

Department of Planning and Budget 2001 Fiscal Impact Statement

1. **Bill Number** HB2480

House of Origin	<input checked="" type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input type="checkbox"/> Engrossed
Second House	<input type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

2. **Patron** Moran

3. **Committee** Health, Welfare and Institutions

4. **Title** Prepaid college scholarships for children of VIEW participants.

5. **Summary/Purpose:**

HB 2480 would establish the Virginia Initiative for Employment not Welfare (VIEW) scholarship account program for qualified beneficiaries who are children of VIEW participants. Ownership of the scholarship would be retained by the Department of Social Services until such time as the student and the student's family complete any activities or actions prescribed by the State Board of Social Services, in consultation with the Board of the Virginia College Savings Plan, as conditions for receipt of a VIEW scholarship. Such scholarship accounts are intended to serve as an incentive for previously unemployed parents to gain long-term employment and to redirect their children's lives.

6. **Fiscal impact estimates are preliminary:**

6a. **Expenditure Impact:**

<i>Fiscal Year</i>	<i>GF Dollars</i>	<i>Federal Dollars</i>	<i>Positions</i>
2001-02	\$610,560,305	\$0	0.00
2002-03	\$381,635,805	\$0	0.00

7. **Budget amendment necessary:** Yes. Item 385, Subprogram 46210

8. **Fiscal implications:** Cost estimates assume funding from the general fund, because all TANF funding is committed in the introduced budget bill and current spending is already in excess of the annual federal TANF grant. Elements of cost are summarized in the following chart, based on known charges by the Virginia College Savings Plan applicable to the February-May 2001 application period. The Plan expects that costs will change over time as actuaries recommend changes in the rate schedule.

HB 2480 Cost Summary		
	FY 2002	FY 2003
Salaries and Benefits	\$ 170,205	\$ 170,205
Operating Costs	\$ 15,600	\$ 15,600
One-time Equipment	\$ 31,500	\$ 0
Systems Programming	\$ 63,000	\$ 25,000
Pre-paid Four-year Guaranteed College Scholarships	\$ 606,880,000	\$ 379,300,000
Application Fee Paid to Virginia College Savings Plan @ \$85 per account	\$3,400,000	\$2,125,000
Total	\$ 610,560,305	\$ 381,635,805

Major Assumptions: The cost estimates above assume purchase of full four-year scholarships at an estimated cost of \$15,172 each, the 2001 charge for a three-year-old. Scholarships would be purchased for an estimated 40,000 eligible children in FY 2002 and an estimated additional 25,000 eligible children in FY 2003.

These costs represent the present value of the scholarships, assuming a one-time payment to purchase each scholarship upon program initiation or upon determination of initial eligibility for TANF cash assistance.

Estimates of the number of children affected are based on December 31, 2000, point-in-time figures and FY 2000 unduplicated counts of VIEW children. The assumption is that all VIEW children will be eligible, as few VIEW parents have a history of continuing adult employment. It is not possible to predict how many of these children would eventually qualify to take advantage of the scholarships, both because standards have not been written and also because individual client behavior and business cycle performance cannot be predicted with accuracy.

Alternative Funding Method: The Board of the Virginia College Savings Plan also offers an option to make multiple smaller payments over time for each scholarship through the Virginia Education Savings Trust. The eventual value of these Trust accounts is not guaranteed. Scholarship value would vary with the amount and timing of contributions. Although this funding approach would reduce costs during the immediate future, it would increase the total cost over time if the same benefit were desired. Annual costs under this option could be flexible, but benefits would reflect funding choices.

Effect of Employment History

Most VIEW participants are not employed when entering VIEW but have records of sporadic, and sometimes stable, employment. If scholarship eligibility is limited to those with no history of employment at all, DSS estimates 4,000 eligible children in SFY 2002 with 2,000 additional children in SFY 2003 would be eligible for purchase of a scholarship. With such a reduced caseload, the total scholarship purchase cost would decline to about \$61 million GF in FY 2002 and \$31 million in FY 2003.

Additional DSS Administrative Costs:

DSS indicates that three staff persons would be needed to manage the VIEW Prepaid Scholarship Program. Staff would be responsible for the following types of activities, among others: policy development, establishing an automated management information system, training local staff, problem resolution, reviewing claims for payment of the scholarship, verifying college attendance, long-term record-keeping, authorizing pay-outs to colleges, and long-term tracking of clients as they move. (See attachment for details.)

Sources of Revenue

- ***Temporary Assistance for Needy Families (TANF) Reserve.*** As budgeted in HB 1600, the TANF Reserve will be exhausted by June 30, 2002.

At the federal level, the TANF grant is due for renewal effective October 1, 2002 (federal fiscal year 2003). Currently, there are indications that in the near future Congress will reduce TANF grants nationwide. In view of these facts, it is unlikely there will be TANF funds available in the future to sustain this initiative unless other currently budgeted TANF commitments are adjusted.

- ***General Fund.*** This analysis assumes that all expenses must be covered by the general fund because of the unavailability of TANF.

9. Specific agency or political subdivisions affected: Board of the Virginia College Savings Plan; Virginia Department of Social Services; 122 local departments of social services

10. Technical amendment necessary: Yes.

- HB 2480 does not specify whether the new VIEW scholarship program accounts are to be pre-paid, fixed price, guaranteed accounts or Virginia Education Savings Trust accounts, which are more flexible, but not guaranteed. The bill probably should specify intent.
- It would be desirable to provide further clarification as to legislative intent, specifically whether HB 2480 is intended to address all VIEW participants or only those who have never been employed. (If only those who have never been employed, cost estimates for the scholarship program decline as indicated above.)
- A delayed effectiveness date would be appropriate in order to allow DSS time to hire staff, develop data systems, and otherwise prepare for program implementation.
- Staff of the Virginia College Savings Plan recommend moving the provisions of HB 2480 to the DSS TANF part of the *Code of Virginia*.
- Pre-paid, guaranteed scholarship accounts through the Virginia College Savings Plan are available only for students who have not yet complete 9th grade. If this is the type of account preferred, then other provisions would have to be made for older students.
- The final sentence added to proposed new § 23-38.75, beginning at line 51 with the phrase "Neither the qualified beneficiary," is unnecessary. Virginia College Savings Plan rules preclude such actions on the part of any person not the owner of the account, and HB 2480 would make DSS the owner of all VIEW scholarship accounts.

11. **Other comments:** Many cash assistance cases consist only of children, with no adult on the case. Usually these are children being cared for by relatives not in their immediate family. These children would be ineligible for scholarships under HB 2480. Also ineligible would be the children of parents exempted from VIEW due to temporary or permanent handicap. There may be some concern regarding equal treatment of children in these situations.

Benefits under HB 2480 could be sufficient to draw some additional applicants to TANF cash assistance, thereby increasing costs for both the scholarships and the cash assistance program.

HB 2480 is one of four sets of bills that would establish new college scholarship programs. The others are SB 107/HB 1739 (VRS), HB 2343/SB1234 (New Century Scholars), and HB 2823 (public school teachers).

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cc: Secretary of Health and Human Resources

ATTACHMENT

BUDGET DETAIL: ADMINISTRATIVE COSTS

Staff:

The staff positions would consist of one Program Manager II (pay band 6), one Program Specialist III (pay band 5), and a Program Administration Specialist II (pay band 4). Mid-range salaries appropriate to each band were used (\$56,000, \$47,000, and \$25,000, respectively). Fringe benefits are calculated at the standard rates specified by the Department of Planning and Budget for FY 2002.

Recurring Non-personal Services:

Funds for routine operating costs such as postage, office, travel, supplies, telephone, rent, liability insurance, etc. are estimated at \$5,200 per employee. Annual software maintenance is estimated at \$25,000.

One-time Non-personal Services:

One-time costs totaling \$10,500 per employee are included in the first year for personal computers, office furniture, and equipment.

Costs would be incurred to cover automated payment of money to the scholarship funds. It is assumed that an information system contractor at the mid-point of band 6 will be contracted to write the required programs in FY 2002. The total cost for this service is estimated at \$63,300.