

Department of Planning and Budget

2016 Fiscal Impact Statement

1. Bill Number: HB389

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

2. Patron: LaRock

3. Committee: Passed both houses

4. Title: Parental Choice Education Savings Accounts established.

5. Summary: Permits the parents of certain students with disabilities to apply to their resident school division for a Parental Choice Education Savings Account, to consist of the student's Standards of Quality per pupil funds, and certain special education funds, if applicable, transferred annually to the Savings Account to provide educational options for the qualified student. The bill places administrative responsibilities on the Virginia Department of Education, the Virginia College Savings Plan, and local school divisions. Savings Account funds solely can be used for qualified expenses of the student, including: (i) tuition, fees, or required textbooks at a qualified school; (ii) educational therapies or services for the qualified 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 an eligible institution; (viii) fees for management of the Savings Account by firms selected by the Virginia College Savings Plan (ix) services that are offered on a fee-for-service basis by a public elementary or secondary school or preschool to the public, including classes and extracurricular activities; (x) such insurance or surety bond payments as may be required by the Virginia College Savings Plan; or (xi) transportation, consumable educational supplies, or any other goods or services that are necessary for the provision of the qualified student's education. The provisions of this bill shall not become effective unless reenacted by the 2017 Session of the General Assembly.

6. Budget Amendment Necessary: No.

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

8. Fiscal Implications: The provisions of this bill will not become effective unless reenacted by the 2017 Session of the General Assembly. Therefore, there is no anticipated state fiscal impact at this time.

Pending reenactment by the 2017 Session of the General Assembly, the proposed legislation imparts several new responsibilities on the Department of Education (DOE). The bill requires DOE to alter its current methodologies for collecting student membership data and calculating direct aid to public education; report annually on students whose parents received a savings account and the total state funding transferred to such savings accounts; work with the Virginia College Savings Plan (VCSP) to establish a process for application, renewal, and appeal of savings accounts; handle parental appeals following savings account recension; participate in investigations in any case in which a resident school division finds evidence of fraudulent use of savings account moneys; and establish policies for local school divisions to implement the requirements of this bill, including policies for conducting audits, conducting appeals, preventing fraud, and requiring surety bond for savings account holders, if necessary.

Based on the start-up tasks and additional responsibilities required of DOE, probable program expansion, and the current work load that DOE experiences with the tax credit programs as a benchmark, DOE estimates the need to hire three additional staff members to satisfy the requirements of this bill if reenacted by the 2017 Session of the General Assembly. 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). DOE 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 the first year of enactment and \$315,000 in each subsequent fiscal year. This bill does not indicate when the Parental Choice Education Savings Accounts will become effective; however, DOE likely will require state funding in advance of the first school year of implementation to satisfy some of the responsibilities listed above.

Pending reenactment by the 2017 Session of the General Assembly, the bill also imparts several new responsibilities on VCSP. The bill requires VCSP to work with DOE to establish a process for application, renewal, and appeal of savings accounts; contract, directly or indirectly, through private scholarship foundations or with private financial management firms to manage savings accounts under the supervision of VCSP; and conduct or contract for annual audits of savings accounts. The fiscal impact to VCSP is indeterminate at this time but likely would include costs for implementing and administering banking and other operational relationships, auditing, and ongoing oversight and operational costs, such as customer service to address questions on the accounts.

Additionally, pending reenactment by the 2017 Session of the General Assembly, the bill requires the Office of the State Inspector General (OSIG) to investigate any case in which a resident school division finds evidence of fraudulent use of savings account moneys by a parent. At this time, nothing in OSIG's statutory authority gives the agency jurisdiction to investigate citizens. Any fiscal impact to OSIG resulting from this bill is indeterminate at this time.

According to the proposed legislation, the resident school division shall disburse to each parent an amount equivalent to 90 percent of state funds for a qualified student. The bill states that DOE shall determine the state share per pupil funding for a qualified student, but the bill does not specify if DOE shall transfer to the resident school division 100 percent of the state share per pupil funding for a qualified student or only the 90 percent share that will be deposited into the savings account. Additionally, the bill does not provide for reimbursement to DOE, VCSP, or OSIG for any expenses resulting from this legislation.

The bill does not define how DOE should calculate the statewide average per pupil amount. Using a simple average with all divisions weighted equally, the estimated state share SOQ per pupil amount, based on FY 2017 data supporting HB 30, 2016 General Assembly Session, is \$5,076. Using an average weighted for average daily membership (ADM), the estimated state share SOQ per pupil amount, based on FY 2017 data supporting HB 30, 2016 General Assembly Session, is \$4,568. These per pupil state costs do not include any non-SOQ state per pupil funding, 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 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.

Pending reenactment by the 2017 Session of the General Assembly, 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.
3. Reviewing parent-submitted receipts and invoices to determine the appropriateness of expenses from each savings account.
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.
6. Tracking each student’s progress through school to ensure savings accounts are closed in accordance with guidelines set forth in the bill.
7. Ensuring any funds that remain in a savings account are returned to the Commonwealth upon closure.

8. Reviewing the results of savings account audits to determine any cause for savings account recension, and referring cases of suspected fraud to the Board of Education and the Office of the State Inspector General
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, if reenacted by the 2017 Session of the General Assembly; however, the actual fiscal impact to local school divisions is indeterminate.

Finally, this program allows Direct Aid to Public Education funding to be used for higher education expenses at an “eligible institution” as defined by the bill. At this time, no other state program presently exists whereby state funding is provided to students for financial assistance prior to enrollment in a higher education program.

9. **Specific Agency or Political Subdivisions Affected:** Department of Education, Virginia College Savings Plan, Office of the State Inspector General, local school divisions
10. **Technical Amendment Necessary:** This bill does not indicate when the Parental Choice Education Savings Accounts will become effective. This bill does not define how the Department of Education should calculate the statewide average per pupil amount. Insert a “,” after “B” on line 96. Strike the word “not” from line 109. Replace “The” with “the” on line 123.
11. **Other Comments:** None.