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M E M O R A N D U M

TO: Patti Everitt

FROM: Avery Saxe and Andy MacLaurin

DATE: September 26, 2018

SUBJECT: Your Questions Relating to Charter School Funding

The following memo responds to your questions on charter school funding.

You asked for information on the percentage of Texas school district students receiving a Foundation School Program Tier 1 adjusted allotment lower than the adjusted allotment provided to charter school students.

According to an August 8, 2018, Texas Education Agency (TEA) presentation made to the House Public Education Committee, 95 percent of school district students receive less than the $6,540 adjusted allotment provided to charters. TEA's presentation may be found online at the following link: https://tea.texas.gov/WorkArea/DownloadAsset.aspx?id=51539624567.

As a component of the school finance formula, the adjusted allotment is calculated by applying the basic allotment ($5,140 in fiscal years 2018 and 2019) to the cost of education index (CEI), which is an adjustment in the cost of goods and services beyond the control of school districts. The CEI adjustment ranges from 1.02 to 1.20. To arrive at the adjusted allotment, additional adjustments are incorporated for small and mid-sized districts and for districts with sparse student populations.

The Texas Education Code §12.106(a-1) specifies that for an open-enrollment charter school, the adjustments made for the CEI and small, mid-sized, and sparsity adjustments shall be based on the average adjustment for the state. According to TEA, this results in charter schools receiving a CEI of 1.0795 and an additional small-sized district adjustment.

You asked for information on the impact of changing the Education Code to require that charter schools qualify individually for the CEI and district size adjustments in Tier 1 rather than receiving funding based on the state average.

House Bill 1039, 85th Legislature, would have amended the Education Code to make a similar change: the bill would have changed charter school Tier 1 funding by providing the lesser of the average adjustment for the state or the adjustment received by the district within whose boundaries the charter holder's campus with the greatest enrollment is located. In addition, HB 1039 would have changed charter school Tier 2 enrichment funding by providing the lesser of the state average tax effort or the tax effort of the district within whose boundaries the charter holder's campus with the greatest enrollment is located. According to recent information provided to us from TEA, the fiscal impact of HB 1039 would have resulted in an estimated 2018-19 biennial General Revenue savings of $882.0 million ($653.7 million in Tier 1 and $228.3 million in Tier 2). A similar analysis conducted by our office reviewed the impact of basing the charter funding adjustments on a weighted average, rather than a simple average as it is currently calculated; the resulting 2018-19 biennial General Revenue savings were estimated to be $786.6 million ($670.3 million in Tier 1 and $116.3 million in Tier 2) .

Please note that these estimates were calculated using 2018-19 biennial assumptions and data current at the time of calculation, but which no longer remain so, and that any change in the data and assumptions underlying an analysis will result in different fiscal estimates. However, we believe these estimates provide a reasonable scope of the magnitude of such changes. Additionally, we've recently discovered that the HB 1039 fiscal note, which estimated the 2018-19 General Revenue biennial savings resulting from the bill at $160.6 million, was based on an inaccurate TEA analysis.

You asked for information on the fiscal impact of treating relevant charter school employees as Minimum Salary Schedule (MSS) staff for the purposes of calculating Teacher Retirement System (TRS) employer contributions.

Our analysis assumes the change would apply to both the Statutory Minimum Contribution and the Non-Social Security Employer Contribution. This change affects TRS Public Education Retirement only; it would not affect TRS-Care contributions.

The result is a net statewide annual increase of $19.8 million in contributions to TRS Public Education Retirement from charter schools. However, due to the structure of TRS contributions under current law, the change would result in an annual **savings of $24.9 million in General Revenue** to the state treasury and a net annual **decrease of $5.2 million** in revenue to the **TRS Pension Trust Fund**.

These amounts are informal estimates based on the Public Education Information Management System (PEIMS) FY 2018 Snapshot data and FY 2017 TRS reporting entity data; they do not account for other factors that may increase or decrease contributions in future fiscal years, such as payroll growth.

Under current law, two employer contributions to TRS Public Education Retirement are tied to the Minimum Salary Schedule (MSS) for applicable staff. For the purposes of both contributions, MSS-applicable staff include both current MSS staff under Texas Education Code §21.402 and staff who were formerly entitled to the MSS under former §16.056, Texas Education Code, on January 1, 1995.

For the Statutory Minimum Contribution, public school employers are required to cover the cost of the 6.8 percent State Retirement Contribution on payroll amounts that exceed the MSS adjusted by the Cost of Education Index (CEI). Because charter staff are not subject to the MSS, charters do not currently pay the Statutory Minimum Contribution. This change would therefore result in new charter payments to TRS.

Additionally, employers who do not participate in the federal Old Age, Survivors and Disability Insurance program (OASDI, or Social Security) also contribute an amount equal to 1.5 percent of either 1) employee payroll for non-MSS staff or 2) the CEI-adjusted MSS for MSS staff. Because charters have no MSS staff, they currently pay the Non-Social Security Employer Contribution based on employee payroll. To the extent that charter pay currently exceeds the MSS for applicable employees, this change would reduce the amount charters pay under the Non-Social Security Employer Contribution.

LBB calculated the potential new payments under the Statutory Minimum Contribution by applying the calculation methodology in the TRS Payroll Manual to PEIMS salary, years of experience, roles, FTE, and contract length data for charter schools.

The result is an annual increase of $24.9 million in payments owed from charter schools to TRS under the Statutory Minimum Contribution. However, this change has no impact on the TRS Pension Trust Fund. Rather than an independent contribution, the Statutory Minimum Contribution is actually a funding source for the State Retirement Contribution, which is a fixed percentage of payroll (6.8 percent in FY 2018-19). Because the overall State Retirement Contribution amount does not change, increases in the Statutory Minimum Contribution reduce the amount of General Revenue (GR) necessary to pay the State Retirement Contribution without increasing the total funding TRS receives. Therefore, the increase of $24.9 million in charter school payments would reduce expenditures of GR from the state treasury by $24.9 million and have no net impact on the TRS Pension Trust Fund.

To calculate the change in the Non-Social Security Employer Contribution, LBB applied the calculation methodology in the TRS Payroll Manual to PEIMS salary, years of experience, roles, FTE, and contract length data for only charter schools that paid Non-Social Security Employer Contributions in FY 2017 according to TRS.

The result is an annual decrease of $5.2 million in payments owed from charter schools under the Non-Social Security Employer Contribution. Unlike the Statutory Minimum Contribution, this contribution is distinct from the State Retirement Contribution. Therefore, the decrease of $5.2 million would have no impact on GR expended for the State Retirement Contribution but would decrease annual revenue to the TRS Pension Trust Fund by $5.2 million.

Combining both contribution changes, the net annual impact of applying the MSS to charter employees for TRS purposes would be a net increase of $19.8 million in payments from charters to TRS, a savings of $24.9 million in General Revenue to the state treasury, and a net decrease of $5.2 million in revenue to the TRS pension trust fund.

General Revenue-Related Funds, Annual Impact:

	Probable Net Positive/ (Negative) Impact to General Revenue-Related Funds	
Statutory Minimum Contribution	$	24,948,223
Non-Social Security Employer Contribution	$	-
Total	$	24,948,223

Charter Schools, Statewide Annual Impact:

	Probable Net Positive/ (Negative) Impact to Charter Schools	
Statutory Minimum Contribution	$	(24,948,223)
Non-Social Security Employer Contribution	$	5,186,968
Total	$	(19,761,255)

TRS Pension Trust Fund, Annual Impact:

	Probable Revenue Gain/ (Loss) from TRS Pension Trust Fund	
Statutory Minimum Contribution	$	-
Non-Social Security Employer Contribution	$	(5,186,968)
Total	$	(5,186,968)

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