

## Department of Planning and Budget

### 2015 Fiscal Impact Statement

**1. Bill Number:** HB2238

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

**2. Patron:** LaRock

**3. Committee:** Education

**4. Title:** Parental Choice Education Savings Accounts.

**5. Summary:** The proposed legislation would permit the parents of eligible students to apply to the Department of Education for a Parental Choice Education Savings Account (Savings Account), to consist of the student's state per pupil funds and certain special education funds, if applicable, transferred annually to the Savings Account to provide educational options for the eligible children. The bill defines the eligible students as Virginia students with disabilities who attended public school for at least half the prior year. The Savings Accounts are also open to students with disabilities who lived out of state the prior year and did not attend a Virginia private school for more than half the school year.

The funds in the Savings Account are to be used for certain education expenses of the student, including (i) tuition, fees, or required textbooks at a private Virginia elementary or secondary school or preschool; (ii) educational therapies or services for the student from a practitioner or provider, including paraprofessionals or educational aides; (iii) tutoring services; (iv) curriculum; (v) tuition or fees for a private online learning program; (vi) fees for a nationally standardized norm-referenced achievement test, an Advanced Placement examination, or any examination taken to gain admission to an institution of higher education; (vii) tuition fees or required textbooks at a public two-year or four-year institution of higher education in the Commonwealth or at an accredited private institution of higher education in the Commonwealth; (viii) contributions to a qualified 529 tuition program or a Coverdell education savings account; (ix) services that are offered on a fee-for-service by public schools, including classes or extracurricular activities; (x) any required insurance or surety bond payments; or (xi) transportation, consumable educational supplies, or other goods or services that are necessary for the provision of the qualified student's education. The bill also contains provisions for the audit and revocation of such Savings Accounts.

The bill directs local school divisions to deposit into each Savings Account 90 percent of all applicable Standards of Quality (SOQ) per pupil share of state funds and any state per pupil share of special needs funding to which the student is eligible. The state share per pupil funding is to be based on the SOQ per pupil funding enacted in the current general appropriation act. The school division is to disburse the remaining 10 percent to the Department of Education (DOE), which is to use the funding to establish, manage, and

administer the program. DOE is authorized to use any excess funding for any public elementary or secondary educational purposes.

Parents are to submit expense summary and all applicable invoices and receipts to the local school division for the preceding school year no later than July 15 and prior to receiving a Savings Account disbursement for the next school year. The local school division is to conduct audits on Savings Accounts based on a process established by the Auditor of Public Accounts. The costs of any audit are to be borne by the local school division.

The bill authorizes DOE to contract, either directly or indirectly through scholarship foundations or the Virginia College Savings Plan, with financial institutions associated with the ongoing administration of the Savings Account. Any costs to the financial institution may be passed on to the parent.

6. **Budget Amendment Necessary:** Yes, Item 134.
7. **Fiscal Impact Estimates:** Preliminary. See Item 8.
8. **Fiscal Implications:** To the extent that participating students are currently attending public schools, the funding deposited to all active Savings Accounts would not have an overall impact on state finances, since the state funding that is to be deposited to the Savings Accounts would have already been distributed to the local school division. The bill does allow for certain new students to participate. Since such students are not currently counted in the average daily membership counts of school divisions, additional costs could be generated. The portion of state funding transferred for special education services needs to be determined based on the state special education funding streams for which each student might be eligible.

The bill directs that 90 percent of the state per pupil funding be transferred to each Savings Account. This amount, however, does not reflect 90 percent of the per pupil amount that is currently being spent by local school divisions. Local school divisions combine state funding with local funds and federal funds to provide for the needs of students. Since the bill only transfers the state funding, local school divisions will retain their local portion of public education funding, as well as any federal funds, and those funds will not be deposited to each Savings Account. The amount of state funding provided to divisions varies by locality according to the local composite index, and represents anywhere from 20 percent to 80 percent of the cost of the Standards of Quality (SOQ). The SOQ is the minimum set of requirements that each division must meet. Divisions typically provide programs and services to their students above what is required by the SOQ. This additional local funding would also remain with the locality and not be transferred to each Savings Account.

The bill would add new responsibilities to DOE regarding the contracting for management of the Savings Accounts. The bill requires local school divisions to disburse the remaining 10 percent back to DOE. DOE Central Office will need appropriation in Item 134 to support the transferred funding. The Department of Education estimates that the agency would need one additional full-time position to operate the new program, at an estimated annual cost of

\$125,000 per year for salaries and benefits in FY2016 and beyond. In addition, in FY2016, the agency would also incur approximately \$50,000 in one-time costs related to the initial program start up and development of policies and procedures relating to application, renewal, and appeals.

Based on the current fiscal year appropriation, the average state per pupil amount per special education student would be \$5,026. These amounts are averages, however, and will fluctuate by locality depending on the locality's composite index value. The actual number of students required to participate in order to offset DOE's administrative costs will depend on the number of participating students and the localities in which the students reside. DOE would retain approximately \$500 per student, which would require approximately 350 students to sign up in FY2016 to cover the \$175,000 in estimated expenses.

It is not possible to accurately predict the number of students who will establish a Savings Account. There are approximately 240,000 students who meet the criteria for participation. This proposal is similar to a program established in Arizona. Although the eligibility criteria are not identical, the two programs have similar numbers of eligible students. The initial participation numbers of the Arizona program in the first four years was 115, 302, 761, and 1,311.

This legislation will create increased administrative cost to local school divisions. Local divisions are required to accept and process applications, hear appeals, issue renewals, disburse funds, report participation to DOE, collect receipts from parents and analyze the receipts to ensure the expenditures meet program policies, conduct audits, and investigate possible inappropriate uses of funds. School divisions are required to cover any audit costs with existing local funds. The 10 percent retained savings would not be available to offset local administrative expenses related to these tasks. However, school divisions would not transfer the local per pupil SOQ share to the Savings Account and would retain that funding, which could offset any additional administrative costs. The net fiscal impact of the provisions of the bill to school divisions cannot be determined at this time and will vary by school division.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Education, Virginia College Savings Plan, Auditor of Public Accounts, Office of the State Inspector General, local school divisions

- 10. Technical Amendment Necessary:** None.

- 11. Other Comments:** The funding provided in each Savings Account can be used for tuition, fees, and other educational expenses at higher education institutions. Virginia presently has higher education financial assistance programs for need-based resident undergraduate students. Virginia also provides \$3,100 per each full-time Virginia student that attends a private non-for-profit institution in Virginia.

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