

# Fiscal Note & Local Impact Statement

127<sup>th</sup> General Assembly of Ohio

Ohio Legislative Service Commission  
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BILL: **Sub. S.B. 57**

DATE: **May 12, 2008**

STATUS: **As Passed by the Senate**

SPONSOR: **Sen. Coughlin**

LOCAL IMPACT STATEMENT REQUIRED: **Yes**

CONTENTS: **Creates the Special Education Scholarship Pilot Program**

## State Fiscal Highlights

STATE FUND	FY 2008	FY 2009	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	- 0 -	Increase in administrative costs for ODE	Increase in administrative costs for ODE
	- 0 -	- 0 -	Potential increase in state aid for primary and secondary education

Note: The state fiscal year is July 1 through June 30. For example, FY 2007 is July 1, 2006 – June 30, 2007.

- The Ohio Department of Education (ODE) is required to establish rules for the Special Education Scholarship Pilot Program that are effective by January 31, 2009. The scholarship program begins in FY 2010 and ends in FY 2015. ODE is also required to administer the scholarship program. This administration includes registering private providers, reviewing and approving scholarship applications, and making scholarship payments. These duties will increase the administrative burden of the agency.
- ODE is required to conduct a formative evaluation of the scholarship program that includes both quantitative and qualitative analyses. ODE is also required to develop and maintain a document comparing a parent's and child's rights if the child remains enrolled in their school district with their rights if the child accepts a scholarship. These requirements will also increase ODE's administrative costs.
- If the scholarship program attracts students who are not currently in the state's public education system, state aid may increase.
- State aid may increase since kindergarten students receiving a scholarship will count as a full-time student in the resident districts' average daily memberships (ADM) whereas currently, kindergarten students generally are counted as a half-time student.



## *Local Fiscal Highlights*

<b>LOCAL GOVERNMENT</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FUTURE YEARS</b>
<b>School Districts</b>			
Revenues	- 0 -	- 0 -	Decrease in state aid of approximately \$7,500 to \$20,000 per scholarship student
Expenditures	- 0 -	- 0 -	Decrease for each scholarship student equal to the cost of educating that student

Note: The school district fiscal year is July 1 through June 30.

- Scholarships may range from approximately \$7,500 to \$20,000 in FY 2010, depending on the student's disability and the fees charged by the alternative provider. The scholarship amount is capped at \$20,000 each year, but the lower end of the range will increase in future years as the base cost per pupil increases, until the program ends in FY 2015. School districts will have the scholarship amount deducted from their state aid for each resident student who obtains a scholarship. A portion of this amount may consist of the district's local share of the additional special education weighted costs calculated for the student.
- Districts may be able to realize a decrease in expenditures since they will not be required to provide special education and related services to scholarship students.

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## *Detailed Fiscal Analysis*

The bill creates the Special Education Scholarship Pilot Program, which provides scholarships to special education students whose parent chooses to enroll the student in an approved public or private special education program other than the one offered by the student's school district. The pilot program runs from FY 2010 to FY 2015 and the number of scholarships awarded in each year is capped at 3% of the number of children with disabilities in the previous year. If the program had been active in FY 2008, the number of scholarships would have been capped at a little over 8,000.

The scholarships are funded by counting the scholarship students in the average daily membership (ADM) of the resident school district in order to calculate the district's state aid, and then deducting the amount of the scholarship from the state aid sent to the district. The bill specifies that the amount of each scholarship is the **lesser** of:

- (1) the total fees charged by the alternative provider;
- (2) the amount calculated for the student by the school funding formula for total base cost and special education weighted funding; or
- (3) \$20,000.

### *Formula funding for special education students*

Through the school funding formula, each special education student in a district's ADM generates the base cost per pupil (which is made up of the base cost formula amount and the base cost funding supplements) and the special education weighted cost applicable to the student's disability. In FY 2009, the base cost formula amount is \$5,732 per pupil and the base cost funding supplements total approximately \$51 per pupil for a total base cost per pupil of \$5,783. In order to calculate special education weighted costs, the formula recognizes six categories of special education students, each with its own weight. These weights are multiplied by the base cost formula amount and by the phase-in percentage (90% in FY 2009) to obtain the additional weighted cost of a student in each category. The table below shows the total of the base cost and the additional weighted cost per ADM for each special education category in FY 2009.

<b>Base Cost and Special Education Weighted Cost per ADM by Special Education Category FY 2009</b>				
<b>Category</b>	<b>Base Cost per ADM</b>	<b>Weight</b>	<b>Additional Weighted Cost per ADM with 90% Phase-in</b>	<b>Total of Base Cost and Additional Weighted Cost per ADM</b>
1. Speech only	\$5,783	0.2892	\$1,492	\$7,275
2. Specific learning disabled, developmentally handicapped, other health – minor	\$5,783	0.3691	\$1,904	\$7,687
3. Hearing impaired, vision impaired, severe behavior handicapped	\$5,783	1.7695	\$9,128	\$14,911
4. Orthopedically handicapped, other health – major	\$5,783	2.3646	\$12,198	\$17,981
5. Multihandicapped	\$5,783	3.1129	\$16,059	\$21,842
6. Autistic, traumatic brain injury, both vision and hearing disabled	\$5,783	4.7342	\$24,423	\$30,206

**Effect on school districts**

In general, by counting the scholarship student in the resident district's ADM, the resident district's state aid will increase by the base cost per pupil plus a percentage of the additional special education weighted cost.<sup>1</sup> The base cost portion of the scholarship, therefore, is funded generally by the state, whereas the additional weighted cost of the scholarship is funded by both state and local dollars. The percentage of the weighted cost paid with state funds is equal to the percentage of the base cost paid for by the state for each district, referred to as the district's "state share percentage." State share percentages range from more than 80% in some low wealth districts to 0% in some very high wealth districts.

For an average wealth district the state share percentage is approximately 50%. For this average wealth district, therefore, an additional special education student would increase the district's special education weighted cost by the student's weight multiplied by the base cost formula amount per pupil. State special education weighted cost funding, however, would only increase by 50% of this amount. If this student receives a scholarship, the base cost and the entire weighted cost up to the lesser of the fees charged by the alternative provider or \$20,000 is transferred to the parent. For example, if a hearing impaired student who is a resident of this average wealth district receives a scholarship, the student will generate \$5,783 in state base cost funding and \$4,564 (\$9,128 x 50%) in state special education weighted cost funding, or a total of \$10,347 in state aid for the school district. In this case, the amount deducted for the scholarship could be as much as \$14,911, depending on the alternative provider's fees, so the district may experience a net loss in state aid of up to \$4,564 (\$14,911 - \$10,347), which must be made up for with the resident district's local funding.

<sup>1</sup> A district that receives transitional aid may not receive an increase in state aid when its ADM increases. Such a district already is receiving more state aid than the formula would otherwise allocate based on its current ADM. A district that is so wealthy that its local share covers the base cost amount for its current ADM so that its state share percentage is 0% may also not receive an increase in state aid when its ADM increases.

On the other hand, some districts may be credited with more state aid through the formula than the amount that is deducted for the scholarship. For example, suppose a district with a state share percentage of 75% had a student with a traumatic brain injury accept a scholarship. The student will generate \$5,783 in state base cost funding and \$18,317 ( $\$24,423 \times 75\%$ ) in state special education weighted cost funding, or a total of \$24,100 in state aid for the school district. In this case, the amount deducted for the scholarship could be as much as \$20,000 depending on the alternative provider's fees, so the district experiences a net gain in state aid of at least \$4,100 ( $\$24,100 - \$20,000$ ).

Districts will be responsible for developing each scholarship student's individualized education program (IEP), but districts may be able to realize a decrease in expenditures since they will not be required to provide special education and related services to scholarship students. For students with severe disabilities, savings on related services may be immediate. Some savings, however, will be more difficult to realize if the scholarship students are spread out over different schools and different grade levels, as a reduction of one or two students (especially high-incident, low-cost students) in a class may not decrease the costs of that class significantly. In addition, the scholarship program may attract students who are eligible to attend school in the district, but who are currently attending an alternative program using private funds. As the district is not currently educating these students, they do not currently receive any state aid for them. However, the district may lose its local share of the weighted cost while not realizing any savings if the students receive scholarships.

### **State administrative costs**

The bill requires that ODE conduct a formative evaluation of the pilot program and report its findings to the General Assembly. The bill specifies that the evaluation include quantitative and qualitative analyses. ODE is also required to develop and maintain a document comparing a parent's and child's rights if the child remains enrolled in their school district with their rights if the child accepts a scholarship.

In addition, the bill requires the State Board of Education to adopt rules including application procedures and deadlines and standards and procedures for the registration of private providers of special education programs. The Superintendent of Public Instruction and ODE are also responsible for registering private providers, reviewing and approving scholarship applications, and making scholarship payments. These requirements will increase the administrative burden of ODE. As an example of the potential administrative costs of the program, Am. Sub. H.B. 119 of the 127th General Assembly as passed by the General Assembly established a similar pilot program beginning in FY 2009 and appropriated \$50,000 in FY 2008 and \$250,000 in FY 2009 for the evaluation and administrative costs. These provisions were vetoed by the Governor.

### **Potential increase in state aid**

As mentioned previously, the scholarship program may attract students who are currently attending an alternative program using private funds. As these students are not currently in the state's public education system, they do not currently receive any state aid. State aid will generally increase by the base cost per pupil and the state share of the additional special education weighted costs for each of these students. In addition, scholarship students in kindergarten are counted as a full-time student in the resident district's ADM, whereas district

kindergarten students are generally counted as a half-time student to reflect the traditional half-day kindergarten program. Counting these students as full-time students may also increase state aid.

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