LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

May 26, 2011

TO: Honorable Joe Straus, Speaker of the House, House of Representatives

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

IN RE: **HB3708** by Hochberg (Relating to the Early High School Graduation Scholarship program and to the funding of certain exemptions from tuition and fees at public institutions of higher education from savings attributable to the program.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB3708, As Passed 2nd House: an impact of $0 through the biennium ending August 31, 2013.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2012	$0
2013	$0
2014	($27,826,694)
2015	($28,327,574)
2016	($28,837,471)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *Foundation School Fund* 193
2012	$0
2013	$0
2014	($27,826,694)
2015	($28,327,574)
2016	($28,837,471)

Fiscal Analysis

The bill would specify that awards under the Early High School Graduation Scholarship program be paid from funds appropriated for that purpose and amends statutory language to eliminate required funding transfers from the Foundation School Program (FSP) to fund the program.

The bill would amend the Chapter 54 of the Education Code to repeal the Texas Save and Match Program under current law and create a new Texas Save and Match Program (program). The program would match money contributed to a higher education savings account under Subchapter G or a prepaid tuition contract under Subchapter H with funds generated from individual contributions to the program or appropriated funds. The bill would provide the Prepaid Higher Education Tuition Board (Board) with the powers necessary or proper to carry out its duties in administering the program. The bill would authorize a nonprofit organization established by law to implement the program (program entity) to be considered an eligible charitable organization under the state employee charitable campaign.

The bill would specify initial eligibility requirements and limitations; authorize the Board to solicit and accept gifts, grants, and donations; and authorize the Board to use legislative appropriations for pilot projects to incentivize participation in higher education savings or prepaid tuition programs. The bill would establish the Texas Save and Match Trust Fund (fund); provide for investment of money in the fund; authorize money in the fund to be spent without appropriation; and authorize the Board to hold and manage funds of a related program entity.

The bill would exempt a beneficiary's assets in a higher education savings plan under subchapter G, prepaid tuition contract under Subchapter H, or related matching account from determination of eligibility for TEXAS grants or any other state-funded student financial assistance. The bill would amend Chapter 62 of the Health and Safety Code, and Chapters 31 and 32 of the Human Resources Code, to also exclude these assets from the determination of eligibility for the child health plan, financial assistance programs, and medical assistance programs.

Beginning in fiscal year 2013, the bill would allow a public junior college located in a county with a population of 750,000 or more in which less than 65 percent of the population aged 25 years or older has graduated from high school to partner with school districts in the junior college district with dropout rates greater than 15 percent to provide a dropout recovery program for people aged less than 26 years who must complete three or fewer credits to obtain a high school diploma or who has failed to perform satisfactorily on a state assessment instrument. Beginning in fiscal year 2014, the bill would allow such partnerships statewide.

An eligible public junior college providing a dropout recovery program that meets the requirements of the bill would be permitted to enter into agreements with partner school districts under which the public junior college could receive funding from partner school districts in amount up to the total average Foundation School Program (FSP) funding per student for operations for which the school district in which the student would otherwise have attended school in the preceding school year would have been entitled, excluding funding from the Available School Fund.

The bill would allow the school district in which a student enrolled in a dropout recovery program authorized by the bill to include that student in attendance counts for purposes of determining Foundation School Program funding entitlement.

Methodology

With regards to the section of the bill relating to the Early High School Graduation Scholarship Program, for purposes of this estimate, it is assumed that current law expenditures, estimated at $14.2 million for the 2010-11 biennium, would continue and would be paid from funds appropriated for that purpose. To the extent that less funding may be appropriated to support the program, the provisions of the bill would result in a savings in comparison to current law.

The exemption of assets in a beneficiary's higher education savings plan, prepaid tuition contract, and matching account from calculations for state financial aid will require institutions of higher education to develop separate calculations for the award of TEXAS grants and other state financial aid programs for these beneficiaries. It is anticipated that any additional costs associated with implementation of the legislation could be absorbed within existing resources.

The following analysis is for the section of the bill relating to the dropout recovery program. Based on data from the U.S. Census Bureau, Hidalgo County is the only county that would meet the eligibility requirements for the first year of the program related to population size and educational attainment specified by the bill.

The bill indicates that in the first year of the program, participation would be limited to school districts with a dropout rate greater than 15 percent. The term "dropout rate" is not defined by the bill, and employing two common interpretations of this term, annual dropout rates and four-year completion rates, produces different cost estimates.

Using annual dropout rates, the only school district eligible to participate is the Vanguard Academy charter school. Vanguard Academy produced 543 dropouts over the past seven years who could be eligible to participate in the program. Assuming that 5 percent of these students would participate yields a participating population assumption of 27 students. Based on the stipulation in the bill that participating students must be within 3 course credits of graduation, it is assumed each of these students equates to one-half of a student in average daily attendance (ADA) for purposes of generating the funding entitlement under the FSP stipulated by the bill. Cost to the FSP is not estimated to be significant and is estimated at less than $150,000 in fiscal year 2013.

Assuming that four-year completion rates are used for purposes of establishing the limitation on participation in the first year of implementation, the Vanguard Academy charter school, One Stop Multiservice Charter, Donna ISD, Ed Couch-Elsa ISD, and McAllen ISD would be eligible to participate. These Local Education Agencies (LEAs) produced 5,213 dropouts over the past seven years who could be eligible to participate in the program. Assuming that 5 percent of these students would participate yields a participating population assumption of 260 students. Based on the stipulation in the bill that participating students must be within 3 course credits of graduation, it is assumed each of these students equates to one-half of an ADA for purposes of generating the funding entitlement under the FSP stipulated by the bill. Cost to the FSP under this scenario is not estimated to be significant and is estimated at less than $1 million in fiscal year 2013.

Beginning in fiscal year 2014, the program would be open to public junior colleges and school districts statewide. Using the fiscal year 2010 population of dropouts as the base year and growing that population at the same rate as the overall elementary and secondary student population, assumed at 1.8 percent, and assuming 5 percent of the eligible population would participate, produces an eligible population of 7,322 in fiscal year 2014, 7,454 in fiscal year 2015, and 7,588 in fiscal year 2016. Based on the stipulation in the bill that participating students must be within 3 course credits of graduation, it is assumed each of these students equates to one-half of an ADA for purposes of generating the funding entitlement under the FSP stipulated by the bill. Based on an assumed statewide average FSP entitlement of $7,600, the cost of additional entitlement associated with the program is estimated at $27.8 million in fiscal year 2014, $28.3 million in fiscal year 2015, and $28.8 million in fiscal year 2016.

Local Government Impact

School districts in Hidalgo County could enter into partnerships with public junior colleges to provide dropout recovery programs and could earn state funding through the FSP for participating students.

Source Agencies: 701 Central Education Agency

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