

## Department of Planning and Budget 2017 Fiscal Impact Statement

1. **Bill Number:** HB1605

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

2. **Patron:** LaRock

3. **Committee:** Education

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 a certain percentage 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:** This bill imparts several new responsibilities on the Department of Education (DOE) for the development, administration, and review of parental choice education savings accounts. 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. Additional staff include a program manager at an estimated cost of \$135,000 for salary, benefits, and support costs (pay band level six), a program specialist at an estimated cost of \$122,000 for salary, benefits, and support costs (pay band level five), and a clerical position at an estimated cost of \$73,000 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 technology/software to assist with administration of this program. In total, DOE estimates a state fiscal impact of \$380,000 in the first year of enactment and \$330,000 in each subsequent year. The bill does not

indicate when the education savings accounts will become effective; however, DOE likely will require state funding in advance of the first school year of implementation.

In cases where a qualified student's family income is greater than 300 percent of the poverty guidelines, the bill allows for DOE to retain 10 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 qualified student resides. The bill authorizes DOE to disburse these retained savings for qualifying expenses. Based upon FY 2018 data used to calculate HB1500, 2017 General Assembly Session, the average statewide SOQ per pupil state share is approximately \$4,632 using a weighted average that accounts for average daily membership (ADM). If DOE retains 10 percent of this amount for allowable expenses, approximately 821 students whose family income is greater than 300 percent of the poverty guidelines would need to participate in the education savings account program in the first year of enactment, and approximately 713 such students would need to participate in subsequent fiscal years, to break even on DOE's anticipated administrative costs.

Based on interpretation of the bill 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. DOE currently accounts for incoming public kindergarten students in its ADM projections. The additional state cost resulting from incoming kindergarten students who otherwise may have been home-schooled or private-schooled is indeterminate. 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, which could increase ADM and, consequently, state costs. Any actual fiscal impact is indeterminate at this time.

The Auditor of Public Accounts does not anticipate any fiscal impact resulting from the provisions of this bill.

This bill also imparts a number of new responsibilities on local school divisions, which likely would increase administrative costs at the local level. The bill excludes all qualified students from a locality's required local effort calculation and does not require localities to transfer any local funding to education savings accounts to support qualified students. Required local effort is the amount that a locality must spend to provide an educational program meeting the prescribed SOQs, as required by state statute. Local school divisions with qualified students should experience a decrease in required local effort for any such students currently included in the division's ADM, which should result in local savings. However, the bill includes qualified students in a local school division's student count to meet actual need for any other initiative supported by the Commonwealth that requires local matching funds. Required local match is any additional funding that a locality must provide to support optional Incentive and Lottery-funded programs in which it elects to participate. Based on bill language, it is possible that qualified students could be included in required local match calculations for the

school division, though the bill does not prescribe for such students to be accounted for in the state share of any optional Incentive and Lottery-funded program payments to local school divisions. Any actual fiscal impact to local school divisions is indeterminate.

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

**10. Technical Amendment Necessary:** No

**11. Other Comments:** 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 exists whereby state funding is provided to students for financial assistance prior to enrollment in a higher education program.

Language under § 22.1-222.3 that references subdivisions C 4 and 5 of § 22.1-222.2 appear to reference obligations of the parent that would not be auditable by the independent certified public accountant who conducts the audit of the locality. Rather than reference specific subdivisions, the Auditor of Public Accounts recommends that the bill instruct the APA to work with DOE to determine appropriate audit tests of compliance with § 22.1-222.2 to include in the specifications published pursuant to § 15.2-2511.

This bill is similar to SB 1243.