

Department of Planning and Budget

2015 Fiscal Impact Statement

1. Bill Number: HB2238

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: 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 (Account), renewable annually, to consist of the student's state per pupil funds and certain special education funds, if applicable, transferred annually to the Account to provide educational options for the eligible children. The bill defines the eligible students as Virginia students with disabilities, military children, or foster care children who attended public school for at least half the prior year. The funds in the Account are to be used for certain education expenses of the student, including (i) tuition, fees, or required textbooks at a private elementary or secondary school, preschool, or program of home instruction; (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) contributions to a qualified tuition program established pursuant to 11 U.S.C. § 529; or (viii) 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. The bill also contains provisions for the audit and revocation of such accounts.

Following the signing of an agreement which specifies conditions on the use of the funding, the Department of Education (DOE) is to transfer 90 percent of the state per pupil funding to the Department of Treasury (Treasury) which shall deposit the funding in each active Account. DOE is to also transfer any applicable federal special education funding. Treasury may contract out the management of all active Accounts.

6. Budget Amendment Necessary: Yes, Item 134 and Item 274.

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 Accounts would not have an overall impact on state finances, since the state funding is to be deposited to the Accounts in lieu of being paid

to a local school division. The bill allows for does allow for certain new students to participate. Since such students are not currently counted in the average daily membership counts of school divisions, the savings would not 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 Account. This amount, however, does not reflect 90 percent of the per pupil amount that is currently being spend by local school divisions. Local school divisions combine state funding with local funds to provide for the needs of students. Since the bill only transfers the state funding, local school divisions will retain their portion of public education funding and it will not be deposited to each 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 Account.

There is an anticipated fiscal impact to the state resulting from the administrative requirements placed on the Departments of Education and Treasury to implement the provisions of this legislation. According to DOE, implementation will require start-up costs and additional staffing. The agency would need to develop an online application and tracking system at an estimated one-time cost of \$50,000. The agency anticipates a need of three additional positions, at a cost of \$315,000 annually, to oversee the application process, transfer funds, develop program policies and procedures, provide assistance to program users, conduct annual audits of Accounts, and review the annual financial information submitted by program users.

The bill would add a new program for the Department of Treasury. Treasury states it presently has no expertise in overseeing or managing the types of accounts created by the bill. According to Treasury, the expertise and infrastructure to run such a program resides with the Virginia College Savings Plan. If Treasury does oversee the program, it will need to add an anticipated five new staff positions to interact with account holders and to contract, oversee and develop reporting standards with private scholarship foundations and/or private financial management firms managing the savings accounts. The agency estimates the cost of adding supervisory, support staff and software is \$400,000 annually.

The bill directs that 90 percent of the per pupil amount is to be transferred to each active Account. It is assumed that the remaining ten percent is to be used to offset state administrative expenses related to the Accounts. However, this use is not specifically authorized by the bill and the bill does not provide for the transfer of the funding to the DOE or Treasury from the Direct Aid budget. If the ten percent is to be used to offset administrative costs, approximately 1,460 students would need to participate in FY2016 to allow DOE and Treasury to recoup sufficient funding to offset the anticipated startup and operating expenses of the two agencies.

This approximate needed participation volume is based on the savings generated by ten percent of an average state per pupil amount of \$5,026 per special education student and \$4,630 per each non-special education student. 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 state administrative costs will depend on the localities in which the students reside.

It is not possible to accurately predict the number of students who will establish an 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.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Education, Department of Treasury, local school divisions
- 10. Technical Amendment Necessary:** If the intent is to allow the ten percent to be used to offset state administrative costs, a suggested technical amendment is to insert language authorizing the transfer of the remaining funding to the Department of Education or the Department of Treasury.
- 11. Other Comments:** The funding provided in each Account can be used for tuition and fees at higher education institutions. Virginia presently has higher education financial assistance programs for need-based resident undergraduate students, as well as higher education benefits for children of Virginia military service members killed or severely disabled in action. Virginia also provides \$3,100 per each full-time Virginia student that attends a private non-for-profit institution in Virginia.

It is not clear if the bill would transfer both state and federal special education funding to each Account. Because federal funds are typically provided to a school division on a reimbursement basis, it is not clear if federal special education funding could be directly deposited to an Account. Instead, credit for this funding might be identified in an Account, with reimbursement provided after expenses are incurred, if allowed by federal regulations.

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