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H.B. 567
135th General Assembly

Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsors: Reps. Robinson and Brennan

Local Impact Statement Procedure Required: No

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Highlights

- The bill may reduce GRF expenditures for the EdChoice Expansion scholarships, renamed as EdChoice voucher scholarships, by roughly \$140 million in FY 2025 by eliminating eligibility for new scholarships for students whose family income is above 250% of the federal poverty level (FPL), prorating scholarship amounts for certain continuing eligible students up to 450% FPL, and eliminating eligibility for all students above that threshold.
- The bill may increase or decrease GRF expenditures by eliminating eligibility for new traditional EdChoice scholarships based on the performance of a student's regularly assigned public school. This provision's fiscal effect will depend on how many new scholarships would have been granted under current law and the type of school that these students will enroll in as a result of the bill.
- The Department of Education and Workforce (DEW) may incur additional administrative costs from the GRF to implement the bill's income verification and district notification requirements.

Detailed Analysis

Overview

Under current law, students in grades K-12 may obtain one of two types of EdChoice scholarships from the state to attend a chartered nonpublic school. The traditional EdChoice Program provides awards to students whose regularly assigned public school buildings falls below certain performance criteria or who meet certain other eligibility requirements. The EdChoice Expansion Program provides awards to any student regardless of family income, although current law specifies decreasing award amounts as income rises above 450% of the federal poverty level (FPL) for new EdChoice Expansion scholarship recipients. The maximum scholarship awards

under both programs for FY 2024 and FY 2025 are set at \$6,166 for students in grades K-8 and \$8,408 for students in grades 9-12. The scholarship amount may not exceed the amount a chartered nonpublic school charges for a student's tuition.

From a fiscal perspective, the bill most notably makes several changes that curtail eligibility for both EdChoice programs. In the case of EdChoice Expansion, the bill restores former law in effect prior to H.B. 33 of the 135th General Assembly that limits eligibility for new scholarships to students whose family income is at or below 250% FPL. The bill also prorates the scholarship awards for existing scholarship students between 250% and 450% FPL and eliminates eligibility for students above 450% FPL. In the case of the traditional EdChoice Program, the bill eliminates the criteria under which students may be eligible based on the performance of their assigned public school building. In so doing, the bill generally makes new EdChoice scholarships entirely income-based, but maintains eligibility for foster children and siblings of certain eligible recipients and does not affect the eligibility of a student who received a traditional EdChoice scholarship under the performance-based eligibility criteria prior to the bill's effective date to renew that scholarship. The fiscal effects of these and other provisions are discussed below.

EdChoice Expansion eligibility

The bill eliminates the ability under current law for all students to receive an EdChoice Expansion scholarship (renamed by the bill as an EdChoice voucher scholarship) regardless of income and eliminates the means-testing formula established in H.B. 33 that calculates awards based on a student's family income above 450% of FPL. Specifically, the bill (1) limits eligibility for new EdChoice scholarships to students whose family income is at or below 250% FPL or whose sibling received a scholarship in the same or prior school year, (2) prorates the award amounts of continuing scholarships for students between 250% and 450% FPL, and (3) eliminates eligibility entirely for students with family incomes above 450% FPL. Under the bill's proration criteria, students between 250% and 300% FPL receive up to 75% of the maximum award, students between 300% and 400% FPL receive up to 50% of the maximum award, and students between 400% and 450% FPL receive up to 25% of the maximum award (see the table below). Students above 450% FPL are no longer eligible under the bill.

Proration of EdChoice Expansion Scholarship Awards under H.B. 567, FY 2025			
Family Income (Percentage of FPL)	Percentage of Maximum Award	Estimated Maximum Award, Grades K-8	Estimated Maximum Award, Grades 9-12
Up to 250%	100%	\$6,166	\$8,408
Above 250% but at or below 300%	75%	\$4,625	\$6,306
Above 300% but below 400%	50%	\$3,083	\$4,204
At or above 400% but at or below 450%	25%	\$1,542	\$2,102
Above 450%	0%	\$0	\$0

To estimate the fiscal effect of these provisions, LBO compared projected payment amounts for FY 2025 under current law and the bill for the FY 2024 cohort of participants. We assumed participant income levels remain constant in FY 2025 and projected tuition levels for FY 2025 based on the percentage increase in average tuition for EdChoice scholarship recipients from FY 2023 to FY 2024. Under this methodology, approximately 21,000 students would receive a reduced award amount under the bill, while approximately 34,000 students would be disqualified from receiving a scholarship. LBO assumes that the students who are disqualified from receiving a scholarship or receive a reduced scholarship award will remain in a chartered nonpublic school due to their relatively high family incomes. This would result in decreased EdChoice Expansion expenditures of approximately \$140 million in FY 2025.

Because of the simplifying assumptions LBO used, the estimate above should be considered rough and the actual decrease may be different. About 11,400 current EdChoice Expansion scholarship students (about 13% of participants) did not report an income level to the Department of Education and Workforce (DEW) for FY 2024. These are students who renewed their scholarship for FY 2024¹ or are siblings of scholarship students. Given the uncertainty of these students' family incomes, LBO excluded them from the analysis. However, some may have their scholarship reduced or eliminated under the bill. On the other hand, some of the families who are disqualified from receiving a scholarship or receive a reduced scholarship award may choose to send their children to a public school instead of remaining in the chartered nonpublic school. If so, the net decrease in state expenditures from this provision may be lower since these students will be counted in their educating district or school for state funding purposes and, thus, may generate state foundation aid for them.

Traditional EdChoice eligibility

The bill eliminates the performance-based criteria for receiving a new traditional EdChoice scholarship, but does not eliminate the eligibility of a foster child or a sibling of a traditional EdChoice recipient. A student who received a traditional EdChoice scholarship under the performance-based eligibility criteria prior to the bill's effective date may continue to renew that scholarship.

On average, since FY 2020, DEW has awarded approximately 9,800 first-time traditional EdChoice scholarships annually. Roughly 2,300 students qualified for a new traditional EdChoice scholarship in FY 2024 because they had a sibling in the program, were a foster child, or met certain other criteria not related to the performance of their assigned public school. Students qualifying based on these factors remain eligible for a new traditional EdChoice scholarship under the bill. An additional roughly 1,400 students in FY 2024 qualified for the program's low-income designation, defined as having a family income at or under 200% FPL. Students designated as low income do not have to pay for any difference between a nonpublic school's charged tuition and the scholarship amount. These students as well as others whose family income is greater than 200% FPL but no more than 250% FPL are eligible for a new EdChoice voucher scholarship under the bill. The number of new traditional EdChoice scholarship students between these two income levels is uncertain, as income verification is optional for traditional EdChoice scholarships and,

¹ Under current law, an applicant renewing an EdChoice Expansion scholarship does not need to complete the income verification process to receive a scholarship award.

thus, many families above 200% FPL choose not to report this information because it does not confer any benefit. Overall, there may be a net reduction of up to approximately 6,200 EdChoice scholarships annually as a result of this provision.

The provision's fiscal effects will depend in part on where students no longer eligible for a new traditional EdChoice scholarship will attend school. Some families may choose to attend a private school by paying tuition. If so, state expenditures will decrease to some degree. For FY 2025, LBO projected in the H.B. 33 budget simulation that scholarship awards will average about \$6,700 for the traditional EdChoice Program. Other families may opt to send their children to a public school. These students will be counted in their educating district or school for state funding purposes and, thus, may generate state foundation aid for them. The marginal amount of state foundation aid may be more or less than a scholarship under current law depending on a number of district and student-specific factors, including a student's grade level, the student's household income (if the student otherwise would be a first-time EdChoice Expansion scholarship recipient), whether the student qualifies for certain categorical funds such as disadvantaged pupil impact aid, and whether the district is subject to the school funding formula's 10% minimum state share or guarantee provisions.² As a point of reference, LBO projected in the H.B. 33 budget simulation that state foundation aid will average roughly \$5,700 per pupil for traditional districts for FY 2025. Due to the mechanics of the state foundation aid formula, the marginal cost to the state when a student newly enrolls in a traditional district is generally higher. However, a district on the 10% state share minimum or benefitting from a funding guarantee will receive little to no additional state funding when a new student enrolls in the district. In terms of community and science, technology, engineering, and mathematics (STEM) schools, LBO projected that state foundation aid will average \$10,300 per pupil for FY 2025.

The net effect of the provision on state expenditures is uncertain, as the importance placed on perceived advantages and disadvantages of a given educational option will vary from family to family. Fiscal effects after FY 2025 are also uncertain. A school funding formula for years after FY 2025 has yet to be enacted. The current school funding formula and scholarship amounts are established for FY 2024 and FY 2025 only. Nevertheless, the foundation aid formula and scholarship payments are mainly supported by the GRF. Thus, the GRF will likely incur any state fiscal effects as a result of the provision. Public school costs may increase to educate additional students.

Other state scholarship program changes

Under current law enacted in H.B. 33, DEW prorates EdChoice and Cleveland scholarship awards for students who submit an application after October 15 of the school year in which they seek a scholarship based on how much of the school year remains after the student enrolled in their chartered nonpublic school. The bill restores former law under which DEW prorated scholarships of students who submitted an application anytime after the start of a school year based on how much of the school year remains after the application was submitted. This change may reduce scholarship award amounts.

² Guarantee provisions ensure that a district's state foundation aid does not fall below a certain historical level of funding.

The bill also modifies the criteria under which nonpublic schools may participate in the Cleveland scholarship program by restoring former law in effect prior to H.B. 33 that limits the geographical areas of those schools to within a certain proximity of the Cleveland Municipal School District. H.B. 33 removed those criteria and allowed any chartered nonpublic school to accept a student receiving a Cleveland scholarship regardless of location.

Other administrative requirements

DEW may incur additional administrative costs resulting from certain administrative requirements in the bill. These generally relate to the income verification of scholarship recipients and notifying districts of resident students who obtain an EdChoice scholarship and described below. Funding from an earmark of GRF line item 200550, Foundation Funding – All Students, along with a portion of GRF line item 200455, Community Schools and School Choice Programs, supports DEW's costs in administering the state's scholarship programs.

The bill eliminates current law that (1) prohibits DEW from requiring EdChoice or Cleveland scholarship applicants to submit a complete state or federal income tax return and (2) permits DEW to require only a partial tax return that contains the minimum information necessary to determine family income. It also requires, rather than permits as under current law, a student's parent or guardian to certify income eligibility for an EdChoice voucher scholarship by submitting to the Department an affidavit affirming eligibility, proof of income eligibility under another state or federal program, or other evidence determined appropriate by the Department. As a result, the bill may increase administrative costs to DEW to modify its income verification procedures.

Current law prohibits school districts from accessing EdChoice scholarship applications. The bill repeals this provision and, instead, requires DEW to notify each school district of each of its resident students who is approved for an EdChoice scholarship. DEW may incur additional administrative costs to carry out such notifications.