

Department of Planning and Budget

2023 Fiscal Impact Statement

1. Bill Number: HB1508

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: Davis

3. Committee: Appropriations

4. Title: Virginia Education Success Account Program; established, report.

5. Summary: Permits the parents of qualified students, defined in the bill, to apply for a one-year, renewable Virginia Education Success 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 school division in which the qualified 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 for which the qualified student is eligible. The bill permits the parent of the qualified student to use the moneys in such account for certain qualified expenses of the qualified student, including tuition, deposits, fees, and required textbooks at a private elementary school or secondary school that is located in the Commonwealth. The bill also contains provisions relating to program and account administration by the Department of the Treasury and a third-party financial institution that serves as program administrator pursuant to a contract with the Department of the Treasury.

6. Budget Amendment Necessary: Yes, Item 3-2.01 to support a working capital advance, and language amendment in Item 137.

7. Fiscal Impact Estimates: Preliminary, see item 8.

8. Fiscal Implications: The cost for the Department of the Treasury to implement the provisions of this bill is currently indeterminate. The start-up costs of the Virginia Education Success Account Program established by this bill may be supported by a working capital advance in fiscal year 2024 to be repaid by administrative fees generated by the program once operational.

This bill imparts several new responsibilities on the Department of the Treasury for the development, management, and dissemination of information to the public for the Virginia Education Success Account Program. Program start-up expenses include agency program staff and the contract with a program administrator. Depending on actual program participation and the capabilities of the contracted entity, Treasury anticipates there could be a need for at least three positions to support this program at an estimated cost of \$398,798 for salary, benefits, and technology. Additional positions may be needed depending on enrollment in the program.

The bill establishes a number of requirements of the contracted program administrator, including day-to-day financial management of accounts, provision of automated systems, technical support, and reporting. Without issuing a request for information (RFI) or request for proposal (RFP), Treasury can only produce a highly speculative estimate of vendor costs based on similar legislation and data from states that have implemented similar programs. Based on the available estimates and contracts for vendors in other states, Treasury estimates an annual vendor cost of between \$3 million and \$5 million per year, with more spent to implement the program in the first year. At this time, the actual state cost to support this contract is indeterminate.

In total, Treasury anticipates that a working capital advance of a minimum of \$3,398,798 in fiscal year 2024 may be required to initiate the Virginia Education Success Account Program, to be repaid by administrative fees generated by the program once operational. The advance amount required would depend on actual amounts negotiated with a contracted administrator. The bill allows Treasury to withhold up to five percent of applicable per pupil state funds for administration costs of the program. Additional state support may be required in outgoing years, depending on the number of students who participate and actual administrative charges versus expenses.

The definition of a “qualified student” in this bill includes students who are not currently included in Average Daily Membership (ADM). DOE currently accounts for incoming public kindergarten students in its ADM projections. The additional state cost resulting from incoming kindergarten and first grade 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. These increases in ADM could result in a large increase in state cost. Any actual impact is indeterminate at this time.

This bill directs that students shall be counted in a local school division’s March 31 ADM or fall membership for the purpose of the calculation of the state share of funding. This would drive appropriation under Direct Aid to Public Education, and budget language would be necessary directing the Department of Education to transfer this appropriation to Treasury to be distributed to savings accounts and for administrative expenses. Additionally, sales tax distributions are made by the Department of Accounts directly to local school divisions, and a mechanism would need to be established to transfer that funding to Treasury to distribute to these accounts.

There will be large variances in the state share amounts transferred into savings accounts across school divisions based on each locality’s local composite index of ability to pay. Based on HB1400/SB800, DOE indicates that these amounts could range from approximately \$3,251 to \$9,078.

- 9. Specific Agency or Political Subdivisions Affected:** Department of Education, Department of the Treasury, local school divisions, Department of Accounts

10. Technical Amendment Necessary: No

11. Other Comments: None