

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 85TH LEGISLATURE 1st CALLED SESSION - 2017

August 7, 2017

**TO:** Honorable Dan Huberty, Chair, House Committee on Public Education

**FROM:** Ursula Parks, Director, Legislative Budget Board

**IN RE: HB125** by Villalba (Relating to open-enrollment charter schools.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB125, As Introduced: a negative impact of (\$42,606,314) through the biennium ending August 31, 2019.

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
2018	(\$21,105,576)
2019	(\$21,500,738)
2020	(\$20,091,786)
2021	(\$23,841,369)
2022	(\$22,426,305)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193
2018	(\$21,105,576)
2019	(\$21,500,738)
2020	(\$20,091,786)
2021	(\$23,841,369)
2022	(\$22,426,305)

Fiscal Analysis

The bill would create a new Foundation School Program (FSP) funding stream for charter schools and would cap individual charter school FSP entitlement for those charters qualifying and choosing to accept the additional funding. The bill would create supplemental funding for charters meeting specific academic performance criteria. Supplemental funding would equal the difference between average maintenance and operations (M&O) and interest and sinking (I&S) state and

local revenue of traditional school districts per ADA and the qualifying charter's FSP entitlement. The total FSP funding per ADA, including supplemental funding, of each charter accepting the supplemental funding would be subject to a cap. The cap would be equal to the average state and local M&O and I&S revenue per ADA of school districts located within the boundaries of the Education Service Center region where a majority of the charter holder's students attend school.

Charter schools accepting the performance-criteria based supplemental funding would be required to comply with certain provisions of Chapter 37, Education Code and to enter into related memoranda of understanding for those purposes. The bill would also authorize contractual instructional arrangements with school districts for disciplinary alternative education program services. The bill further describes attribution of students served in such arrangements for funding and accountability.

The bill would provide specific geographic boundaries to be used in determining the recipients of required notifications concerning a proposed charter school or charter campus. Additional notifications would be required subsequent to certain property acquisitions.

The bill would apply beginning with the 2017-2018 school year.

## **Methodology**

The bill would add Sections 12.106(a-3)-(a-6) to create the supplemental funding stream for eligible charters described above. Based on analysis of FY14, FY15, and FY16 student achievement data, 45 currently operating charters would qualify for the supplemental funding. For the purpose of this estimate, it is assumed that these 45 charters containing about 55% of charter ADA, would choose to accept supplemental funding when it becomes available in FY18. Per proposed subsection (a-5), charters would remain eligible without regard to academic performance for a period of three years after initially qualifying for the supplemental funding, contingent on continuing compliance with the applicable disciplinary-related provisions. It is likely that additional charters would become eligible for supplemental funding subsequent to FY18. For this estimate, the number of charters choosing to receive supplemental funding is assumed to grow by three charters in FY19 and each year thereafter. This analysis assumes debt service revenue would be limited to Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA). Based on these assumptions, cost for supplemental funding is estimated to be \$29.8 million in FY18 and \$31.0 million in FY19.

For charters that choose to accept supplemental funding, the bill would cap total FSP funding per ADA. The cap would be equal to the average state and local M&O and I&S revenue per ADA of school districts located within the boundaries of the Education Service Center (ESC) region where a majority of the charter holder's students attend school. Although the bill specifically uses the term "majority" with respect to determining the applicable region for the cap, for this analysis the region with the largest number of students was used in cases where a charter holder had less than 50% in every region where campuses were located. The region serving as each charter's cap was determined using FY16 campus enrollment. Campus enrollment was assigned to region for this estimate by attributing the zip code of the street address of the campus to the county and then applicable ESC region. Applying the caps resulting from these assumptions reduced entitlement for 14 charters in FY18 and 19 charters in FY19 providing estimated savings of \$8.7 million in FY18 and \$9.5 million in FY19.

## **Local Government Impact**

Eligible charter schools would receive additional state aid as a result of the bill.

**Source Agencies:** 701 Texas Education Agency

**LBB Staff:** UP, AG, AM, AH