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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

S.B. 109
133rd General Assembly

Fiscal Note & Local Impact Statement

[Click here for S.B. 109's Bill Analysis](#)

Version: As Introduced

Primary Sponsor: Sen. Schuring

Local Impact Statement Procedure Required: No

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Highlights

Workforce Scholarship Program

- The bill appropriates a total of \$6.0 million from the GRF in each of FY 2020 and FY 2021 to fund scholarships awarded under and promotion of the newly created Workforce Scholarship Program. Of this amount, at least \$5.0 million in each fiscal year is allocated to the Department of Higher Education (DHE) to fund scholarships.
- Of the \$6.0 million appropriated in each fiscal year, the bill allocates up to \$750,000 to DHE for costs to coordinate and conduct the promotion of the new program and appropriates \$250,000 to the Ohio Department of Education for state and school costs associated with promoting the Workforce Scholarship Program in high schools.
- DHE administrative costs are likely to increase, perhaps significantly, to carry out various other administrative duties under the bill, including tracking the employment outcomes of scholarship recipients and performing a cost-benefit analysis of the program that takes into account dynamic scoring of the taxes generated from the in-demand jobs in which scholarship recipients become employed.

Tax credits

- The bill authorizes two new tax credits in connection with the Workforce Scholarship Program. Both credits are nonrefundable and are limited to the first five years following graduation.
- Annual revenue losses could begin as early as FY 2022 when taxpayers file their tax year (TY) 2021 returns, but state revenue losses would likely peak several years later once most scholarship recipients funded during the FY 2020-FY 2021 biennium receive their

education credential and subsequently obtain an in-demand occupation from an Ohio employer.

- Administrative discretion about policy implementation makes it impossible to predict the number of taxpayers who would claim the two credits; the number of scholarships awarded may be as few as 1,000 under the terms of the bill, but could be higher if scholarships were awarded in amounts smaller than the \$5,000 maximum. If just 1,000 scholarships were awarded, plausible illustrative figures yield annual GRF revenue losses of several million dollars attributable to scholarship recipients funded during this biennium. If more scholarships were awarded, the revenue losses could be proportionally greater.

Detailed Analysis

Workforce Scholarship Program

The bill creates the Workforce Scholarship Program to provide scholarships to students who are enrolled in one of five public or private nonprofit institutions of higher education or Ohio Technical Centers (OTCs) that will be selected by the Chancellor of Higher Education and are pursuing a degree, certification, or license that is required to be employed in a job considered to be “in-demand.” The annual maximum award available to each eligible student is \$5,000, but the scholarship cannot exceed 75% of the cost of tuition during an academic year.

The bill appropriates a total of \$6.0 million from the GRF in each of FY 2020 and FY 2021 for the program. Of this amount, the bill allocates at least \$5.0 million in each fiscal year from GRF line item 235581, Workforce Scholarships, under the Department of Higher Education (DHE) budget, for scholarships and up to \$1.0 million each fiscal year for promotion of the program. Of the latter amount each fiscal year, \$750,000 is allocated in line item 235581 and \$250,000 is appropriated in GRF line item 200473, Workforce Scholarship Promotion, under the Department of Education (ODE) budget. The bill terminates the program on December 31, 2023.

Department of Higher Education responsibilities

As indicated above, the bill provides up to \$750,000 in each of FY 2020 and FY 2021 from line item 235581 for costs to coordinate and conduct the promotion of the Workforce Scholarship Program within a 50-mile radius of each of the five public or private institutions selected to participate in the program. The bill requires these promotional activities to be administered by an entity selected by the Chancellor through a request for proposal (RFP) process. The Chancellor must advertise its intent to request proposals in a newspaper of general circulation in the state once a week for two consecutive weeks.

In addition, the bill likely increases DHE’s administrative expenses to comply with several other new duties and responsibilities, perhaps significantly if, for example, the Department needs to hire additional staff, acquire services to track employment outcomes for scholarship recipients, or purchase dynamic scoring models. Under the bill, DHE must:

- Select five public or private nonprofit institutions or OTCs to participate in the program and provide a list of these institutions to ODE and adopt rules regarding the program’s operation (see the LSC bill analysis for a detailed description of the aspects of the program the rules must address);

- Develop metrics showing the total number of scholarships awarded and the number of scholarship recipients who became employed in an in-demand job during the 12-month period following the completion of a qualifying degree, certification, or license;
- Conduct a dynamic scoring of the taxes generated from the in-demand jobs in which scholarship recipients became employed;
- Perform a cost-benefit analysis comparing the costs of the program against both the dynamic scoring of taxes generated and the income generated by scholarship recipients employed in an in-demand job; and
- Submit a report to the Governor and General Assembly describing the results of the participation and outcome metrics, tax scoring, and cost-benefit analysis by December 31, 2022.

Ohio Department of Education and school responsibilities

The bill appropriates \$250,000 in each of FY 2020 and FY 2021 from GRF line item 200473, Workforce Scholarship Promotion, to ODE for state and school costs associated with promoting the Workforce Scholarship Program in high schools. The bill requires a school counselor at all public and chartered nonpublic high schools within a 50-mile radius of each of the five selected institutions to promote the program under guidance that ODE must develop. In addition to developing the guidance, the bill specifically requires ODE to identify and notify the high schools to which the promotion requirements apply.

Tax credits newly authorized by the bill

The bill authorizes two new tax credits in connection with the Workforce Scholarship Program. The credits can be claimed only if a scholarship recipient completes their degree, certification, or license. One credit is granted to graduates for use against their personal income tax (PIT). The credit's value equals 10% of student loan payments made by the graduate during a given tax year. The bill specifies that an eligible loan is one incurred by the scholarship recipient to pay tuition and related expenses while obtaining their education credential. However, credits can only be claimed if the graduate later secured employment at an in-demand job that is subject to Ohio's income tax withholding requirement. Moreover, it can only be claimed for the first five years after the individual obtains their education credential. Any unused credit amounts may be carried forward and applied against a future year's PIT liability.

The second of two tax credits authorized by S.B. 109 is for businesses that employ graduates of the Workforce Scholarship Program for an in-demand occupation. A business may claim the credit against the PIT, the commercial activity tax, the financial institutions tax, the petroleum activity tax, or the premium taxes on foreign and domestic insurance companies. The value of the employer credit equals 10% of wages paid to a scholarship program graduate. Eligible wages are those that are both subject to Ohio's income tax withholding requirement and earned in the first five years following the graduate's completion of his or her education credential.

As of this writing, there are 236 in-demand occupations¹ according to the methodology developed by the Governor's Executive Workforce Board. Since the bill appropriates \$5 million per year in the FY 2020-FY 2021 biennium for scholarships and sets an annual limit of \$5,000 per scholarship, it is plausible that 1,000 unique students would receive two years of scholarship funding over the biennium. Should every student complete their credential and obtain an in-demand job from an Ohio employer, tax credits could be claimed as early as tax year (TY) 2021, affecting GRF tax revenue for FY 2022. Tax year 2024 may be a likelier year for robust credit claims among the first cohort of graduates benefitting from S.B. 109.

The average student loan balance for an individual under 30 years old was about \$22,875 in calendar year 2017.² Different repayment options are available to borrowers, but the typical student could reasonably expect to pay between \$130 and \$265 per month towards their student loan.³ In the event that all 1,000 scholarship recipients secure employment in Ohio to perform an in-demand occupation paying \$50,000 per year, the PIT credit would annually reduce tax receipts by about \$318,000 while the employer credit would reduce tax receipts by \$5 million per year. Amounts could be larger if additional cohorts are awarded scholarships through appropriations of a future General Assembly. Similarly, if more than the assumed 1,000 students in a given biennium receive scholarships, the losses attributable to tax credits could be greater.

Revenue from most of the affected taxes is fully deposited into the GRF, which would bear up to 96.68% of revenue losses under S.B. 109 in FY 2022 and years thereafter. The Local Government Fund and Public Library Fund would each bear 1.66% of revenue losses attributed to GRF taxes. Each fund would lose less than \$90,000 per year for the single cohort of graduates funded by the appropriation in this bill, assuming that 1,000 scholarships are awarded.

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¹ <http://omj.ohio.gov/OMJResources/InDemandRegional-All.stm>.

² https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/xls/sl_update_2018.xlsx.

³ <http://www.finaid.org/calculators/>.