

Department of Planning and Budget 2016 Fiscal Impact Statement

1. Bill Number: HB389

House of Origin Introduced Substitute Engrossed
Second House In Committee Substitute Enrolled

2. Patron: LaRock

3. Committee: Appropriations

4. Title: Parental Choice Education Savings Accounts established.

5. Summary: Permits the parent of a public preschool, elementary, or secondary school student to apply to the school division in which the student resides for a one-year, renewable Parental Choice Education Savings Account that consists of an amount that is equivalent to 90 percent of all applicable annual Standards of Quality per pupil state funds appropriated for public school purposes and apportioned to the resident school division in which the student resides, including the per pupil share of state sales tax funding in basic aid and any state per pupil share of special education funding to which the student is eligible. The bill permits the parent to use the moneys in such account for certain education-related expenses of the student, including tuition, deposits, fees, and required textbooks at a private, sectarian, or nonsectarian elementary or secondary school or preschool that is located in the Commonwealth and does not discriminate on the basis of race, color, or national origin. The bill also contains provisions relating to auditing, rescinding, and reviewing expenses made from such accounts.

6. Budget Amendment Necessary: Yes, Item 131.

7. Fiscal Impact Estimates: Preliminary. See Item 8.

8. Fiscal Implications: The proposed legislation imparts several new responsibilities on the Department of Education, including:

1. Creating an application form to establish eligibility for a savings account.
2. Establishing savings account application and participation timelines to maximize participation.
3. Providing written explanation of the uses of a savings account and outlining the duties of the Department and the local school divisions.
4. Ensuring that all family or household members of a qualified student are made aware of the program.
5. Adopting policies and procedures for the administration of the savings accounts, including application, quarterly expense summary and administration, renewal, and appeal.

6. Tracking, calculating, and disbursing retained savings, as described in § 22.1-222.2, paragraph F. of HB 389.
7. Ensuring that any entity required to refund, rebate, or otherwise remit any such moneys from a savings account does so in compliance with Department-established policies and procedures.
8. Ensuring students are properly tracked and savings accounts are closed as necessary.
9. Reporting annually on the status of the program to the Governor, House Committee on Appropriations, and Senate Committee on Finance.
10. Contracting with a scholarship foundation or a qualified financial institution to manage restricted-use, self-adjudicating savings accounts, as described in § 22.1-222.4 of HB 389.

According to the proposed legislation, 90 percent of state funds for a qualified student would be deposited into a savings account for that student; the remaining 10 percent would be returned to the Department to pay for administrative costs of the program, as well as other authorized costs.

The Department of Education estimates the need to hire three additional staff members to satisfy the requirements of HB 389. Additional staff include a program manager at an estimated cost of \$140,000 for salary/benefits and support costs (pay band level six), a program specialist at an estimated cost of \$115,000 for salary/benefits and support costs (pay band level five), and a clerical position at an estimated cost of \$60,000 for salary/benefits and support costs (pay band level three). The Department anticipates one-time start-up costs of \$50,000 related to developing policies and software to assist with administration. The total estimated state impact from these costs is \$365,000 in FY17 and \$315,000 in each subsequent fiscal year. This bill does not indicate when the Parental Choice Education Savings Accounts will become effective; however, the Department likely will require state funding in advance of the first school year of implementation to satisfy some of the responsibilities listed above.

Assuming an average statewide Standards of Quality (SOQ) per pupil state cost of \$4,095 (based upon FY16 data for HB 29/SB 29, 2016 General Assembly Session), the Department would receive 10 percent, or approximately \$409.50 per pupil, to pay for administrative costs of the program. In this scenario, 770 students would need to participate in the program in order to break even on the Department's administrative costs estimated at \$315,000 annually (not including the estimated \$50,000 one-time start-up costs in FY17). This per pupil state cost does not include any non-SOQ state per pupil funding that would transfer under this bill, such as non-SOQ special education per pupil funding, which would vary based on student eligibility.

Based on interpretation of the proposed legislation and the definition of a "qualified student," the state per pupil funding provided to participating students would be generated from the existing average daily membership (ADM) enrollment base, with the exception of incoming kindergarten students who otherwise may have been home-schooled or private-schooled. The additional state cost resulting from these incoming kindergarten students is indeterminate.

The Department currently accounts for incoming public kindergarten students in its average daily membership projections. Also, under current regulations, students who transfer out of the public school system to be private-schooled are removed from ADM; however, as a result of this bill, such students would remain in ADM. Additionally, students currently enrolled in private schools may temporarily transfer to the public school system to satisfy the eligibility requirements for a savings account. Any resulting impact on ADM and state costs are indeterminate at this time.

The bill also imparts a number of new responsibilities on local school divisions, including:

1. Processing savings account applications and renewals.
2. Administering savings account disbursements each quarter.
3. Reviewing parent-submitted quarterly expense reports to determine the appropriateness of such expenses based on receipts and invoices.
4. Pursuing any savings account reimbursements from parents who fail to comply with regulations.
5. Certifying annually to the Superintendent of Public Instruction the number of students in the school division whose parents have received a savings account and the amount of funds transferred to each such savings account and retained savings.
6. Tracking each student's progress through school to ensure savings accounts are closed upon each student's graduation from high school, receipt of a high school equivalency certification, acceptance into an institution of higher education for full-time enrollment, or reaching the age of 22.
7. Ensuring any funds that remain in a savings account are returned to the Commonwealth upon closure.
8. Participating in regular audits of the accounts.
9. Managing parental appeals of applications, renewals, and withholding of funds.

These additional responsibilities likely would increase administrative costs at the local school division level, too; however, the actual fiscal impact to local school divisions is indeterminate.

9. Specific Agency or Political Subdivisions Affected: Department of Education, local school divisions

10. Technical Amendment Necessary: This bill does not indicate when the Parental Choice Education Savings Accounts will become effective.

11. Other Comments: None.