



Ohio Legislative Service Commission

Andrew Plagenz

Fiscal Note & Local Impact Statement

Bill: [Sub. H.B. 136 of the 129th G.A.](#)

Date: June 10, 2011

Status: In House Education

Sponsor: Rep. Huffman

Local Impact Statement Procedure Required: Yes

Contents: Creates the Parental Choice and Taxpayer Savings Scholarship Program and the Special Education Scholarship Program

State Fiscal Highlights

- If the two scholarship programs created by the bill, the Parental Choice and Taxpayer Savings Scholarship Program (PACT) and the Special Education Scholarship Program, attract students who are not currently in the state's public education system, total state aid may increase.
- The Ohio Department of Education (ODE) is required to establish rules for and to administer the scholarship programs. These duties will increase the administrative burden of the agency.
- ODE is required to conduct a formative evaluation of the Special Education Scholarship Program and 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.
- The Treasurer of State is required to establish and maintain an education savings account for each PACT scholarship student whose scholarship amount exceeds the student's tuition and fees. In addition, the Treasurer of State is required to issue an annual report on the PACT Support Fund, which is created by the bill. These requirements will increase the administrative burden of the Treasurer of State.

Local Fiscal Highlights

- School districts will have \$5,783 deducted from their state aid for each resident student who obtains a PACT scholarship.
- Special Education scholarships may range from approximately \$6,000 to \$26,500, depending on the student's disability and the fees charged by the provider. School districts will have the scholarship amount deducted from their state aid for each resident student who obtains a scholarship.

- Both PACT and Special Education scholarship students will be counted in the average daily membership (ADM) of their resident school districts. This may increase the state aid allocated to the district.
- Districts may be able to realize a decrease in expenditures since they will not be required to educate scholarship students.

Detailed Fiscal Analysis

Overview

The bill creates the Parental Choice and Taxpayer Savings Scholarship Program (PACT) to commence in the 2012-2013 school year. The PACT scholarship program is open to any student that is (1) entitled to attend school in an Ohio school district and (2) either (a) has a family federal adjusted gross income (FAGI) for the preceding tax year less than or equal to 2.5 times the income standard for reduced-price lunch or, (b) if entering kindergarten or not a resident of Ohio the preceding year, has a family FAGI for the preceding tax year less than or equal to 1.5 times the income standard for reduced-price lunch. The number of PACT scholarships awarded in a school year is limited to the difference between the maximum number of Educational Choice Scholarship Pilot Program (Ed Choice) scholarships and the actual number of Ed Choice scholarships awarded.

The bill also creates the Special Education Scholarship 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 program applies to any identified disabled child in grades kindergarten through 12 and the number of scholarships awarded in each year is capped at 5% of the number of children with disabilities in the previous year. If the program had been active in FY 2011, the number of scholarships would have been capped at approximately 11,500.

Parental Choice and Taxpayer Savings Scholarship

PACT scholarships are funded by first counting the scholarship student in the average daily membership (ADM) of the resident school district in order to calculate the district's state aid, and then deducting an amount from the state aid sent to the district. The amount of the scholarship and the deduction are based on the per pupil base cost formula amount as calculated for FY 2009 under the former Building Blocks model (which is made up of the base cost formula amount and the base cost funding supplements). In FY 2009, the base cost formula amount was \$5,732 per pupil and the base cost funding supplements totaled approximately \$51 per pupil for a total base cost per pupil of \$5,783. The deduction for each scholarship student is equal to the total base cost per pupil. The amount of the scholarship is a percentage of the base cost per pupil. The percentage is based on the scholarship student's family's FAGI for the preceding tax year, as follows:

PACT Scholarship Amount by Family Income Levels		
Family Income	Percentage of Base Cost	Scholarship Amount
Less than 1.5 times the standard	80%	\$4,626
Between 1.5 and 2.0 times the standard	60%	\$3,470
Between 2.0 and 2.5 times the standard	40%	\$2,313

Effect on total state aid

Because the PACT scholarship program is funded through a deduction from the state aid allocated to school districts, generally, there will be no change in total state aid. However, if the program attracts students who are currently attending or would otherwise attend an alternative program using private funds, total state aid may increase.¹ The bill prohibits a student who attended a nonpublic school in the year prior to applying for an initial PACT scholarship from receiving a PACT scholarship unless the student meets the income eligibility standards and was participating in either Ed Choice or the Cleveland Scholarship and Tutoring Pilot Program (CSTP) in the prior year, was not a resident of Ohio in the prior year, or is entering kindergarten. In addition, any students entering kindergarten or who did not reside in Ohio in the prior year must meet a lower income standard of 1.5 times the income standard for reduced-price lunch. These provisions may limit the number of students receiving scholarships who would otherwise use private funds, and thereby limit any increase in total state aid.

Students currently receiving scholarships under Ed Choice or CSTP may choose to receive a PACT scholarship instead. Ed Choice scholarship students are already counted in the ADM of their resident districts for the purpose of calculating state aid. However, CSTP scholarship students are not currently included in Cleveland Municipal School District's ADM. So, total state aid may increase as more students are included in statewide ADM. However, if students transfer from CSTP to the PACT program, spending on CSTP will likely decrease.

Effect on each school district's state aid

Historically, the state's school funding formula provides funding to each school district partially based on the ADM of the district. Under this type of formula, the amount of state aid calculated for a district generally increases when ADM increases. However, when a district is receiving funding through a guarantee or cap, its state aid may not be responsive to changes in its ADM. For these districts, therefore, a new scholarship student may increase the district's state aid deduction without actually

¹ Under H.B. 153, as passed by the Senate, total state aid in FY 2012 and FY 2013 is capped by the appropriations in those years.

increasing its state aid allocation. In FY 2011, approximately 575 of the 612 districts are either on the guarantee or under the cap.²

For those PACT scholarship recipients that were previously receiving an Ed Choice or CSTP scholarship, the amount of the state aid deducted for that student may increase. Under the current Ed Choice Program, the Ohio Department of Education (ODE) deducts \$5,200 for each scholarship student. Under the CSTP program, the deduction from Cleveland's allocation is currently limited to a total amount of \$11.9 million. Under the PACT program, ODE deducts \$5,783 for each scholarship student.

Education savings accounts

The bill requires the Treasurer of State to establish and maintain an education savings account for each PACT scholarship student whose scholarship amount exceeds the student's tuition and fees. Once an account is established, money in the account can be used by the student or the student's parent for eligible education related expenses. A student's account must be maintained until either (1) the student reaches 25 years of age or (2) dies before reaching that age. Any money left in the account at that time must be paid into the Parental Choice Taxpayer Savings Scholarship Program Support Fund (Support Fund) created by the bill. In addition, all investment earnings on money in each student's account must be paid into the Support Fund.

The Treasurer of State must issue an annual report to the Governor and the General Assembly on the total amount paid into the Support Fund from interest earned and leftover moneys in individual student education savings accounts. These requirements will increase the administrative burden of the Treasurer of State.

Special Education scholarship

Special Education scholarship funding

Similar to the PACT program, the Special Education scholarships are funded by counting the scholarship students in the ADM of the resident school district in order to calculate the district's state aid, and then deducting an amount from the state aid sent to the district. Unlike the PACT program, however, under the Special Education program the deduction and the scholarship amount are the same. The bill specifies that the amount of each scholarship is the **lesser** of:

1. the total fees charged by the alternative provider; or
2. a percentage of the amount that would have been calculated for the student by the former Building Blocks Model of school funding for total base cost and special education weighted funding.

² Under H.B. 153, as passed by the Senate, fewer districts will likely be on a guarantee in FY 2012 and FY 2013. However, total state aid is capped by the appropriations in those years, so an increase in ADM in one district may increase that district's state aid but decrease state aid for all other districts.

The amount calculated under the Building Blocks Model included the base cost per pupil and the special education weighted cost applicable to the student's disability. As described for the PACT scholarship above, the base cost formula amount was \$5,732 per pupil and the base cost funding supplements totaled approximately \$51 per pupil for a total base cost per pupil of \$5,783 in FY 2009. The scholarship amount includes 80% of the FY 2009 base cost per pupil amount, or \$4,626. In order to calculate special education weighted costs, the scholarship program 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 (80% under the bill) to obtain the weighted special education amount of the scholarship. The table below shows the total of the base cost and the additional weighted cost per pupil as well as the maximum scholarship amount for each special education category under the program.

Maximum Special Education Scholarship Amount by Special Education Category					
Category	Scholarship Weight	80% Scholarship Weight	Weighted Scholarship Amount	80% Base Cost Amount	Maximum Scholarship Amount
1. Speech only	0.2892	0.2314	\$1,326	\$4,626	\$5,952
2. Specific learning disabled, developmentally handicapped, other health – minor	0.3691	0.2953	\$1,693	\$4,626	\$6,319
3. Hearing impaired, vision impaired, severe behavior handicapped	1.7695	1.4156	\$8,114	\$4,626	\$12,740
4. Orthopedically handicapped, other health – major	2.3646	1.8917	\$10,843	\$4,626	\$15,469
5. Multihandicapped	3.1129	2.4903	\$14,275	\$4,626	\$18,901
6. Autistic, traumatic brain injury, both vision and hearing disabled	4.7342	3.7874	\$21,709	\$4,626	\$26,335

Effect on total state aid

Because the Special Education Scholarship Program is funded through a deduction from state aid, generally, there will be no change in total state aid. However, 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. Adding these students to statewide ADM may increase total state aid.³

Effect on each school district's state aid

Historically, the state's school funding formula provides funding to each school district partially based on the ADM of the district, which has been weighted if the

³ As with the PACT scholarship, any increase in ADM related to special education scholarship students would not impact total state aid expenditures in FY 2012 or FY 2013 under H.B. 153, as passed by the Senate, because it includes a cap on overall state funding for school districts.

student has a disability. Under this type of formula, the amount of state aid calculated for a district generally increases when weighted ADM increases. However, when a district is receiving funding through a guarantee or cap, its state aid may not be responsive to changes in its weighted ADM. For these districts, therefore, a new scholarship student may increase the district's state aid deduction without actually increasing its state aid allocation. In FY 2011, approximately 575 of the 612 districts are either on the guarantee or under the cap.⁴

State administrative costs

The bill requires that ODE conduct a formative evaluation of the program and report its findings to the General Assembly. The bill specifies that the evaluation include quantitative and qualitative analyses and that the findings be reported to the General Assembly before December 31, 2014. 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, reporting requirements, 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.

Synopsis of Fiscal Effect Changes

- The substitute bill increases the deductions from the state aid allocated to the resident school districts of PACT scholarship students from the amount of the scholarship – approximately \$2,300 to \$4,600 – to the total base cost per pupil in FY 2009 – \$5,783. This will decrease state expenditures and school district revenues by the difference between the deduction and the scholarship amount.
- The substitute bill reduces the amount of the PACT scholarship for students with family income between 1.5 and 1.75 times the standard from 70% to 60% of the base

⁴ Under H.B. 153, as passed by the Senate, fewer districts will likely be on a guarantee in FY 2012 and FY 2013. However, total state aid is capped by the appropriations in those years, so an increase in ADM in one district may increase that district's state aid but decrease state aid for all other districts.

amount and for students with family income between 2.0 and 2.25 times the standard from 50% to 40% of the base amount.

- The substitute bill decreases the scholarship amounts and deductions from the state aid allocated to resident school districts of Special Education scholarship students by approximately \$1,157 per student. This will increase school district revenues, but have no direct fiscal effect on the state.
- The substitute bill specifies that the PACT program begins in FY 2013.
- The substitute bill maintains the Educational Choice (Ed Choice) Scholarship and the Cleveland Scholarship and Tutoring (CSTP) programs, instead of eliminating them as under the bill as introduced. A student who qualifies for one of these existing programs as well as for the PACT scholarship may choose between the two programs. In addition, the substitute bill opens up eligibility for Ed Choice to students who are also eligible for CSTP, if they meet all other Ed Choice eligibility criteria. As described in the detailed fiscal analysis, the fiscal effect on the state and school districts varies for each of these three programs.
- The substitute bill limits the number of PACT scholarships to the difference between the maximum number of Ed Choice scholarships and the actual number of Ed Choice scholarships awarded in each year, but requires ODE to increase the maximum number of Ed Choice scholarships by 25% if the number of applicants for Ed Choice scholarships reaches 90% of the current maximum.
- The substitute bill prescribes a lower income standard of 1.5 times the income standard for reduced-price lunch for students entering kindergarten or who did not reside in Ohio in the prior year, instead of 2.5 times the income standard for reduced-price lunch. In addition, the substitute bill prohibits a student who attended a nonpublic school in the year prior to applying for an initial PACT scholarship from receiving a PACT scholarship unless the student meets the income eligibility standards and was participating in either Ed Choice or CSTP in the prior year, was not a resident of Ohio in the prior year, or is entering kindergarten. The bill as introduced phased in eligibility for current nonpublic school students. This may result in fewer students being added to public school enrollment because of the program.