Department of Planning and Budget
2022 Fiscal Impact Statement

1. **Bill Number:** HB982

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

2. **Patron:** Scott, P.A.

3. **Committee:** Education

4. **Title:** Education Savings Account Program established; Education Improvement Scholarships Tax Credits.

5. **Summary:** Establishes the Education Savings Account Program, to be administered by the Department of Education, whereby the parent of any individual who is a resident of the Commonwealth and who is eligible to enroll in a public elementary or secondary school may apply for an Education Savings Account for his child into which the Department of Education deposits certain state and local funds and from which the parent makes certain enumerated qualifying expenses to educate his child in a setting and a manner other than full-time education in a public school. The bill requires the Program to be fully implemented prior to the beginning of the 2022-2023 school year. The bill also increases the value of the Education Improvement Scholarships income tax credit for a donation to a scholarship foundation from 65 percent to 100 percent of the donation. The bill removes the aggregate limit on tax credits per year, which under current law is $25 million, and removes individual minimum and maximum required donation amounts. The bill raises the threshold for students to qualify for scholarships to 1,000 percent of free or reduced-price lunch standards or, for eligible students with a disability, 1,200 percent of such standards. The bill grants scholarship foundations the discretion to determine what expenses may be funded by tax-credit-subsidized scholarships. Under current law, such expenses are limited by statute. The bill expands eligibility for scholarships to any student who is a Virginia resident and eligible to enroll in a Virginia primary or secondary school. Current law restricts eligibility to certain categories of students. The bill removes the requirement that scholarship-funded schools report test results of scholarship-funded students. The provisions of the bill pertaining to the Education Improvement Scholarships income tax credits apply starting with taxable year 2022.

6. **Budget Amendment Necessary**: Yes, Item 135.

7. **Fiscal Impact Estimates:** Preliminary, see Item 8.

8. **Fiscal Implications:** This bill imparts several new responsibilities on the Department of Education (DOE) for the development, administration, and review of the Education Choice Savings Account Programs. Based on the start-up tasks and additional ongoing responsibilities required of DOE 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. Additional staff include a program manager at an estimated cost of $145,450 for salary, benefits, and technology costs, a program specialist at an estimated cost of $126,674 for salary, benefits, and technology costs, and a clerical position at an estimated cost of $95,378 for salary, benefits, and technology costs. DOE anticipates one-time start-up costs of $2.0 million to develop a payment system between parents and educational service providers. DOE also anticipates a one-time cost of $300,000 in fiscal year 2023 to develop a system that would allow parents to rate and share data related to providers. The bill allows DOE to withhold a percentage of deposits for administration of the program, up to five percent in the first two years and three percent thereafter. It is likely that additional state general fund support will be required in advance of the first school year of implementation and may be required in outgoing years.

The bill allows any student who is eligible to enroll in a public school in Virginia to participate in the Education Choice Savings Account program. Students who are not currently included in ADM would be eligible to participate in the program which could result in a large increase in state cost. Any actual impact is indeterminate at this time.

This bill could negatively impact general fund revenues. The Department of Taxation estimates that increasing the value of the Education Improvement Scholarships Tax Credit from 65 percent to 100 percent of the value of a donation would have a negative general fund impact of $7 million annually beginning in fiscal year 2023. The tax credit is currently undersubscribed, so there would be no immediate impact due to removing the $25 million annual credit cap. The official general fund revenue forecast currently assumes a $13 million revenue loss as a result of the existing credit based program based on historical data. The bill expands eligibility for the tax credit to students who are eligible to attend a public school in Virginia and who meet 1,000 percent of the federal free or reduced price lunch standards. If use of the tax credit increases due to these changes above the current forecast, there would be an additional general fund revenue loss. Any actual impact is indeterminate at this time.

Based on the current workload and expected growth due to expanded eligibility, DOE assumes that one additional staff member, at an annual general fund cost of $132,932, including salary, benefits, and technology, would be required to administer the Education Improvement Scholarship Tax Credit Program.

The Department of Taxation considers implementation of this bill as routine and does not require additional funding.

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

10. **Technical Amendment Necessary:** No

11. **Other Comments:** The bill requires that the Education Choice Savings Accounts shall be fully implemented in advance of the 2022-2023 school year. According to DOE, it is not able to meet this requirement. DOE does not have sufficient time to hire staff, develop guidelines,

or implement a new system before the 2022-2023 school year. Additionally, the process to procure, develop and test an IT system for payments could take up to two years to complete.