

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 85TH LEGISLATIVE REGULAR SESSION

March 27, 2017

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

FROM: Ursula Parks, Director, Legislative Budget Board

IN RE: HB1269 by Villalba (Relating to open-enrollment charter schools.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1269, As Introduced: a negative impact of (\$450,200,000) 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	(\$211,700,000)
2019	(\$238,500,000)
2020	(\$248,900,000)
2021	(\$269,600,000)
2022	(\$272,000,000)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from Foundation School Fund 193
2018	(\$211,700,000)
2019	(\$238,500,000)
2020	(\$248,900,000)
2021	(\$269,600,000)
2022	(\$272,000,000)

Fiscal Analysis

The bill would create two new Foundation School Program (FSP) funding streams for charter schools and would cap individual charter school FSP entitlement. The bill would provide facilities funding to all charter schools on a per student basis equal to average state aid per student for traditional school districts through the FSP Instructional Facilities Allotment (IFA) and Existing Debt Allotment (EDA). 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 and the qualifying charter's FSP entitlement including the new charter facilities funding stream. Each charter's total FSP funding per WADA, including amounts received for facilities and supplemental funding provided to charters meeting performance criteria, would be subject to a cap. The cap would be equal to the average state and local M&O and I&S revenue per WADA 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 take effect beginning with the 2017-2018 school year. The facility funding provision would apply in the 2018-2019 biennium only if a specific appropriation is made for that purpose.

Methodology

The bill would add Section 12.106(d) providing facilities funding for charter schools equal to average state aid for the IFA and EDA programs multiplied by charter ADA. Based on current projections of charter ADA and school districts' state aid for IFA and EDA, cost for this provision is anticipated to be \$27.2 million in fiscal year 2018 and \$26.0 million in fiscal year 2019.

The proposed 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 fiscal years 2014, 2015, and 2016 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 54 percent of charter WADA, would qualify for the supplemental funding when it becomes available in fiscal year 2018. 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 fiscal year 2018. For this estimate, it is assumed that the number of charters receiving supplemental funding would grow by three charters in fiscal year 2019 and each year thereafter. Based on these assumptions, cost for supplemental funding is estimated to be \$189.8 million in fiscal year 2018 and \$218.2 million in fiscal year 2019.

The bill would cap each charter's total FSP funding per WADA, including amounts received for facilities and supplemental funding. The cap would be equal to the average state and local M&O and I&S revenue per WADA 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 percent in every region where campuses were

located. The region serving as each charter's cap was determined using fiscal year 2016 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 19 charters in each year of the biennium providing estimated offsetting savings of \$5.3 million in fiscal year 2018 and \$5.6 million in fiscal year 2019.

Local Government Impact

Charter schools could receive additional state aid as a result of the bill.

Source Agencies: 701 Texas Education Agency

LBB Staff: UP, THo, AM, AH