

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 83RD LEGISLATIVE REGULAR SESSION

May 19, 2013

TO: Honorable David Dewhurst, Lieutenant Governor, Senate

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: SB2 by Patrick (Relating to certain charter schools.), As Passed 2nd House

Estimated Two-year Net Impact to General Revenue Related Funds for SB2, As Passed 2nd House: a negative impact of (\$3,035,000) through the biennium ending August 31, 2015.

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 |
|-------------|---|
| 2014 | (\$285,000) |
| 2015 | (\$2,750,000) |
| 2016 | (\$4,488,348) |
| 2017 | (\$5,361,702) |
| 2018 | (\$8,784,666) |

All Funds, Five-Year Impact:

| Fiscal Year | Probable Savings/(Cost) from <i>General Revenue Fund</i> 1 | Probable Savings/(Cost) from <i>Foundation School Fund</i> 193 | Change in Number of State Employees from FY 2013 |
|-------------|---|---|---|
| 2014 | (\$285,000) | \$0 | 0.0 |
| 2015 | (\$150,000) | (\$2,600,000) | 0.0 |
| 2016 | (\$1,098,520) | (\$3,389,828) | 13.0 |
| 2017 | (\$1,181,347) | (\$4,180,355) | 16.0 |
| 2018 | (\$1,203,287) | (\$7,581,379) | 16.0 |

Fiscal Analysis

The bill would amend the cap on the total number of open enrollment charters that may be issued by the state, increasing it by 10 charters in each fiscal year through FY2020, after which the cap would be set at 275.

The bill would authorize the granting of up to five charters to applicants serving student populations in which at least 50 percent of students receive special education services. Charters granted under this provision would not be subject to the cap on the total number of open enrollment charters and would be entitled to funding through the Foundation School Program of 105 percent of entitlement earned for students receiving special education students.

The bill would allow the State Board of Education (SBOE) to grant charters, subject to the cap, for entities operating charters in other states that meet certain performance requirements, certain charters that primarily serve students with disabilities, and certain charters serving as dropout recovery programs.

The bill would require TEA to conduct an annual performance evaluation of charter schools with requirements stipulated by the bill.

The bill would require certain TEA employees to participate in training offered by a nationally recognized organization of charter authorizers.

As part of the annual report required by the bill, the bill would require TEA to contract with an education research center to prepare a report analyzing performance of public school students on assessments and would require analysis of the likely impact of school district consolidation on student performance.

Methodology

It is assumed for purposes of this estimate that the commissioner would grant all of the new open-enrollment charters allowed under the cap as stipulated by the bill. The bill allows charter holders to add campuses under certain circumstances. Accordingly, it is assumed that beginning with the third year of operation of each cohort of new charter holders, a total of 35 expansion campuses would begin serving students.

To the extent that newly authorized open-enrollment charter schools may enroll some students who would not otherwise enroll in public school districts or existing open-enrollment charter schools, there would be fiscal implications for increased Foundation School Program (FSP) costs of approximately \$5,345 per weighted student. For purposes of this estimate it is assumed that the average enrollment at each new charter school and each new campus opened by existing charter holders would be 200 students and that five percent of new enrollment (10 students) would represent students who would otherwise not have enrolled in public schools or existing charter schools. The same average enrollment per campus is assumed for expansion campuses opened by new charter holders in the third year of operation. Assuming that newly granted charters would most likely begin operations in FY2016, FSP cost is estimated at approximately \$745,628 in FY2016, \$1.5 million in FY2017, and \$4.8 million in FY2018. These costs would continue in FY2019 and subsequent years and would increase each year with new charter holders authorized each year and due to enrollment at the expansion campuses of each charter cohort beginning in FY2018.

The bill as amended would create up to five new charters primarily serving students eligible for special education services. The bill would provide for enhanced Foundation School Program (FSP) funding generated by special education students attending these charters by adding an additional 5 percent to the FSP entitlement that would otherwise be generated by these students. Students attending the new charters that are not eligible for special education would not earn enhanced FSP entitlement. FSP cost for these provisions were modeled based on the characteristics of students

served by five current charter schools having proportionally high numbers of students receiving special education services. In fiscal year 2014, the charters used to model cost will collectively serve about 2,000 students with enrollment ranging from 137 to 720 students, with the percent of students receiving special education services ranging from 40 to 60 percent of enrollment. For the purpose of this estimate, it is assumed that approximately 5 percent of the students enrolling in the new charters would not previously have been enrolled in a public school, representing new FSP cost. Assuming 1.7 percent annual enrollment growth and assuming these charters would enroll students beginning in FY2015, estimated additional cost to the FSP for the proposed five new charters would be \$2.6 million in fiscal year 2015, increasing to nearly \$2.8 million by fiscal year 2018.

TEA would incur significant costs in functional areas associated with administrative and oversight functions related to the additional charter holders and charter campuses contemplated by the bill. It is estimated that the agency would need 6.0 FTE positions in the charter school division, 2.0 FTEs in the financial compliance division, and 8.0 FTEs allocated among functions related to grants administration, legal services, and other agency functions. The FTE increase would be expected to phase in with 13.0 new FTEs being added in FY2016, increasing to 16.0 in FY2017. The personnel cost, inclusive of salary, benefits, and other operating expenses, is estimated at \$0.9 million in General Revenue Funds and \$0.1 million in federal funds in FY2016, increasing to \$1.0 million annually in General Revenue Funds and \$0.2 million annually in federal funds in each subsequent fiscal year. In addition, travel costs of \$37,940 in FY2018 are assumed for agency staff associated with monitoring and auditing of charters newly established under the bill.

Training required under the provisions of the bill is estimated to cost \$2,500 per person based on the National Association of Charter School Authorizers leadership training course cost. TEA estimates that 30 individuals would be trained in FY2014 for a total training cost estimated at \$75,000.

TEA estimates the reporting requirements related to comparing public schools in terms of student performance and the analysis of the likely impact of school district consolidation would cost \$150,000 per year.

Technology

TEA estimates technology costs of \$60,000 in FY2014 to modify the FSP system to accommodate the special education charters.

Local Government Impact

ISDs with unused or underutilized facilities would be required to allow charter operators an opportunity to purchase, lease, or use facilities. ISDs would not be required to accept a charter operator's offer.

Charter schools would no longer be exempt from nepotism statutes.

Charter schools would be required to adopt policies requiring the recitation of the pledges to the United States and Texas flags and to provide for a moment of silence.

Charter school teachers and administrators would be required to hold a baccalaureate degree.

Source Agencies: 701 Central Education Agency, 360 State Office of Administrative Hearings, 720 The University of Texas System Administration

LBB Staff: UP, JBi, JSc, JSp