LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

May 23, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: **HB21** by Huberty (Relating to the funding of primary and secondary education.), **As Passed 2nd House**

Estimated Two-year Net Impact to General Revenue Related Funds for HB21, As Passed 2nd House: a negative impact of ($664,212,993) 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	($332,756,236)
2019	($331,456,757)
2020	($312,405,262)
2021	($361,842,779)
2022	($409,454,582)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *Foundation School Fund* 193	Probable Savings from *Foundation School Fund* 193	Probable (Cost) from *General Revenue Fund* 1	Probable Savings/(Cost) from *Dyslexia Set-Aside*
2018	($329,063,697)	$0	($3,692,539)	$0
2019	($322,412,384)	$41,428,980	($50,473,353)	($2,719,500)
2020	($300,350,804)	$52,532,898	($64,587,356)	($5,710,950)
2021	($349,846,825)	$57,786,188	($69,782,142)	($6,282,045)
2022	($397,314,166)	$63,564,807	($75,705,223)	($6,910,250)

Fiscal Year	Probable Revenue Gain/(Loss) from *Dyslexia Set-Aside*	Probable (Cost) from *Autism Grant Set-Aside* 193	Probable Savings from *Autism Grant Set-Aside* 193	Probable Savings/(Cost) from *Appropriated Receipts* 666
2018	$0	($10,000,000)	$10,000,000	($133,158)
2019	$2,719,500	($10,000,000)	$10,000,000	($130,958)
2020	$5,710,950	$0	$0	($130,958)
2021	$6,282,045	$0	$0	($130,958)
2022	$6,910,250	$0	$0	($130,958)

Fiscal Year	Probable Savings/(Cost) from *Chater Dist Bond Guarrantee Resv* 0053	Change in Number of State Employees from FY 2017
2018	($7,049,455)	17.0
2019	($6,010,735)	17.0
2020	($4,970,815)	17.0
2021	($3,930,117)	16.0
2022	($2,888,571)	16.0

Fiscal Analysis

The bill would revise formulas used to determine entitlement under the Foundation School Program (FSP). The bill would set the minimum basic allotment equal to $5,140. The bill would amend the small district adjustment applied to the basic allotment for districts with boundaries encompassing less than 300 square miles. Beginning in fiscal year 2019, the bill would increase the small district adjustment for these districts each year through fiscal year 2024 until the adjustment is equal to the level currently provided for small districts encompassing 300 or more square miles. The adjustment's effect on charter school funding would be limited to the level provided in FY17.

The bill would add an allotment to the FSP providing weighted funding for each student in average daily attendance (ADA) receiving instruction in a dyslexia program or who has received instruction in such a program and continues to receive academic modification and accommodation. Funding per ADA would be equal to a district's adjusted allotment multiplied by a weight of 0.1. Funding would be limited to a total of 5% of total ADA. Funding received through the allotment could only be used to provide services to students with dyslexia or related disorders.

The bill would increase the per-student amount of funding awarded under the New Instructional Facilities Allotment but would not change the overall total amount of funding that may be appropriated for the program.

The bill would create a grant program for fiscal years 2018 and 2019 to provide transition aid for school district financial hardship. Grant awards would be provided according to a specified formula to districts and charters meeting specific eligibility criteria.

The bill would provide FSP facilities funding for charter holders equal to the number of students in average daily attendance multiplied by the guaranteed level of state and local funds per student per cent of tax effort under Section 46.032(a) of the Education Code, multiplied by the lesser of the state average interest and sinking tax rate imposed by school districts for the current year or the rate that would result in entitlement of $50 million. The bill would also increase the guaranteed yield for the FSP Existing Debt Allotment for school districts each year to the lesser of

$40 or the amount that would result in a $50 million increase in state aid from the level of state aid provided by a yield of $35.

The bill would amend Section 13.054, Education Code related to the amount of state incentive aid provided to a district that is ordered by the Commissioner of Education to annex an academically unacceptable school district. The bill would provide the receiving district additional state incentive aid in the amount of debt service taxes levied by the receiving district in the tax year preceding the annexation per student and multiplying that per student amount by the additional students enrolled in the district on September 1 following the annexation. The amendment of Section 13.054 Education Code would apply to any annexation that occurred on or after July 1, 2016.

Education Savings Account Program

The bill would create the Education Savings Account Program, to be administered by the Comptroller of Public Accounts (CPA), to provide funding for certain education-related expenses of eligible children who are not otherwise enrolled in a public school. The bill would create the Education Savings Account Program Fund in the General Revenue Fund.

The bill would set the eligibility criteria as a child with a disability, who is eligible to attend a public school, and who was enrolled in a public school in this state during the entire preceding year. The bill would require the CPA to deposit into the child's account an amount equal to 90 percent of the state average M&O expenditure per student in the preceding year.

In the first year of a child participating in the program, the bill would entitle the school district the child would otherwise attend an amount equal to 5 percent of the state average M&O expenditure per student in the preceding year.

The bill would require a student who participates in the program to be included in the weighted average daily attendance of the school district the student would otherwise attend for purposes of determining the district's equalized wealth level under Chapter 41 of the Education Code in the first year the student is participating in the program.

The bill would prohibit the use of federal funds, the Permanent School Fund, or the Available School Fund to finance the program.

The bill would authorize the CPA to contract with one or more financial institutions to establish and manage an account or each child participating in the program.

The bill would authorize the CPA to deduct an amount, not to exceed five percent, from each program participant's account to cover the cost of administering the program, and require the CPA to contract with a private entity to randomly audit accounts as necessary to ensure compliance with applicable law and the requirements of the program.

The bill would authorize the CPA to refer to the Attorney General for investigation any evidence of fraudulent use of an account.

The bill would require the Commissioner of Education to approve private tutors or employees of a teaching service under the program.

The bill would require the CPA to establish a parent review committee.

The bill would require the CPA to notify the Commissioner of Education and the Legislative Budget Board no later than October 1 of each year the number of students likely to participate in the program, disaggregated by school district or open-enrollment charter school the eligible student would otherwise attend. The bill would require the CPA to notify the Commissioner of Education and the Legislative Budget Board of actual participation information by March 1 of each year.

The bill would require the Commissioner of Education to adjust enrollment estimates and entitlement for each school district based on information provided by the Comptroller under the provisions of this bill.

The bill would create a dyslexia set-aside allotment equal to five percent of the state average M&O expenditures per student participating in the ESA in the first year of program participation, and 10 percent of the state average M&O expenditures per student participating in the ESA in subsequent years.

ASATR Transition for Countywide Districts

The bill would add Section 42.25162 Education Code to provide a continuation of Additional State Aid for Tax Reduction (ASATR) for certain districts that are the only school district in a county. Eligibility would be further restricted to those districts demonstrating to the commissioner of education that at least one campus in the district would have to close as a result of the expiration of ASATR at the end of FY17. Districts receiving ASATR transition aid could not also qualify for Hardship Grants. However, districts eligible for both could choose which type of assistance to access.

Texas Public Finance Authority Program

The bill would authorize the Texas Public Finance Authority (TPFA) to issue and sell an aggregate amount of outstanding obligations not to exceed $100 million to finance: loans to eligible school districts; the purchase, lease, or lease-purchase of vehicles, equipment or appliances by eligible school districts; or costs associated with maintenance, repair, rehabilitation, or renovation of eligible school district facilities.

The bill would make the obligations under the program eligible to be guaranteed by the Permanent School Fund. The bill would allow TPFA to use proceeds of obligations under the provisions of this bill to pay the cost of administering the program. The bill would create the School District Equipment and Improvement Fund outside the treasury to implement the program.

Grant Program for Innovative Services to Students with Autism

The bill would create a program to provide grants for innovative services to students with autism. Grants would be awarded to up to 10 recipients with priority for collaborative programs involving multiple public schools. Grant awards, capped at $1.0 million per recipient during the 2018-2019 biennium, would be provided for five years. To provide funding for the grant program, the bill would direct the Commissioner to set aside $10 million in each fiscal year of the 2018-19 biennium from the FSP and proportionately reduce each school district and charter school's FSP state aid.

The bill would establish criteria for eligibility of a grant award and activities not allowed as part of the grant and allow the Commissioner of Education to adopt rules creating a grant application and selection process. The bill would require the Commissioner to create an external panel of stakeholders to provide assistance in the selection and application of grant awards. The bill would require the Commissioner to publish a report on the grant program by December 31, 2021 with recommendations for statutory or funding changes, in addition to data on the academic and functional achievements of students enrolled in a program that receives a grant.

Texas Commission on Public School Finance

The bill would create the Texas Commission on Public School Finance which would have the responsibility to develop and make recommendations for improvements to the current public school finance system or for new methods of financing public schools. The bill would require staff members of the Texas Education Agency (TEA) to provide administrative support for the commission. The bill would abolish the commission on January 8, 2019.

Bond Guarantee Program

The bill would amend the Education Code related to the calculation of the capacity of the bond guarantee program (BGP). The bill would apply the available capacity for charter districts to the total capacity of the bond guarantee program based on the number of students in charter schools as a percentage of all public school students. The increase of charter bond guarantee capacity would be phased-in over five years, making available over each of the next four fiscal years 20 percent of the difference between the existing charter capacity as of January 1, 2017 and the new charter capacity on September 1, 2017 as specified by the provisions of the bill described above. Current law requires the subtraction of any outstanding guaranteed bonds from the total capacity before calculating the percentages available for school districts and charter districts.

The bill specifies that the charter district bond guarantee reserve fund would be managed by the State Board of Education (SBOE) in the same manner as the SBOE manages the Permanent School Fund to establish standards for the investment of funds and ensure that the balance is sufficient for cash-flow requirements of the fund. If the balance of the reserve fund reached at least 3.0 percent of the total amount of outstanding guaranteed charter district bonds, then the charter districts would not have to make payments into the reserve fund.

In addition, the bill establishes certain safeguards to reduce the risks of default on charter district bonds. The bill grants the board the authority to increase charter bond capacity by less than the total capacity allowed by the bill, or to decline to increase charter capacity if an increase of capacity would have a negative impact on bond ratings. The commissioner may disapprove an application for a guaranteed charter district bond if it is determined that certain bond documents do not provide a security interest in real property pledged as collateral for the bond. The commissioner may also disapprove a bond application based on any additional reasonable factor deemed necessary to protect the bond guarantee program and minimize risk to the Permanent School Fund, including considerations of average daily attendance or insufficient performance by a charter district that may adversely affect the charter district's financial performance.

Charter School Asset Disposition

This bill's provisions would establish a framework to dispose of property held by a charter school that has ceased to operate. This includes allowing a charter that has purchased real property with local funds to retain a proportional ownership share, procedures for the state to sell or transfer real property, and the ability for a former charter to retain the property by buying out the state interest.

The bill's provisions restrict the use of charter funds from being pledged or used to secure loans or bonds for another organization, including a non-charter operation or out-of-state operation conducted by the charter holder or a related party. The bill also allows an audit of a charter school to examine real property transactions between the charter holder and a related party and allows the commissioner to take action to protect the school's interest.

The bill specifies the allowable uses of the charter liquidation fund, including agency personnel costs associated with managing and closing charter schools. The bill's provisions direct the Commissioner of Education to transfer excess funds in the charter liquidation fund to a high-quality education grant or to supplement the bond guarantee reserve fund.

Certain Off-Home Campus FTE Calculations

The bill would amend the Education Code to recognize a student who is 18 years of age or older who has met graduation credit requirements and is in an off home campus instructional arrangement to be considered a full-time equivalent (FTE) if the student receives 20 hours of contact per week, and a part-time equivalent if the student receives 10 hours or more, but less than 20 hours per week. The calculation would apply beginning with the 2017-18 school year.

General Provisions

This legislation would do one or more of the following: create or recreate a dedicated account in the General Revenue Fund, create or recreate a special or trust fund either with or outside of the Treasury, or create a dedicated revenue source. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

The Commissioner of Education would be required to implement the legislation only if the Legislature specifically appropriates funds for the purposes of the legislation. If the Legislature does not appropriate funds for that purpose, the Commissioner may, but would not be required to, implement the legislation using other appropriations available for the purposes of the legislation.

Methodology

Fiscal implications to the state for the FSP formula change to the small district adjustment and the dyslexia allotment are estimated assuming a basic allotment of $5,140. The bill would create a two-year financial hardship grant program to provide transitional aid for school districts experiencing a loss of M&O revenue relative to statute in place for fiscal year 2017. The transition grants would be available for fiscal years 2018 and 2019. Total appropriations for the grant program would be capped at $100.0 million in fiscal year 2018 and $50 million in fiscal year 2019.

Under these assumptions, the bill would result in estimated net state cost for FSP entitlement relative to current law of $531.3 million for the 2018-2019 biennium. In FY18, estimated $288.0 million net state cost consists of $298.0 million in increased entitlement for the dyslexia allotment, hardship grants, and facilities funding and $10.0 million reduced entitlement due to the set-aside for grants for serving students with autism. In FY19, estimated $243.3 million net state cost consists of $294.7 million in increased entitlement for the dyslexia allotment, small district adjustment increase, hardship grants, and facilities funding and $51.4 million reduced entitlement due to the $10.0 million set-aside for grants for serving students with autism and estimated $41.4 million net reduced entitlement for students accessing the education savings accounts. FY19 estimates assume $2.7 million as a method of finance contributing to the cost of the dyslexia allotment per language in the bill dedicating specific proportional amounts under the Education Savings Account Program for that purpose. In subsequent years, the dedicated portion of

Education Savings Account Program funds for this purpose are estimated at $5.7 million for fiscal year 2020 and $6.3 million for fiscal year 2021, and $6.9 million for fiscal year 2022.

Based on information provided by TEA, it is assumed that the agency would need to hire one full-time equivalent for the administration of the hardship grant program at a cost of $102,912 in fiscal year 2018, and $94,912 in fiscal years 2019 and 2020, including salary, benefits, and other operating expenses. TEA also indicates an additional technology cost of $28,757 in fiscal year 2018 to modify the Foundation School Program software to implement the provisions of the bill.

With respect to proposed incentive aid for debt service for consolidating districts, the Texas Education Agency (TEA) indicates the only district to which the amendment of Section 13.054, Education Code would currently apply is Texas City ISD, which annexed La Marque ISD in July 2016. Any additional costs that would occur from any future annexations cannot be determined at this time.

The 2015 tax year debt service collections of Texas City ISD was $8,778,818, which when divided by a corresponding enrollment of 6,356 provides a debt service tax collection per student of $1,381. Applying this amount to the increased student population experienced by the district in the following school year of 2,448 students provides additional state aid of $3,381,143 per year.

The bill entitles a school district to the state incentive aid beginning with the school year in which the annexation occurs. Since the bill would entitle Texas City ISD to the incentive aid beginning with the 2016-17 school year, TEA assumes that both state incentive aid for the 2016-17 school year and the 2017-18 school year would be provided to the district during fiscal year 2018.

ASATR Transition for Countywide Districts

There are 22 school districts that meet the countywide criteria outlined in the bill. TEA assumed that districts within this group that received at least $1.0 million in ASATR in FY17 would further be able to demonstrate that at least one campus in the district would have to close due to expiration of ASATR at the end of FY17. Under this assumption, TEA estimates the cost of ASATR transition aid under 42.25162 to be $20.8 million each year during the 2018-2019 biennium. The provision would expire at the end of FY19.

Education Savings Account Program

The state average per-pupil M&O expenditure based on the most recent audited actual financial data submitted to the Public Education Information Management System (PEIMS) for fiscal year 2015 is $9,065. Ninety percent of this amount would be $8,159 (the estimated value of the award). In fiscal year 2015, the same year that expenditure data is available, the statewide average Foundation School Program (FSP) entitlement per student in ADA was $8,065.

TEA estimates that approximately 660,000 students would be eligible to participate in the Education Savings Account Program in each fiscal year. TEA assumes that the number of students who would choose to utilize the Education Savings Account Program would be 6,000 in the 2018-19 school year, and would grow by approximately 10 percent per year. Based on the award assumption provided for above, the total statewide awards for these students would be $49.0 million in the fiscal year 2019, $53.8 million in fiscal year 2020, $59.2 million in fiscal year 2021, and $65.2 million in fiscal year 2022.

For the same population, there would be a savings to the FSP from these students leaving the public school system. Based on the statewide FSP entitlement, the savings per student would be

$8,065, for a total savings to the FSP of $48.4 million in fiscal year 2019, $53.2 million in fiscal year 2020, $58.6 million in fiscal year 2021, and $64.4 million in fiscal year 2022.

The bill would provide a school district the student would otherwise attend 5 percent of the statewide average M&O expenditure per student in the preceding year. Based on the participation rates described above, a total of 6,000 students would be first time participants in the Education Savings Account Program in fiscal year 2019, 600 new participants in fiscal year 2020, 660 new students in fiscal year 2021, and 726 new students in fiscal year 2022. The statewide cost of these grants to schools would be $2.7 million in fiscal year 2019, and $0.3 million each year for fiscal years 2020 through 2022.

The bill provides that a student who participate in the Education Savings Account program should be included in the weighted average daily attendance of the school district the student would otherwise attend for purposes of determining the district's equalized wealth level under Chapter 41 of the Education Code for the first year the student is in the program. Based on information provided by TEA, 12 percent of students attend a recapture district statewide, and the average cost for a credit of recapture is $5,891. Based on the participation rates laid out above, the anticipated cost to the state of less recapture revenue would be $4.2 million in fiscal year 2019, and $0.4 million in fiscal year 2020, $0.5 million in fiscal year 2021, and $0.5 million in fiscal year 2022.

The bill would create the dyslexia allotment set-aside equal to five percent of the state average M&O expenditures per student participating in the Education Savings Account in the first year of program participation, and 10 percent of the state average M&O expenditures per student participating in the Education Savings Account in subsequent years. Based on participation rates provided for above, the estimated cost of the set-aside would be $2.7 million in fiscal year 2019, $5.7 million in fiscal year 2020, $6.3 million in fiscal year 2021, and $6.9 million in fiscal year 2022.

Education Savings Account Administrative Costs

The provisions of the bill authorize the CPA to deduct up to 5 percent of the total awards under the Education Savings Account Program to implement the provisions of the bill. This analysis assumes that any CPA administrative costs are included in amounts indicated above for fiscal years 2019 and beyond, when the program is operating. CPA has indicated administrative costs in fiscal year 2018 though, which would be an additional cost to General Revenue, because there would be no Education Savings Account Program awards from which to deduct the funds.

In total, CPA administrative costs associated with implementing the provisions of the bill to be $2.1 million in fiscal year 2018, $1.7 million in fiscal year 2019, $1.7 million in fiscal year 2020, $1.8 million in fiscal year 2021, and $1.8 million in fiscal year 2022. The Comptroller also indicates an additional 10 FTEs would be required in each fiscal year to implement the provisions of the bill. Administrative costs would include $1.9 million over a five year period related to technology costs to establish an online enrollment system, website development and maintenance, to develop interfaces with outside entities, and for the purchase and customization of a record keeping system.

TEA reports that a total of five FTEs would be necessary to implement the Education Savings Account Program at an estimated cost of $469,897 in fiscal year 2018 and $443,988 in subsequent years. TEA reports that one FTE would be necessary to manage and adjust the WADA and school district funding; two FTEs would be necessary to promulgate rules, review applications, and process criminal history background checks for tutors; and two FTEs would be needed to maintain the application processing system needed for private tutors and employees of a teaching service.

Texas Public Finance Authority Program

Based on information provided by TPFA, that agency would have an estimated administrative cost of $133,158 in fiscal year 2018, and $130,958 in subsequent years to implement the provisions of the legislation, related to the salary, benefits, travel, and other operating expense of one Full-time Equivalent to implement the issuance and loan program.

The bill would authorize TPFA to charge fees to participating school districts for the cost of administering the program, and it is anticipated that the FTE would be paid from these fees.

TEA indicates that it could experience additional costs associated with implementing the provisions of the legislation, but this analysis assumes any such cost would not be significant.

Grant Program for Innovative Services to Students with Autism

Providing grants for innovative services to students with autism as specified in the bill would result in a cost of $150,964 in fiscal year 2018 due to administrative costs for initial program development and a FTE, with continuing costs of $107,444 in subsequent fiscal years for the FTE. The FTE would be responsible for overseeing the grant application and selection process and for providing technical assistance to grant recipients. Beginning in fiscal year 2020, the grants would result in an annual cost of $10.0 million.

This estimate assumes grant awards would be paid from Foundation School Fund 193 in fiscal years 2018 and 2019 and from General Revenue Fund 1 in remaining years.

For the purpose of this estimate, it is assumed that each year's $10 million set-aside from school district and charter school Foundation School Program funding would be charged against the Foundation School Fund (FSF) portion of state aid, to the extent the entity receives such aid. It is assumed that the portion of state aid derived from the constitutionally-directed Available School Fund (ASF) per capita distribution would not be subject to reduction.

As specified by the bill, grant awards cannot exceed $1 million and cannot be granted to more than 10 recipients. Although the bill states that the Commissioner is to implement the program in school year 2018-19 (or fiscal year 2019), the bill also specifies that the Commissioner shall use $20.0 million ($10.0 million each fiscal year) of FSP funds to implement the program in the 2018-19 biennium. This analysis assumes the latter provision takes precedence, and anticipates grants would be awarded to 10 recipients in fiscal year 2018 with grant amounts of $1 million per award, totaling $10 million in grant awards (10 grantees x $1 million). This estimate assumes the 10 grants would be awarded continuing funding of $1 million per year for each subsequent year of the five-year grant award.

This analysis assumes TEA would require one FTE to oversee the grant application, selection process, disbursement of funds, and to provide technical assistance to grantees. The estimated cost of the FTE, including salary, benefits, and other operating expenses, would be $115,444 in fiscal year 2018 and $107,444 in subsequent years.

According to TEA, the agency would incur costs in fiscal year 2018 related to stakeholder meetings for rulemaking activities and review of grant applications. Based on information from TEA, the agency would invite 40 stakeholders to participate in rulemaking activities and an additional 40 stakeholders to participate in the review of grant applications. The estimated cost of travel reimbursement, including lodging, meals, and incidental, and mileage, would be $419 per person, totaling approximately $33,520 in fiscal year 2018 ($419 x 40 people x 2 meetings). Cost related to meeting space and materials would total $2,200 ($1,100 per meeting x 2 meetings), resulting in a total cost of $35,720 in fiscal year 2018 for the two stakeholder meetings.

This analysis assumes TEA would produce the required evaluation report with existing resources.

Texas Commission on Public School Finance

TEA indicates that any costs associated with implementing the provisions related to the Texas Commission on Public School Finance could be absorbed within current resources.

Bond Guarantee Program

It is estimated that the bill would result in a revenue gain to the charter district bond guarantee reserve fund of $7.0 million in fiscal year 2018 and $6.0 million in fiscal year 2019, for a biennial total of $13.1 million. The annual revenue gain would gradually decline thereafter, falling to $2.9 million in fiscal year 2022.

The declining revenue forecast results from two main opposite and offsetting factors that affect the reserve fund's revenues. The bill would increase the amount paid by charter districts to the charter district bond guarantee reserve fund from 10 percent to 20 percent of the bond interest savings that result from the charter district bonds being guaranteed. These increased payments to the charter district bond guarantee reserve fund would constitute an ongoing revenue that is anticipated to be sufficient to cover any potential losses due to charter district bond defaults. The higher revenues in fiscal years 2018 and 2019 reflect the immediate doubling of the amount remitted by both existing and anticipated new charter districts to the reserve fund based on bond interest savings that would result from the bond guarantee. At the same time, however, the incremental increase of the charter bond capacity in subsequent fiscal years would increase the probability of default over time and therefore increase the probable costs to the reserve fund in the event a default occurred, offsetting revenues over time and accounting for the declining revenue forecast.

Although the bill would increase the probability of a guaranteed charter bond default and therefore increase the anticipated costs to the reserve fund of guaranteeing charter district bonds, TEA anticipates the annual net potential loss to the Permanent School Fund (PSF) to cover defaults for fiscal years 2018 through 2022 to be zero due to higher cash balances in the reserve fund that would result from increased revenues established by the bill. Increased balances in the reserve fund are anticipated to be sufficient to eliminate exposure of the PSF to increased costs that may result from defaults on charter district bonds.

Revenue and cost projections to the reserve fund consider anticipated growth of charter district bond capacity, the total amount available in the PSF to guarantee charter bonds, industry standard interest rates for guaranteed charter school bonds, the annual default rate probabilities of guaranteed charter school bonds based on historic data, and an assessment of historical information and recent financial stability information reviewed by TEA as part of its charter school bond guarantee review program. TEA also reports that there has never been a default in the Texas charter school Permanent School Fund (PSF) bond guarantee program, that the bill would not change the eligibility criteria for assessing whether a charter school qualifies for a PSF guarantee, and that all charter bond holders are screened by TEA for financial stability and reliability, reducing risk to the PSF bond guarantee program.

Charter School Asset Disposition

The Texas Education Agency indicates that any costs associated with implementing the provisions of the bill could be absorbed within existing resources.

Certain Off-Home Campus FTE Calculations

This analysis assumes that the 85th Legislature will make an appropriation to implement the bill. TEA indicates that in fiscal year 2017, there were a total of 2,852 students who were in an off-home campus instructional setting, including 1,155 who were between the ages of 18-21. TEA assumes the number of FTEs generated by those students at 6 hours of contact per day would be 703 FTEs. TEA indicates, that based on this population, 351 additional FTEs would be generated in fiscal year 2018 by implementing the provisions of the bill, and the agency assumes this would increase by 2 percent per year. TEA calculated the cost to the Foundation School Program of the additional FTEs and determined an additional cost of $3.5 million in each fiscal year of the 2018-19 biennium, rising to $3.8 million in fiscal year 2022. TEA indicated that the approximately 24 percent of the cost would be attributable to students 18 years of age, 31 percent of the cost would be attributable to students 19 years of age, 24 percent of the cost would be attributable to students 20 years of age, and 21 percent of the cost would be attributable to students 21 years of age.

Technology

The Comptroller indicates technology costs associated with the Education Savings Account Program would total $1.9 million over a five-year period to establish an online enrollment system, website development and maintenance, to develop interfaces with outside entities, and for the purchase and customization of a record keeping system.

TEA indicates technology costs associated with the Education Savings Account Program would total $1.6 million over a two-year period to establish an application processing system to assist in approving private tutors or employees of a teaching service. The Agency estimates $28,757 in fiscal year 2018 to modify FSP software to implement provisions of the bill relating to hardship grants.

TPFA indicates it would have a technology impact of $2,200 in fiscal year 2018 related to implementing the provisions of the bill pertaining to the issuance and loan program for school districts.

Local Government Impact

Under the bill, more than 90 percent of school districts and charter schools would experience gains in revenue relative to current law for fiscal years 2018 and 2019. The bill includes a hardship grant program that would provide additional revenue to districts experiencing losses related to provisions expiring at the end of FY17.

Related to the Education Savings Account Program, collectively, school districts would experience a net loss of revenue from students exiting to attend nonpublic schools. Revenue implications would vary by district depending upon the number of students exiting and the application of wealth equalization provisions under Chapter 41 to the district.

With respect to the FSP set-aside to fund grants for innovative services for students with autism, school districts and charter holders would experience reductions in the Foundation School Fund (FSF) portion of FSP state aid in fiscal years 2018 and 2019. Reductions would be offset in those years for districts or charters participating in the 10 programs receiving grant awards.

Participating districts would also incur costs associated with providing innovative services; however, costs per district would be anticipated to vary depending on individual grant parameters.

Local school districts to which academically unacceptable school districts would be annexed would be entitled to incentive aid for debt service under the provisions of the bill.

The Texas Education Agency indicates that certain districts could realize savings under provisions pertaining to the Texas Public Finance Authority.

Bond Guarantee Program

The bill would expand the number of charter district bonds that could be guaranteed by the Permanent School Fund and, therefore, enable more charter districts bonds to be issued at lower interest rates. The bill would increase the amount that charter districts remit to the reserve fund from 10 to 20 percent of the bond-interest savings that resulted from receiving a guaranteed bond at a lower interest rate.

However, in the event of a default of a PSF-guaranteed charter district bond, interest rates would rise for independent school districts and charter districts that were issued bonds, raising costs for a temporary period of time even if the PSF maintained the highest rating provided by the credit rating agencies.

PSF staff indicate that the additional funding costs of higher interest rates that could result from a default on charter district bonds would be approximately $14.8 million per year or $297 million over the 20-year average term of the bond district issuance, including both school district and charter district bond debt service costs. This estimate is based on the average annual bond issuance by school and charter districts during the last five years; the difference of interest rates if a default occurred (based on the differential between 20-year municipal revenue bonds of AAA at 2.95%, and AA bonds at 3.33%); and the assumption that the PSF gets downgraded only one level for one year.

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

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