

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/CS/HB 15 Educational Options

**SPONSOR(S):** PreK-12 Appropriations Subcommittee; PreK-12 Innovation Subcommittee; Sullivan; Fischer and others

**TIED BILLS:** None **IDEN./SIM. BILLS:** CS/SB 1314

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) PreK-12 Innovation Subcommittee	12 Y, 3 N, As CS	Dehmer	Healy
2) PreK-12 Appropriations Subcommittee	12 Y, 3 N, As CS	Seifert	Potvin
3) Education Committee		Dehmer	Hassell

### SUMMARY ANALYSIS

The bill revises the Florida Tax Credit (FTC) Scholarship Program by:

- increasing the base annual scholarship amount, differentiated by grade level, for students enrolled in eligible private schools;
- increasing the amount of a transportation scholarship for a student who chooses a public school outside their district from \$500 to \$750;
- allowing a dependent child of a parent who is a member of the U.S. Armed Forces to apply for a scholarship at any time;
- authorizing a Scholarship Funding Organization (SFO) to make scholarship payments on behalf of a parent only if the SFO receives prior approval from the parent each time;
- providing that a private school that has consecutive years of material exceptions listed in their annual financial reports may be ineligible to participate in the FTC;
- requiring the Department of Revenue (DOR) to provide a copy of a denial letter to the SFO specified by the taxpayer seeking the tax credit;
- revising the date that a private school's agreed upon procedures report from a CPA is due to the SFO from September 15, to August 15, of each year; and
- removing obsolete language regarding student eligibility and funding.

There is no fiscal to state government.

The bill takes effect July 1, 2017.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. EFFECT OF PROPOSED CHANGES:

##### **The Florida Tax Credit Scholarship Program (FTC)**

###### **Present Situation**

The FTC Program<sup>1</sup> was established to encourage taxpayers to make private, voluntary contributions to Scholarship Funding Organizations, expand educational opportunities for families that have limited financial resources and enable Florida's children to achieve a greater level of excellence in their education.<sup>2</sup> The FTC Program is funded with contributions to private nonprofit SFOs from taxpayers who receive a tax credit for use against their liability for corporate income tax; insurance premium tax; severance taxes on oil and gas production; self-accrued sales tax liabilities of direct pay permit holders; or alcoholic beverage taxes on beer, wine and spirits.<sup>3</sup> The tax credit is equal to 100 percent of the eligible contributions made.<sup>4</sup>

SFOs use contributions to award scholarships to eligible low-income students for private school tuition and fees or transportation expenses to a Florida public school located outside of the school district in which the student resides.<sup>5</sup> During the 2016-2017 school year, 98,457 students were awarded FTC Program scholarships. Of that number, 50,408 students were female and 48,049 students were male.<sup>6</sup>

Contingent upon available funds, a student is eligible for a FTC Program scholarship if he or she meets one or more of the following criteria:

- The student is on the direct certification list or the student's household income level does not exceed 185 percent of the federal poverty level.
- The student is currently placed, or during the previous state fiscal year was placed, in foster care or in out-of-home care.
- The student's household income level is greater than 185 percent of the federal poverty level but does not exceed 260 percent of the federal poverty level.<sup>7</sup>

A student who receives a scholarship based upon placement in foster care or out-of-home care remains eligible until he or she graduates from high school or turns 21, whichever occurs first, regardless of his or her household income level. A sibling of a participating student is eligible for a scholarship if he or she resides in the same household as the sibling.<sup>8</sup>

Priority is given to students who received a scholarship in the previous year, to new applicants whose household income levels do not exceed 185 percent of poverty, and to students who are in foster care or out-of-home care.<sup>9</sup>

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<sup>1</sup> Section 1002.395, F.S.

<sup>2</sup> Section 1002.395(1)(b), F.S.

<sup>3</sup> Section 1002.395(1) and (5), F.S.

<sup>4</sup> Sections 220.1875 and 1002.395(5), F.S.

<sup>5</sup> Section 1002.395(3)(d), F.S. An eligible contribution is a monetary contribution from a taxpayer to an eligible nonprofit SFO. The taxpayer may not designate a specific child as the beneficiary of the contribution. Section 1002.395(2)(e), F.S.

<sup>6</sup> Florida Department of Education, *Florida Tax Credit Scholarship Program: February 2017 Quarterly Report*, at 1-3, available at <http://www.fldoe.org/core/fileparse.php/7558/urlt/FTC-Feb-2017-Q-Report.pdf>.

<sup>7</sup> Section 1002.395(3)(c)1-3., F.S.

<sup>8</sup> Section 1002.395(3), F.S. (flush left provision at end of subsection).

<sup>9</sup> Section 1002.395(6)(e), F.S.

The law caps the amount of tax credits that may be made for scholarships and places limits on the per-student scholarship amount.<sup>10</sup>

## Tax Credit Cap

The tax credit cap amount is the amount in the prior state fiscal year unless the actual tax credit amount for the prior state fiscal year is equal to or greater than 90 percent of the tax credit cap amount applicable to that state fiscal year, in which case the tax credit cap amount increases by 25 percent.<sup>11</sup> The tax credit cap for Fiscal Year 2016-2017 is \$559,000,000 and the estimated scholarship amount is \$5,886.<sup>12</sup>

## Scholarship Amount

The amount of a scholarship awarded to a student enrolled in an eligible private school is equal to 82 percent of the unweighted FTE funding amount for that state fiscal year and thereafter.<sup>13</sup> The scholarship amount is adjusted based on family income, unless the student is receiving a scholarship based upon placement in foster care or out-of-home care.<sup>14</sup> Eligible income levels for the 2016-2017 school year are as follows:

FTC Scholarship Income Guidelines <sup>15</sup>					
2016-2017 School Year					
Household size	Monthly Maximum Income for a 100% Scholarship	Monthly Maximum Income for an 88% Scholarship	Monthly Maximum Income for a 74% Scholarship	Monthly Maximum Income for a 60% Scholarship	Monthly Maximum Income for a 50% Scholarship
1	\$1,980	\$2,129	\$2,277	\$2,426	\$2,574
2	\$2,670	\$2,871	\$3,071	\$3,271	\$3,471
3	\$3,360	\$3,612	\$3,864	\$4,116	\$4,368
4	\$4,050	\$4,354	\$4,658	\$4,962	\$5,265
5	\$4,740	\$5,096	\$5,451	\$5,807	\$6,162
6	\$5,430	\$5,838	\$6,245	\$6,652	\$7,059
7	\$6,122	\$6,581	\$7,040	\$7,500	\$7,959
8	\$6,815	\$7,327	\$7,838	\$8,349	\$8,860
9	\$7,509	\$8,072	\$8,635	\$9,198	\$9,761
10	\$8,202	\$8,817	\$9,432	\$10,048	\$10,663
11	\$8,895	\$9,563	\$10,230	\$10,897	\$11,564
12	\$9,589	\$10,308	\$11,027	\$11,746	\$12,465
13	\$10,282	\$11,053	\$11,824	\$12,596	\$13,367
	Each additional member, add +693	Each additional member, add +745	Each additional member, add +797	Each additional member, add +849	Each additional member, add +901

For a scholarship awarded to a student for transportation to a Florida public school that is located outside the district in which the student resides, the limit is \$500.<sup>16</sup>

<sup>10</sup> Section 1002.395(5), F.S.

<sup>11</sup> Section 1002.395(5)(a)2., F.S.

<sup>12</sup> Step Up For Students, 2015-16 Fact Sheet, available at, <https://www.stepupforstudents.org/newsroom/basic-program-facts/> (last visited March 1, 2017), Florida Department of Education, Fact Sheet, Florida Tax Credit Scholarship Program, available at [http://www.fldoe.org/core/fileparse.php/15230/urlt/FTC\\_Sep\\_2016.pdf](http://www.fldoe.org/core/fileparse.php/15230/urlt/FTC_Sep_2016.pdf), (last visited February 13, 2017).

<sup>13</sup> Section 1002.395(12)(a)1.a., F.S.

<sup>14</sup> Section 1002.395(12)(a)3., F.S.

<sup>15</sup> Step Up For Students, FTC Scholarship Income Guidelines, available at, <https://www.stepupforstudents.org/for-parents/income-based/how-the-scholarship-works/>.

<sup>16</sup> Section 1002.395(12)(a)1.b., F.S.

To participate in the FTC Program, a private school must:

- comply with all of the requirements for private schools participating in state school choice scholarship programs;
- provide the SFO, upon request, all documentation required for student participation, including its fee schedule;
- annually provide the parent with a written explanation of the student's progress;
- annually administer or make provisions for students in grades three through 10 to participate in one of the nationally norm-referenced tests identified by the DOE or the statewide assessments<sup>17</sup> and report the student's scores to the parent and to the Learning System Institute at Florida State University;
- cooperate with a student whose parent chooses to have the student participate in statewide assessments; and
- require each student receiving a scholarship to have regular and direct contact with his or her teachers at the school's physical location.<sup>18</sup>

Participating private schools that receive more than \$250,000 in funds from FTC Program scholarships in any state fiscal year must annually contract with an independent certified public accountant to perform agreed-upon procedures<sup>19</sup> and produce a report of the results. The procedures must determine whether the private school has been verified as eligible by the Department of Education (DOE); has an adequate accounting system, system of financial controls, and process for deposit and classification of scholarship funds and has properly expended scholarship funds for education-related expenses. The private school must submit the report annually on September 15, to the SFO that awarded the majority of the private school's scholarships and the SFO must monitor a private school's compliance. The SFO must notify the commissioner of a private school's failure to submit its annual report or of any material exceptions set forth in the report.<sup>20</sup>

DOE may remove a private school's eligibility to participate in the FTC program if the school fails to meet any of these requirements.<sup>21</sup>

### Effect of Proposed Changes

The bill removes obsolete language regarding student eligibility and funding and increases the base annual scholarship limits for students enrolled in eligible private schools from 82 percent of the unweighted FTE to:

- eighty-eight percent of unweighted FTE for grades K-5;
- ninety-two percent of unweighted FTE for grades 6-8;
- ninety-six percent of unweighted FTE for grades 9-12.

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<sup>17</sup> The statewide assessment program for public schools includes statewide, standardized comprehensive assessments and end-of-course (EOC) assessments and the Florida Alternate Assessment for students with disabilities. The statewide, standardized comprehensive assessment tests reading (grades 3-10), mathematics (grades 3-8), science (once in elementary and middle school), and writing (once at the elementary, middle and high school level). EOC assessments for high school students include Algebra I, Biology I, Geometry, and U.S. History. Middle school students must take an EOC assessment if they are enrolled in any of the above listed high school courses and in Civics. Section 1008.22(3), F.S.

<sup>18</sup> Section 1002.395(8)(a)-(d), F.S.

<sup>19</sup> An agreed-upon procedure analysis is not a full financial statement audit. Instead, the certified public accountant is engaged by the client to examine specific financial or operational aspects of its company or organization. The client and the practitioner agree upon the procedures to be performed by the practitioner and the subject matter that they will cover. *See American Institute of Certified Public Accountants, Audit and Attest Standards, Statements on Standards for Attestation Agreements, Agreed-Upon Procedures Engagements*, at AT s. 201.02 (June 1, 2009), available at <http://www.aicpa.org/Research/Standards/AuditAttest/DownloadableDocuments/AT-00201.pdf>.

<sup>20</sup> Section 1002.395(6)(o) and (8)(e), F.S.

<sup>21</sup> Section 1002.395(8), F.S. (flush-left provision at end of the subsection).

The amount of a transportation scholarship for a student, who chooses a public school outside his or her district, also increases from \$500 to \$750.

The bill authorizes an SFO to make scholarship payments to eligible private schools by funds transfer (including debit cards, electronic payment cards, or any other means the DOE deems commercially viable). Payments must be approved by the parent before the funds are deposited and a parent may not designate an entity or individual associated with the participating private school as their attorney to approve a fund transfer.

The bill permits a dependent child of a parent who is a member of the U.S. Armed Forces to apply for a scholarship at any time.

The bill revises the date that a private school's agreed upon procedures report is due to the SFO from September 15, to August 15, each year and provides that a private school may be ineligible to participate if it has consecutive years of material exceptions identified in its report.

The bill requires Department of Revenue to provide a copy of the denial or approval letter to the SFO within 10 days after approving or denying any of the following transactions:

- An application for a carryforward tax credit.
- The conveyance, transfer, or assignment of a tax credit.
- The rescindment of a tax credit.
- Acknowledgement of tax credits.

Finally, the bill authorizes an SFO to develop a professional development system that includes a master plan for in-service activities under the School Community Professional Development Act. The system and in service plan must be submitted to the commissioner of the State Board of Education for approval.

**B. SECTION DIRECTORY:**

**Section 1.** Amends s. 1002.395, F.S., relating to the Florida Tax Credit Scholarship Program.

**Section 2.** Amends s. 1012.98, F.S., relating to the School Community Professional Development Act.

**Section 3.** Provides an effective date of July 1, 2017.

## **II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT**

**A. FISCAL IMPACT ON STATE GOVERNMENT:**

**1. Revenues:**

None.

**2. Expenditures:**

None.

**B. FISCAL IMPACT ON LOCAL GOVERNMENTS:**

**1. Revenues:**

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

The bill has no fiscal impact to state government.

**III. COMMENTS**

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

None.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

**IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES**

On March 7, 2017, the PreK-12 Innovation Subcommittee adopted an amendment and reported the bill favorably as a committee substitute. The amendment provides that a licensed physician from any state or territory may diagnose a student with a disability for purposes of Gardiner Scholarship Program eligibility. The bill analysis is drafted to the committee substitute as passed by the PreK-12 Innovation Subcommittee.

On March 28, 2017, the PreK-12 Appropriations Subcommittee adopted two amendments and reported the bill favorably as a committee substitute. Amendment one removed Sections 1 relating to the Gardiner Scholarship Program and Section 2 relating to the John M. McKay Scholarship Program. Amendment two removed the appropriation included in the bill. This bill analysis is drafted to the committee substitute as passed by the PreK-12 Appropriations Subcommittee.