



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 31, 2018

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill 482 (LC 33 7125ERS)

Dear Chairman Powell:

The bill would provide educational savings accounts (ESAs) for eligible students who do not attend a public school. In addition to a parent or parents residing in Georgia, a student is eligible if the student meets one of the following conditions:

- Family income of below 200% of the federal poverty level;
- Adopted from foster care;
- Active duty military parent stationed in Georgia within the last year;
- Individualized Education Program (IEP) with an eligible disability;
- Documented case of being bullied;
- Present in Georgia public school the preceding year for both the fall and spring program funding counts.

Account funds can be used for the student's qualifying educational expenses, such as private school tuition and fees, purchase of curriculum materials, or private tutoring. The ESA funding amount varies by eligibility category. Participating students with an eligible IEP will receive the state funds that would have been provided to the public school for their education, while other students receive an amount equal to the resident system average state funding per student. In the first year, the number of accounts would be limited to 0.25% of the total statewide public school enrollment in the 2017-2018 school year. The cap would increase by 0.25% each year.

The Office of the State Treasurer (OST) may withhold up to 4% of the ESA amount to administer the program. The bill would apply to the 2018-2019 and subsequent school years.

Cost of Education Savings Accounts

The ESAs will require state funding of approximately \$22.8 million in FY 2019, with the amount increasing by about \$23 million annually. However, it is not possible to determine what portion of ESA contributions will result in an additional cost to the state. When ESA participants are moving from a public school system, the ESA contribution by the state will be offset by a reduction in QBE funds. For other ESA participants, the contribution will be a new state cost. Table 1 shows a range of additional costs for the ESAs, depending on the percentage of ESAs provided for students currently in a non-public school setting.

Table 1. Potential Additional Costs of ESAs, Based on Allotment per FTE of \$5,212

(\$ in millions)			Additional State Cost		
Fiscal Year	Number of ESAs	Total ESA Contribution	If 25% Currently in Non-Public School	If 50% Currently in Non-Public School	If 75% Currently in Non-Public School
2019	4,366	\$22.8	\$5.7	\$11.4	\$17.1
2020	8,791	\$45.8	\$11.5	\$22.9	\$34.4
2021	13,247	\$69.0	\$17.3	\$34.5	\$51.8
2022	17,734	\$92.4	\$23.1	\$46.2	\$69.3

We did determine that it is likely that the maximum number of permitted ESAs would be utilized during the time frame reviewed. The eligibility criteria would capture the majority of K-12 students. For example, approximately 1.7 million students who attend public schools would be eligible the following school year if their parents are Georgia residents. In addition, it is likely that there are children of active duty military that attend private schools or are home schooled.

It should be noted that the actual cost of the ESAs is also dependent on the participants' IEP status and resident school system. Those with an IEP¹ will receive the state funding that would have been provided for their program, which would likely be a higher number than the average statewide amount used in the analysis. For those without an IEP, the system-wide average amount may be higher or lower than the statewide amount included in the analysis.

Loss of T&E Funds

A secondary cost of ESAs would occur if the state replaces the school systems' training and experience (T&E) funds that are directed to ESAs. As written, the ESA contribution would include a school system's T&E funds that are not tied to the number of students but to characteristics of the system's teachers. These costs increase as the number of public school students obtaining an ESA increases. Either the state or school system would continue funding the full T&E costs. Table 2 shows the cost of replacing the T&E funds using the same examples provided above.

¹ GaDOE reported nearly 214,000 students with an IEP in October 2017.

Table 2. Potential Cost of Replacing T&E Funds (\$ in millions)

Fiscal Year	Number of ESAs	If 25% Currently in Non-Public School	If 50% Currently in Non-Public School	If 75% Currently in Non-Public School
2019	4,366	\$7.0	\$4.7	\$2.3
2020	8,791	\$14.2	\$9.5	\$4.7
2021	13,247	\$21.4	\$14.3	\$7.1
2022	17,734	\$28.6	\$19.1	\$9.5

Administrative Costs

The 4% that could be withheld from ESAs would not cover all administrative costs that the Office of the State Treasurer (OST) would incur in the first two years (Table 3). State funding of \$2.0 million would be required in the first year and approximately \$378,000 in the second year. As the annual ESA contributions grow, the 4% would become more than sufficient to cover administrative costs.

Table 3: Administrative Revenue and Expenses

	FY 2019	FY 2020	FY 2021	FY 2022
OST Revenue – 4% of ESA Contribution	\$910,198	\$1,832,934	\$2,763,003	\$3,697,449
OST Expenditures				
<i>Program</i>				
Personnel (Five)	\$688,500	\$688,500	\$688,500	\$688,500
<u>Operating</u>	<u>\$12,500</u>	<u>\$5,000</u>	<u>\$5,000</u>	<u>\$12,500</u>
Total Program Expenditures	\$701,000	\$693,500	\$693,500	\$701,000
<i>Information Technology</i>				
Personnel (Six)	\$1,023,360	\$1,023,360	\$1,023,360	\$1,023,360
System/Program Development	\$600,000	\$150,000	\$50,000	\$50,000
Data Center Services	\$227,000	\$72,000	\$72,000	\$72,000
Hardware/Software	\$277,000	\$212,000	\$212,000	\$212,000
<u>Annual IT Audit</u>	<u>\$60,000</u>	<u>\$60,000</u>	<u>\$60,000</u>	<u>\$60,000</u>
<u>Total IT Expenditures</u>	<u>2,187,360</u>	<u>1,517,360</u>	<u>1,417,360</u>	<u>1,417,360</u>
OST Total Expenditures	\$2,888,360	\$2,210,860	\$2,110,860	\$2,118,360
State Funding Required	\$1,978,162	\$377,926	None	None

We estimated administration costs of \$2.9 million in FY 2019, declining to \$2.1 million in FY 2021. The estimated expenditures include both programmatic and information technology costs.

- *Program Costs* – Based on information provided by OST, we assumed five program personnel, including a director, testing coordinator, payment coordinator, and two auditors. Personnel would develop program policies, interact with parents, the schools, and parent committee, obtain and report test scores, ensure student and school eligibility, and ensure

that payments are for allowable expenses. Operating costs include limited travel and periodic computer replacement. OST officials noted that the testing function could be performed under contract with the Governor's Office of Student Achievement, eliminating the need for the position but requiring contract funding.

- *IT Costs* – OST does not currently operate or have an infrastructure in place for this type of program. As a result, OST would need to acquire data systems and staff to collect and manage IEP information, student information, schools, and to track student achievement. We estimated the need for six IT personnel, including a systems analyst, two database administrators, application developer, security analyst, and a system/user support staff position. In addition, OST estimated program development costs that would decline over the period reviewed, data center costs, and annual hardware or software costs. It should be noted that the Georgia Department of Education has some of the IT infrastructure needed for this type of program, given that Georgia Special Needs Scholarship has several similarities related to student and school eligibility.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget