



## DEPARTMENT OF AUDITS AND ACCOUNTS

270 Washington St., S.W., Suite 1-156  
Atlanta, Georgia 30334-8400

**Greg S. Griffin**  
STATE AUDITOR  
(404) 656-2174

February 28, 2019

Honorable Brett Harrell  
Chairman, House Ways and Means  
133 Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
House Bill 301 (LC 33 7686)

Dear Chairman Harrell:

The bill would provide educational scholarship accounts (ESAs) for eligible students who do not attend a public school. Students must have a parent residing in Georgia and meet one of the six conditions listed below to be eligible. If the number of applications exceeds the available slots, then priority is given to students meeting one of the first five conditions.

1. Family income of below 200% of the federal poverty level and currently enrolled in a Georgia public school;
2. Adopted from foster care;
3. Active duty military parent stationed in Georgia within the last year;
4. Individualized Education Program (IEP) with an eligible disability and currently enrolled in a Georgia public school;
5. Documented case of being bullied and currently enrolled in a Georgia public school;
6. Present in a 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 0.5% of the total statewide public school enrollment in the 2017-2018 school year. The cap would increase by 0.5% each year up to a maximum of 5%.

The Governor's Office of Student Achievement (GOSA) may withhold up to 3% of the ESA amount to administer the program. The bill would apply to the 2019-2020 and subsequent school years.

**Cost of Education Scholarship Accounts**

The ESAs would require state funding of approximately \$48.1 million in FY 2020 (Table 1). This amount will increase by approximately \$50 million to \$60 million annually and max out at \$542.6 million in FY 2029 when the 5% student cap is reached. These estimates are based on an average FY 2020 Quality Basic Education (QBE) allotment of \$5,506. To project future contributions, we assumed an annual increase of 1% in the average QBE amount and 0.7% growth in the FTE population on which the number of ESAs would be based.

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 who would be in a non-public school without the bill.

**Table 1. Potential Additional Costs of ESAs**

(\$ in millions)			Additional State Cost		
Fiscal Year	Number of ESAs	Total ESA Contribution	If 10% would be in non-public school without the bill	If 25% would be in non-public school without the bill	If 50% would be in non-public school without the bill
2020	8,731	\$48.1	\$4.8	\$12.0	\$24.0
2021	17,526	\$97.5	\$9.7	\$24.4	\$48.7
2022	26,381	\$148.2	\$14.8	\$37.0	\$74.1
2023	35,297	\$200.3	\$20.0	\$50.1	\$100.1
2024	44,275	\$253.7	\$25.4	\$63.4	\$126.8
2025	53,314	\$308.5	\$30.9	\$77.1	\$154.3
2026	62,415	\$364.8	\$36.5	\$91.2	\$182.4
2027	71,578	\$422.6	\$42.3	\$105.6	\$211.3
2028	80,804	\$481.8	\$48.2	\$120.5	\$240.9
2029	90,094	\$542.6	\$54.3	\$135.6	\$271.3

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 IEP 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 re-directed to ESAs. As written, the ESA contribution would include a school system's T&E funds. T&E funds to a school system are not dependent on the count of students for

QBE purposes but instead to the characteristics of the system’s teachers. 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.

**Table 2. Potential Cost of Replacing T&E Funds**

(\$ in millions)		Additional State Cost		
Fiscal Year	Number of ESAs	If 10% would be in non-public school without the bill	If 25% would be in non-public school without the bill	If 50% would be in non-public school without the bill
2020	8,731	\$17.6	\$14.7	\$9.8
2021	17,526	\$36.2	\$30.2	\$20.1
2022	26,381	\$55.9	\$46.6	\$31.0
2023	35,297	\$76.6	\$63.8	\$42.5
2024	44,275	\$98.3	\$81.9	\$54.6
2025	53,314	\$121.1	\$100.9	\$67.3
2026	62,415	\$145.0	\$120.9	\$80.6
2027	71,578	\$170.1	\$141.7	\$94.5
2028	80,804	\$196.3	\$163.6	\$109.1
2029	90,094	\$223.7	\$186.4	\$124.3

**Administrative Costs**

The 3% that could be withheld from ESAs would likely be sufficient to cover the administrative costs GOSA would incur, as shown in **Table 3**. State funding of approximately \$144,000 would be required in the first year. As the annual ESA contributions grow, the 3% would become sufficient to cover administrative costs.

**Table 3: Administrative Revenue and Expenses**

Fiscal Year	Maximum GOSA Revenue (3% Contributions)	GOSA Expenses			Net Revenue
		Personnel	Contracts	Total	
2020	\$1,442,308	\$906,873	\$679,089	\$1,585,962	-\$143,654
2021	\$2,924,134	\$1,221,050	\$1,097,773	\$2,318,823	\$605,311
2022	\$4,445,625	\$1,548,908	\$1,561,356	\$3,110,264	\$1,335,361
2023	\$6,007,598	\$1,890,580	\$2,045,035	\$3,935,615	\$2,071,983
2024	\$7,610,886	\$2,246,203	\$2,549,005	\$4,795,208	\$2,815,678
2025	\$9,256,337	\$2,615,913	\$3,073,464	\$5,689,377	\$3,566,960
2026	\$10,944,814	\$2,999,847	\$3,618,614	\$6,618,461	\$4,326,353
2027	\$12,677,199	\$3,398,145	\$4,184,656	\$7,582,801	\$5,094,398
2028	\$14,454,388	\$3,810,945	\$4,771,793	\$8,582,738	\$5,871,650
2029	\$16,277,294	\$4,238,391	\$5,380,232	\$9,618,623	\$6,658,671

We estimated administrative costs of \$1.6 million in FY 2020, increasing to \$9.6 million in FY 2029. The administrative costs include program personnel and contracts.

- *Personnel* – Based on information provided by GOSA, we assumed six permanent personnel as well as a number of specialists that would increase over time to serve the increasing number

of ESA accounts. Permanent staff would include a program manager, a financial manager/internal auditor, a research and evaluation specialist, and data collection and reporting specialists. In addition, we estimated the need for one implementation specialist per 2,000 accounts. These individuals would manage the application process, make quarterly distributions, and provide support to students/parents. If the ratio is necessary to provide adequate customer support, it would result in 45 specialists by FY 2029.

- *Contracts* – Contract costs include personal services, an application system, and ESA management. GOSA would contract for a staff attorney, a CPA, and an auditor, totaling approximately \$215,000 annually. GOSA would also contract with a financial firm to manage the ESAs and process claims at a cost of \$48 per account - \$419,000 in FY 2020 increasing to approximately to \$4.3 million in FY 2029. In addition, an online application system for vendors and parents/students would cost an estimated \$45,000 annually.

The cost estimate does not include additional office space that would eventually be needed for increased GOSA staff or additional state costs that may be required for standardized testing. For students attending a private school, we assumed that the school would likely already be using one of the three norm-referenced tested approved by GOSA. For students not enrolled in a private school, we assumed that they would take the norm-referenced test or statewide assessment provided by the resident school system. If GOSA is required to administer a test to any students, the agency estimated a cost of \$100 per student.

Sincerely,



Greg S. Griffin  
State Auditor



Kelly Farr, Director  
Office of Planning and Budget