% of the previous year's enrollment as set by the CPA. The 5% limit would not apply to students who had dropped out of school, were starting school for the first time, or were a victim or sibling of a victim of certain criminal offenses.

The bill would require the CPA to select one or more independent and privately funded nonprofit organizations to operate schools of choice resource centers in each eligible district. These centers would provide information and assist parents, schools, and school districts with implementing, responding to, and complying with the program. These schools of choice resource centers would also process applications. The provisions of this section would expire September 30, 2013.

The CPA would be required to conduct an evaluation of the program from a funding source other than state funds. There is no apparent due date for the evaluation, although the section expires June 1, 2016.

This bill would take effect immediately upon passage with the necessary voting margins or September 1, 2007 and would apply beginning with the 2007-2008 school year.

Methodology

A review of the 2000 US Census Bureau data identified the 5 counties with population of at least 750,000 as Bexar, Dallas, Harris, Tarrant, and Travis. The largest districts in each county with more than 50% low income students are San Antonio ISD, Dallas ISD, Houston ISD, Ft.Worth ISD, and Austin ISD. In addition, Edgewood ISD, Harlandale ISD and South San Antonio ISD in Bexar County and North Forest ISD in Harris County each have more than 90% low income students according to the 2006-07 fall PEIMS data collection. These nine districts have a combined enrollment of 623,900 for 2006-07.

Of this total enrollment, 490,800 students are currently eligible for free and reduced-price lunch; the income eligbility requirement of the bill is 200% of that level, which is estimated to increase the number of income-eligible students to at least 530,000. Students would then need to satisfy one additional eligibility criterion; e.g at-risk, special education, limited English-proficient, etc. The criterion qualifying the most students likely would be an at-risk designation, which is approximately 48% of students statewide. Applying this percentage to the 530,000 income-eligible students gives an approximate eligible public school population of 254,400, although the percentage of at-risk students may be higher among this group.

The bill limits the annual number of new student enrollments to 5 percent of the number of students in each district in the preceding year, excluding students that dropped out, are new to school, or is a victim or sibling of victim of certain criminal offenses. For FY2008, the 5 percent limit would cap participation in the program to approximately 31,195 students. However, it is estimated that at least 15,000 additional participants would be allowed in FY2008 due to the exclusion of dropouts, new students and victims from the limit, for a total of 46,195. That figure is projected to increase to 78,640 in FY2009, and increasing by 32,000-35,000 students each year thereafter.

Capacity at private schools in these areas is likely to be a significant factor in determining the ultimate level of participation. The most recent private school directory suggests total private school enrollment in the affected counties is approximately 184,400. For the purposes of this fiscal note, it is assumed that these schools are operating at 85 percent capacity, leaving room for approximately 27,660 additional students. It is possible that certain private schools would opt not to accept scholarship students due to the attendance and assessment reporting requirements that would accompany them. Also, certain private schools would continue to charge tuition at a rate higher than the scholarship amount, making it less likely that students would choose to transfer to those schools. It is assumed that these factors would reduce available capacity by 20 percent to approximately 22,130 seats. For the years after FY2008, the scholarship program likely would provide an incentive for creation of new private schools and the expansion of existing ones; for the purposes of the fiscal note it is assumed that private school capacity would increase by 10,000 seats each year after FY2008.

In terms of the value of the scholarship, based on the recent AEIS report for total operating expenditures per student, adjusted forward to FY2007 (preceding year) and for the characteristics of the affected districts, TEA estimates that 90% of the total operating expenditures per student would average $8,021 in FY2008. It is assumed that each of the 22,130 estimated available private school slots would be taken by a subset of the estimated 254,400 eligible public school students. At $8,021 per student, this would represent a total scholarship amount of approximately $178 million in FY2008. However, it is anticipated that actual operating costs at some private schools, particularly those serving elementary grades, would be lower than $8,021. A partial survey indicates a wide range of tuition rates for these schools, from $4,000 to $16,000, with actual operation costs running as much as 25 percent higher. For the purposes of this fiscal note, it is assumed that this factor would lower the average scholarship cost by 10 percent in FY2008, making the total scholarship cost for these students approximately $160 million. However, it is assumed that actual costs at private schools would begin to increase after FY2008, as the bill would provide a financial incentive to do so.

A 10% portion of the total operating expenditures would stay at the originating district, representing another $18 million in cost, for a total of $178 million for these students. However, these costs would be offset by a savings to the Foundation School Program (FSP) due to few students in weighted average daily attendance (WADA). At an estimated $4,850 in total M&O revenue per WADA for the affected districts, the savings to the FSP would be approximately $133 million, resulting in a net state cost of $45 million in FY2008.

There are two other types of eligible students that are estimated to present a state cost due to the bill. The first are income-eligible students starting school for the first time who would have enrolled in private school regardless of the scholarship program. It is estimated that students entering private school kindergarten number approximately 18,440, or 10 percent of the estimated 184,400 students in private school. It is not known how many of these students would meet the income criterion of the bill; for public school students in the affected areas at least 75 percent would meet the criterion. For the purposes of this fiscal note, it is assumed that approximately 30 percent, or 5,500 students, would meet the income criterion. At an adjusted average scholarship cost of $7,220 per student (TEA's $8,021 estimate adjusted for some lower actual costs at private schools), this group of students would represent a new state cost of $40 million, as these students would not otherwise have been state-funded.

The second additional potential cost area involves students currently enrolled in private schools that are eligible for the scholarship under the bill. These would be students meeting the income requirement and who are either eligible for special education, have dropped out, are a victim of sibling of a victim of a criminal offense at public school, or who attended public school for the majority of a preceding semester. Of the 165,960 estimated existing private school students (excluding kindergarten), it is assumed that 30 percent of them are income-eligible, and 10 percent of that subset meet one of the secondary criteria for scholarship eligibility; resulting in an estimate of approximately 5,000 currently-enrolled private school students. At an adjusted average scholarship cost of $7,220 per student, this would be a new state cost of $36 million.

The total net state cost for the three affected students types described above is estimated to be $121 million for FY2008. In FY2009, as capacity expands in private schools by an estimated 10,000 seats, it is assumed that demand will sufficient to fill those additional seats. As these students have a net state cost estimated at approximately $2,030, this would add about $20 million in state cost annually. Additionally, each year there would be a new cohort of kindergarten students who otherwise would have enrolled in private schools that become eligible for a scholarship. Assuming a stable cohort of 5,500 students, this represents an additional cost of approximately $40 million in FY2009. Because each cohort would retain their eligibility until graduation, costs are anticipated to increase by about $40 million each year thereafter.

Administrative costs at the CPA: The bill would direct the independent resource centers to process scholarship applications. However, it is assumed that these centers would contract with CPA to perform these duties, with the CPA requiring additional personnel for contract management and joint eligibility determination duties. The contract costs for processing scholarship applications would depend on the number of applicants. Because the bill would not limit that number, and because the students granted eligibility could use a scholarship certificate any time during their school career, it is expected that application rates could be very high. Based on the assumption that more than 300,000 students would be made eligible, it is further assumed that there would be as many as 100,000 applications in each of the first two years, decreasing in subsequent years. The administrative costs for processing payments to schools would be limited by the estimated amount of enrollment capacity available in private schools in the counties involved.

For the contracted and agency costs to review and approve applications, receive attendance documentation, process monthly payments to schools, and perform other duties assigned by the bill, it is estimated that the CPA would need 30 FTEs in FY2008, with $4.5 million in supporting administrative and technology resources, increasing to 35 FTEs and $4.9 million in FY2009, and 40 FTEs and $5.7 million in FY2010 and beyond as the number of applications stabilize.

Technology

The CPA estimates that technology costs would be significant, but at this time unknown.

Local Government Impact

School districts would be expected to lose funding as a result of transfer to private schools as a result of the scholarship program. Affected districts could realize reduced FSP revenues of approximately $122 million in FY2008, increasing somewhat each year thereafter depending on additional transferring students. It is unclear to what degree school districts would be able to reduce costs by a comparable amount given the small numbers of students estimated to leave each district, although some savings are likely.

Source Agencies: 304 Comptroller of Public Accounts, 701 Central Education Agency

LBB Staff: JOB, JSp, UP, JGM