



# Ohio Legislative Service Commission

*Revised*

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## Fiscal Note & Local Impact Statement

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**Bill:** Sub. H.B. 136 of the 129th G.A. **Date:** September 26, 2011

**Status:** As Reported by House Education **Sponsor:** Rep. Huffman

**Local Impact Statement Procedure Required:** Yes

**Contents:** Creates the Parental Choice and Taxpayer Savings Scholarship Program

### State Fiscal Highlights

- If the scholarship program created by the bill, the Parental Choice and Taxpayer Savings Scholarship Program (PACT), attracts 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 program. Additionally, ODE is required to establish and maintain an education savings account for each PACT scholarship student whose scholarship exceeds the student's tuition and fees. These duties will increase the administrative burden of the agency.
- The Treasurer of State is required to maintain, in an account or fund, the scholarship moneys in excess of students' tuition and fees that are transferred by ODE. 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 \$5,704 deducted from their state aid for each resident student who obtains a PACT scholarship.
- PACT 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.

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## Detailed Fiscal Analysis

### Overview

The bill creates the Parental Choice and Taxpayer Savings Scholarship Program (PACT) to commence in the 2012-2013 school year. PACT is open to any student that is (1) entitled to attend school in an Ohio school district and (2) has a family federal adjusted gross income (FAGI) for the preceding tax year less than or equal to the lesser of (a) 2.5 times the income standard for reduced-price lunch or (b) \$95,000. 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.

### Parental Choice and Taxpayer Savings Scholarship

PACT scholarships are funded by first counting the scholarship student in the average daily membership (ADM)<sup>1</sup> 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 current per pupil formula amount and the per pupil amount of the base cost funding supplements as calculated for FY 2009 under the former Building Blocks model. For FY 2012 and FY 2013, the base cost formula amount is \$5,653 per pupil. The base cost funding supplements, as calculated for FY 2009, totaled approximately \$51 per pupil. Therefore, the base amount for a PACT scholarship for FY 2013, the first year of the program, is \$5,704 (\$5,653 + \$51). The deduction for each scholarship student is equal to the total base amount. However, the amount of the scholarship is a percentage of the base amount. 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%	\$4,563
Between 1.5 and 2.0 times the standard	60%	\$3,422
Between 2.0 and 2.5 times the standard	40%	\$2,282

### Effect on total state aid

Because PACT is funded through a deduction from the state aid allocated to school districts, generally, there will be no change in total state aid. Historically, the school funding formula used in Ohio has been based on enrollment, so that,

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<sup>1</sup> ADM is the measure of the number of students residing in a school district that is used in the school funding formula.

theoretically, state spending may increase when public school enrollment increases. Under this type of funding formula, if the program attracts students who are currently attending or would otherwise attend an alternative program using private funds, total state aid may increase. However, under the current funding formula for FY 2012 and FY 2013, total state aid is capped by the appropriations in those years. As a result, if the scholarship program were to be in effect in FY 2013, there would be no increase in state spending related to scholarship students who would otherwise have attended an alternative program using private funds. Furthermore, for students that attended a nonpublic school without a scholarship immediately prior to the school year for which the PACT scholarship is sought, the program limits eligibility in FY 2013 to kindergarten students, in FY 2014 to kindergarten through 4th grade students, and in FY 2015 to kindergarten through 8th grade students. Beginning in FY 2016, students of all grade levels are eligible. This provision may result in a more gradual phase in of any increase in total state aid than would occur if all nonpublic students were immediately eligible.

Students currently receiving scholarships under Ed Choice or the Cleveland Scholarship and Tutoring Program (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. As noted above, under the current funding formula, an increase in ADM would not lead to an increase in statewide spending. However, an increase in ADM in one district may increase that district's state aid but decrease state aid for all other districts. Additionally, if students transfer from CSTP to PACT, 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 increasing its state aid allocation proportionally. In previous years, many districts were on a guarantee or cap. Furthermore, under the current funding formula for FY 2012 and FY 2013, total state aid is capped by the appropriations in those years, so an increase in ADM in one district may increase that district's calculated state aid but decrease state aid for all other districts.

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 the actual amount of the scholarship (which is the lesser of tuition actually charged or \$4,250 for grades K to 8 or \$5,000 for grades 9 to 12) for each scholarship student. Under the CSTP, the deduction from Cleveland's allocation is currently limited to a total amount of \$11.9 million. Under PACT, ODE deducts \$5,704 for each scholarship student.

The bill limits the amount that can be deducted from a district for scholarships to the total amount of the district's state aid. This limits the number of scholarships available in any school district to the district's state aid divided by \$5,704.

### **Education savings accounts**

The bill requires ODE to establish and maintain an education savings account for each PACT scholarship student whose scholarship amount exceeds the student's tuition and fees. ODE must transfer the excess amount to the Treasurer of State who is required to deposit the amount transferred into a suitable account or fund. Once a student's account is established with ODE, 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 bill requires the State Board of Education and the Treasurer to adopt rules for administering the accounts. In addition, the Treasurer is required to 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 and ODE.