

# Department of Finance and Administration

## Legislative Impact Statement

**Bill: SB620**

**Bill Subtitle: TO CREATE THE CAPITAL PROMISE SCHOLARSHIP PILOT PROGRAM.**

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### **Basic Change :**

**Sponsors: Senators B. Johnson, M. Johnson; Representatives Bragg, House, Lowery, Wing**

SB620 establishes the Capital Promise Scholarship Pilot Program in Pulaski County. This program provides financial scholarships to children of income qualified families that reside in Pulaski County and enables children to attend nonpublic kindergarten through grade twelve schools in Pulaski County, two-year or four-year institutions of higher education in Pulaski County, or both, that best fit each child's individual needs.

This is a 5-year project to evaluate the effectiveness of this type of scholarship program and if the demonstration project is effective, to consider whether it should be expanded beyond Pulaski County. The scholarship program is to begin no later than the 2020-2021 school year and terminate on June 30, 2025. Scholarships shall be administered by an eligible student support organization which must be exempt from federal income tax under Internal Revenue Code Section 501(c)(3). Contributions to the student support organizations may be deducted as charitable contributions.

### **Revenue Impact :**

Total scholarship funds are limited annually to \$3.5 million.

### **Taxpayer Impact :**

Eligible students or parents of an eligible student under this program will be able to use the funds to pay for tuition and other approved educational services to attend a nonpublic school or a two-year or four-year institution of higher learning in Pulaski County. Taxpayers who contribute to an eligible student support organization may deduct the payments as charitable contributions.

### **Resources Required :**

The Department of Education (DOE) will develop the Capital Promise Scholarship Pilot Program and assess the effectiveness of providing scholarships to eligible students by providing an annual report to the Governor's office. The DOE will certify organizations which seek to become an eligible student support organization by May 1st of the year before the school year. Certified Student Support Organizations will need to develop a financial plan that demonstrates enough funds to operate throughout the academic year and an organizational chart and description of methodology the organization will use to verify whether a student is eligible to receive the scholarship.

### **Time Required :**

Adequate time is provided for implementation.

### **Procedural Changes :**

DOE and the Certified Eligible Student Support Organizations have several requirements to meet prior to the beginning of the program.

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These include:

Department of Education:

- Developing the program; annual producing an assessment of the program to the Governor's office; and initially certifying eligible student support organizations that seek to receive funds and administer the program.

Certified Eligible Student Support Organizations:

- Complete IRS Form 990 no later than 1 November of the year before the academic year; provide a financial plan; organization charts and provide a methodology used to verify whether a student is eligible to receive a scholarship.

### **Other Comments :**

None.

### **Legal Analysis :**

SB620 creates a 5-year pilot program through which an eligible student support organization (SSO) may establish scholarships for use in paying the nonpublic school education expenses or institute of higher education expenses for a student who is a resident of Pulaski County. The SSO must satisfy various criteria outlined in the bill and must file an application with the Department of Education (DOE) by May 1 before the academic year for which the SSO intends to fund scholarships. The Department of Education may certify only one eligible SSO to administer the pilot program at any one time. The SSO must conduct annual audits of all student scholarship accounts. The DOE must promulgate rules to administer the pilot program.

Parents may apply to an SSO to establish a scholarship account for an eligible student. The parent must use the funds from the account for educational expenses at a nonpublic school. Eligible education expenses are outlined in the bill. The SSO must approve applications by order of receipt. The organization must maintain separate accounts for student scholarship funds and operating funds of the organization. The SSO may fund for each eligible student in kindergarten through grade eight an amount not to exceed 80% of the foundation funding amount as provided in state law for each academic year and for each eligible student in grades nine through twelve an amount not to exceed 100% of the foundation funding amount as provided in state law for each academic year. For the 2018-2019 school year, that amount was \$6,781. The SSO also may fund an amount not to exceed \$5000 for attendance at an eligible two-year or four-year institute of higher education.

The SSO must disburse amounts in quarterly installments to the student's parents or to the student if the student is over the age of 18. The SSO must develop a system for direct payment at a parent's direction to education service providers or other entities by electronic funds transfer, automatic clearing house transfer, or other payment method. Scholarship funds will not be taxable income of a parent or eligible student.

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The bill provides for cumulative scholarship awards of up to \$3,500,000 annually. The bill creates a dedicated state scholarship fund and provides that the funding source would be the Rainy Day Fund among other funding sources.

Drafting concerns:

- In lines 22-23, page 3, "§ 6-15-2008" likely should read "§ 6-18-2006."
- The bill notes that a school district is not to lose its foundation funding on account of a student leaving the district under these programs, but is not clear whether the foundation funding amount for the student who has left the district under this program would continue to be provided in subsequent school years or only hold the district harmless in the initial school year.