



## DEPARTMENT OF AUDITS AND ACCOUNTS

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February 8, 2017

Honorable Lindsey Tippins  
Chairman, Education and Youth  
303-A Coverdell Legislative Office Building  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
Senate Bill 68 (LC 33 6784)

Dear Chairman Tippins:

The bill would establish education savings accounts (ESAs) for eligible students who do not attend a public school. An eligible student is defined as a Georgia resident who is eligible for enrollment in a Georgia elementary or secondary public school. Students currently receiving the Georgia Special Needs Scholarship would not be able to participate concurrently in this program. Funds that would have been provided to the resident school system based on the Quality Basic Education (QBE) funding formula would instead be placed into an account and used for the student's educational expenses, such as private school tuition and fees, purchase of curriculum materials, or private tutoring. Up to 50% of ESA funds deposited in one year can be rolled to the following year. The number of participants is limited to one-half of one percent of the statewide total public school enrollment in year one, an additional one percent in year two, and no limit following the second year.

The Department of Revenue (DOR) may withhold up to 3% of the ESA amount to administer the program. While the bill has no effective date, it is assumed to begin with the 2017-18 school year.

### **Cost of Education Savings Accounts**

ESAs will require state funding of approximately \$40 million in year one and \$121 million in year two (Table 1). The amounts represent the total state funding necessary to fund the accounts. The additional costs to the state are dependent on whether the limited ESAs are taken by students currently in private schools/home school (additional costs) or students in public schools (no additional costs). After the limit is removed in year three, all private school and homeschool students will be eligible for an ESA. Considering the number presently obtaining education through those options, the additional costs to the state would be approximately \$681 million.

**Table 1: Estimated Additional Cost of ESAs (in millions)  
Based on Allotment of \$4,670**

School Year	Number of ESAs	ESA Contributions <sup>(1)</sup>
2017-18	8,625	\$40.3
2018-19	25,998	\$121.4
2019-20	145,800	\$680.8

(1) In the first two years, the additional costs to the state is dependent on which students obtain an ESA. If the limited ESAs are obtained only by students currently in private schools or home schooled, the entire ESA contribution listed would be a new cost to the state. If all ESAs are obtained by students currently in a public school, there would be no new costs to the state.

**Methodology to Calculate Cost of Education Savings Accounts**

We determined the total cost of funding the education savings accounts by estimating the number of participants and the average QBE allotment. Additional costs to the state are only incurred for students who would have attended a private or home school without an ESA. Students who choose to attend a private school or homeschool due to the availability of an ESA result in no additional cost to the state and are not included in the calculation of the number of participants.

*Number of Participants*

- We calculated participants beginning with the 2017-18 school year.
- In years one and two, the cap is assumed to be met. The bill’s cap of one-half percent of school system FTEs in year one equates to 8,625 participants. The cap in year two would allow a total of 25,998 participants. We used the October 2016 count of 1,716,785 students as the base year. Using recent FTE growth, we assumed a 0.48% growth in FTEs in each of the next two school years.
- Beginning with year three, there is no cap on the number of ESAs and our analysis assumes that all eligible students would obtain one. As noted above, for the purposes of determining additional state costs, the relevant number of participants are those that would be in a private school or home school regardless of the presence of an ESA. For this reason, we used estimates of the enrollment in these two options.
  - According to the Georgia Department of Education (GaDOE) data, the number of K-12 students in private schools has been stable at approximately 100,000 in school years 2013-14 through 2016-17.
  - GaDOE home school enrollment data from the 2013-14 and 2014-15 school years shows 62,582 and 58,806 students, respectively (more recent data was not available). However, GaDOE officials indicated that the data contains numerous duplicate students. Parents self-report the information and frequently submit duplicate declarations of intent over the course of a year. In the six years prior to the information being submitted directly to GaDOE, the number was below 43,000. Given the expected inflation of the data, we used 50,000 home school students as the baseline.

- The approximately 4,200 students participating in the Georgia Special Needs Scholarship Program (GNSNP) are not eligible for the ESA. These students were deducted from the number of participants.

*ESA Amount per Participant*

ESA amounts are dependent on the QBE allotment for the respective school year, which is subject to the annual appropriations process. QBE allotments for individual students vary by grade, category (e.g., gifted, special education, limited English), and district. Statewide averages for the various categories range from \$3,037 (Grades 9-12) to \$22,470 (Special Ed IV) in fiscal year 2017. Allotments for students in the same grade or category would also vary across districts due to the portion of the QBE allotment that is associated with teacher training and experience (T&E). After reducing the allotment by the local five mill share, we used a statewide average QBE allotment per full-time student of \$4,670<sup>1</sup> as the ESA amount per participant. We did not project changes to the QBE allotment in future years.

We could not determine what portion of ESA contributions may go unused by the ESA holder and eventually be returned to the state.

**Administrative Costs**

The Department of Revenue (DOR) indicated that it has no existing resources to administer this type of program and would need to create a new division. It anticipated the need for a new IT system, as well as office space, furniture, and equipment, but it could not provide an estimate of those startup costs in the allotted time. Because similar bills assigned administration to the Governor’s Office of Student Achievement (GOSA), DOR deferred to the cost estimates prepared by GOSA in 2016 for an approximation of the operations costs.

Based on GOSA’s operations cost analysis in 2016, the 3% that could be withheld from ESAs would be more than sufficient to cover the annual costs of administering the program (Table 2). The amount DOR could withhold would increase significantly by year three of the program.

**Table 2: GOSA Estimated Administrative Revenue and Expenses**

<b>Revenue</b>	<b>Year One</b>	<b>Year Two</b>	<b>Year Three</b>
3% of ESA	\$1,208,363	\$2,428,213	\$20,426,580
<b>Expenses</b>			
Personnel	\$631,275	\$1,252,275	\$5,392,275
Contracts	<u>310,500</u>	<u>935,928</u>	<u>5,248,800</u>
Total Expenses	\$941,775	\$2,188,203	\$10,641,075
Net Revenue	\$266,588	\$1,454,117	\$9,785,505

Personnel and contract expenses are estimated to be approximately \$942,000 in year one, \$2.2 million in year two, and \$10.6 million in year three (when the number of ESAs would greatly increase). Staff would be needed to manage the application process, make quarterly distributions, and provide support to parents. The staffing costs are largely impacted by a GOSA assumption of

<sup>1</sup> There are no austerity reductions factored into the QBE allotments/ESA contributions.

one implementation specialist per 2,000 ESAs. The contracts are for a financial firm to manage the ESAs and process claims at a cost of \$36 per account per year.

Sincerely,



Greg S. Griffin  
State Auditor



Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/nc