

April 7, 2022

The Honorable Molly Baumgardner, Chairperson
Senate Committee on Education
Statehouse, Room 144-S
Topeka, Kansas 66612

Dear Senator Baumgardner:

SUBJECT: Fiscal Note for SB 475 by Senate Committee on Education

In accordance with KSA 75-3715a, the following fiscal note concerning SB 475 is respectfully submitted to your committee.

SB 475 would enact the Kansas Hope Scholarship Act, which would provide an option for a parent to meet the individual education needs of a student. The program would be administered by the State Treasurer. The State Treasurer would create a standard application form that a parent could submit to determine whether such parent's child is an eligible recipient of a Kansas Hope Scholarship Award. Scholarship funds would be placed in a personal education savings account for qualifying educational expenses on behalf of the eligible student. The bill would require that applications be available on or before July 1, 2023.

The bill would establish in the State Treasury the Kansas Hope Scholarship Fund, which would be an interest-bearing fund. The treasurer would establish an account in the Kansas Hope Scholarship Fund in the State Treasury in the name of the student. The amount of Hope Scholarship funding granted an eligible student on a yearly basis would be equal to the Base Aid for Student Excellence (BASE) aid amount for the preceding school year.

On or before August 1 of each year, the State Treasurer would determine the amount to be transferred to the Kansas Hope Scholarship Fund by multiplying an amount equal to the BASE aid by the total number of hope scholarship students participating in the program. If an eligible student would be awarded scholarship for less than a full fiscal year, the amount awarded would be prorated. Any funds remaining in a Hope Scholarship account at the end of the fiscal year may be carried over to the next fiscal year upon successful renewal of the account. No transfers would be made into an account after the student has graduated from high school. Any funds left in an account after the student has graduated from high school may be expended for tuition and fees at a postsecondary educational institution. Funds deposited into a Hope Scholarship account would not be considered Kansas taxable income.

The State Treasurer may annually deduct up to 5.0 percent of the amount in the Kansas Hope Scholarship Program Fund as reimbursement for administrative costs. If the number of Hope Scholarship accounts would increase significantly in any fiscal year, the State Treasurer may request an additional appropriation in an amount equal to the associated administrative costs.

Scholarship funds may be used for the following expenses:

1. Tuition or fees at a participating school;
2. Tuition or fees for nonpublic online learning programs;
3. Tutoring services provided by an individual or a tutoring facility;
4. Services contracted for and provided by a school district, including individual classes and extracurricular activities and programs;
5. Textbooks, curriculum or other instructional materials, including, any supplemental materials or associated online instruction required by either a curriculum or an education service provider;
6. Computer hardware or other technological devices that are primarily used to help meet the hope scholarship student's educational needs;
7. Educational software and applications;
8. School uniforms;
9. Fees for nationally standardized assessments, advanced placement examinations, examinations related to college or university admission and tuition or fees for preparatory courses for such assessments or examinations;
10. Tuition or fees for summer education programs and specialized after-school education programs, but not after-school child care;
11. Tuition, fees, instructional materials, and examination fees at a technical college;
12. Educational services and therapies, including occupational, behavioral, physical, speech-language, and audiology therapies;
13. Tuition or fees at a postsecondary educational institution;
14. Fees for transportation paid to a fee-for-service transportation provider for the student to travel to and from an education service provider; and
15. Any other qualified expenses approved by the State Treasurer.

The Treasurer would be required to verify with the Department of Education the following information by July 1 of each year: (1) a list of all active hope scholarship accounts; (2) the resident school district of each hope scholarship student; and (3) for each hope scholarship student who attends a participating school, annual confirmation of each such student's attendance at a participating school that complies with the requirements of the bill.

To be eligible to accept payments from a Hope Scholarship account, an eligible education service provider would be required to be approved by the State Treasurer. The bill would set requirements for this approval.

If a parent fails to renew a student's Hope Scholarship, the State Treasurer would notify the parent that the scholarship account will be closed in 45 calendar days. If a parent chooses not to renew or does not respond within 30 calendar days of receipt of the notice, the State Treasurer would close the account, and any remaining funds would be credited to the State General Fund. If a Hope Scholarship student wants to return to the program after failing to renew, the student would have to reapply to the program.

The State Treasurer may contract with a private organization to administer the program. The agency may adopt rules and regulations to implement and administer the program, which would focus on easing parental involvement and encouraging education service providers to provide parents and Hope Scholarship students with a broad array of educational options. The agency may accept gifts and grants from any source to cover the administrative costs to inform the public about the program or to provide additional funding for Hope Scholarship accounts.

The State Treasurer would be required to conduct, or contract to conduct, audits of individual Hope Scholarship accounts. If the State Treasurer obtains evidence of potential fraudulent use of Hope Scholarship funds, the agency may refer suspected cases to the Attorney General for purposes of investigation and collection.

In any legal proceeding challenging the application of the program to a participating education service provider, the state would bear the burden of establishing that the challenged statute, action or rule and regulation is necessary and does not impose any undue burden on education service providers. No liability could arise on the part of the State Treasurer, the state, or any school district based on the award or use of a Hope Scholarship. If any part of the bill were to be challenged in a state court as violating either the state or federal constitution, parents of eligible Hope Scholarship students could intervene in the challenge. For the purposes of judicial administration, a court may limit the number of parents permitted to intervene or require that all parents file a joint brief, except that those parents would not be required to join any brief filed on behalf of any named state defendant. If any provision of the bill to any person or circumstance would be held invalid by a court of competent jurisdiction, the remainder of this bill would still be in effect.

The State Treasurer is unable to estimate how many eligible students might participate in the program. With the definition of an eligible student, the agency estimates that most students in the state could be eligible for the scholarship program. One administrative option is for the State Treasurer to establish a new division for the program beginning in FY 2023, with expenditures totaling \$650,648, including \$336,000 for salaries and wages for 4.00 FTE positions. The estimate would include 1.00 Program Director FTE position (\$93,000), 1.00 Administrative Support Staff FTE position (\$53,000), 1.00 General Counsel FTE position (\$112,000), and 1.00 Auditor FTE position (\$78,000).

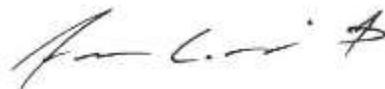
Other operating expenditures would include additional computer equipment and software licensing for a total estimated cost of \$14,648 per year, including \$6,000 for new equipment, \$2,000 for software licenses, \$3,648 for phone and network jack fees, and \$3,000 per year for a new printer lease. In addition, the agency estimates the bill would require \$300,000 to acquire, set up, and maintain a computer system that would be able to interface with Hope Scholarship accounts, education service providers and outside financial software since the state's accounting system cannot support individual scholarship accounts.

The State Treasurer could potentially contract with a third-party for the application process, management of accounts, and enforcement of the requirements of the program. This would reduce additional costs associated with the operations of the program, but there would still be management fees. At this time, the agency is unable to estimate what third-party management costs would be required; if these costs could be covered by the 5.0 percent administrative cost allowed to be deducted from scholarship accounts; or if additional appropriations would be required. With this option, the State Treasurer would still need to employ 1.00 Program Director FTE position, 1.00 Administrative Support Staff FTE position, 1.00 General Counsel FTE position, and 1.00 Auditor FTE position plus the associated operating expenses at the amounts noted above.

The Department of Education notes that school district general fund budgets are based on enrollment in the prior year or the second preceding year. As a result, in the first year that a student would choose to accept a Hope Scholarship, the state would fund both the BASE for the school district and would provide the BASE to the student's Hope Scholarship account. However, after the first or second year of the scholarship program (depending on how a district uses its enrollment count in the school finance formula), a school district that loses a participating student enrolled would no longer count the student for state aid purposes. For the first year of the program in FY 2024, the BASE that would be used for the scholarship accounts from the prior school year would be \$4,846. The Department cannot estimate the number of students that would participate in the program. However, for reference, if 1.0 percent of the state's current 463,961 public school students would participate, the cost to fund the scholarships in the first year would be \$22,485,440 (\$4,846 BASE X 4,640 students = \$22,485,440). These scholarships would be funded as a revenue transfer from the State General Fund.

The Department of Revenue indicates the bill would have no fiscal effect on tax revenue or administrative costs for the agency. The Department of Administration indicates that the state's accounting system and related procedures are not currently designed to implement the program with individual student accounts within the State Treasury. It is likely that additional staff and expenditures would be required to implement the program; however, an estimate of additional expenditures for the agency cannot be made. If the State Treasurer would track the individual student accounts externally with a vendor, there would be no additional costs for the Department of Administration for implementation. Any fiscal effect associated with HB 2550 is not reflected in *The FY 2023 Governor's Budget Report*.

Sincerely,



Adam Proffitt
Director of the Budget

cc: Craig Neuenswander, Education
John Hedges, Office of the Treasurer
Lynn Robinson, Department of Revenue
Celeste Chaney-Tucker, Department of Administration