



# Ohio Legislative Service Commission

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## Fiscal Note & Local Impact Statement

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

**Date:** March 16, 2011

**Status:** As Introduced

**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, 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

- PACT scholarships may range from approximately \$2,300 to \$4,600, depending on the family income of the scholarship student. School districts will have the scholarship amount deducted from their state aid for each resident student who obtains a scholarship.
- Special Education scholarships may range from approximately \$7,100 to \$27,500, 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.

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## Detailed Fiscal Analysis

### Overview

The bill creates the Parental Choice and Taxpayer Savings Scholarship Program (PACT) and repeals the Educational Choice Scholarship Pilot Program (Ed Choice) and the Cleveland Scholarship and Tutoring Pilot Program (CSTP). 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 for the preceding tax year less than or equal to 2.5 times the income standard for reduced-price lunch or (b) received an Ed Choice or CSTP scholarship in the year prior to which the PACT program begins. There is no limit to the number of scholarships awarded under the program.

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 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 amount of the scholarship is based on the per pupil base cost formula amount as calculated 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. Scholarship students then receive a percentage of the base amount, depending on the family's federal adjusted gross income for the preceding tax year, as follows:

<b>PACT Scholarship Amount by Family Income Levels</b>		
<b>Family Income</b>	<b>Percentage of Base Cost</b>	<b>Maximum Scholarship Amount</b>
Less than 1.5 times the standard	80%	\$4,626
Between 1.5 and 1.75 times the standard	70%	\$4,048
Between 1.75 and 2.0 times the standard	60%	\$3,470
Between 2.0 and 2.25 times the standard	50%	\$2,891
Between 2.25 and 2.5 times the standard	40%	\$2,313
Greater than 2.5 times the standard but received either Ed Choice or CSTP scholarships in the year preceding implementation of the PACT program	40%	\$2,313

### **Effect on the state**

Because the PACT scholarship program is funded through a deduction from state aid, generally, there will be no fiscal effect on state aid to school districts. 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. For students that attended a nonpublic school immediately prior to the school year for which a PACT scholarship is sought, the program limits eligibility in 2012 to kindergarten students, in 2013 to kindergarten through 4th grade students, in 2014 to kindergarten through 8th grade students, with students in all grade levels eligible beginning in 2015.

Students currently receiving Ed Choice scholarships 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. Under the current funding system, increasing the district's ADM would normally cause an increase in its state funding allocation. However, because Cleveland's funding is capped under the current system, its state aid may not be responsive to changes in its ADM. In future years, this increase in ADM may increase the state aid allocated to Cleveland and the total cost to the state.<sup>1</sup>

### **Effect on school districts**

The state's current school funding formula defines an adequacy amount for each school district that is partially based on the number of students in the district. Under this model, the amount of state aid calculated for a district would generally increase 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

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<sup>1</sup> The method of funding school districts is generally updated in the main operating appropriations bill.

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.

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 decrease. 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. The difference in the amount deducted under the PACT Program or the two current programs will depend on the family income of the scholarship student as described above.

### **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. Similarly, all investment earnings on money in each student's account must be paid into the Support Fund.

In addition, 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 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; or
2. 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.

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 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.

<b>Maximum Special Education Scholarship Amount by Special Education Category</b>					
<b>Category</b>	<b>Scholarship Weight</b>	<b>80% Scholarship Weight</b>	<b>Weighted Scholarship Amount</b>	<b>Base Cost Amount</b>	<b>Maximum Scholarship Amount</b>
1. Speech only	0.2892	0.2314	\$1,326	\$5,783	\$7,109
2. Specific learning disabled, developmentally handicapped, other health – minor	0.3691	0.2953	\$1,693	\$5,783	\$7,475
3. Hearing impaired, vision impaired, severe behavior handicapped	1.7695	1.4156	\$8,114	\$5,783	\$13,897
4. Orthopedically handicapped, other health – major	2.3646	1.8917	\$10,843	\$5,783	\$16,626
5. Multihandicapped	3.1129	2.4903	\$14,275	\$5,783	\$20,057
6. Autistic, traumatic brain injury, both vision and hearing disabled	4.7342	3.7874	\$21,709	\$5,783	\$27,492

### **Effect on the state**

Because the Special Education Scholarship Program is funded through a deduction from state aid, generally, there will be no fiscal effect on state aid to school districts. 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.

### **Effect on school districts**

The state's current school funding formula defines an adequacy amount for each school district that is partially based on the number of students in the district. Under this model, the amount of state aid calculated for a district would generally increase 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 increasing its state aid allocation. In FY 2011, approximately 575 of the 612 districts are either on the guarantee or under the cap.

### **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.