



OHIO LEGISLATIVE SERVICE COMMISSION

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Fiscal Note & Local Impact Statement

Bill: H.B. 200 of the 132nd G.A.
(L_132_1153-1)

Status: In House Education and Career Readiness

Sponsor: Rep. Koehler

Local Impact Statement Procedure Required: Yes

Subject: Creates the Opportunity Scholarship

State & Local Fiscal Highlights

- The bill replaces the Educational Choice Scholarship Pilot Program (EdChoice) and the Cleveland Scholarship Program with a new income-based scholarship program titled the Opportunity Scholarship. Existing EdChoice and Cleveland scholarship recipients qualify for an Opportunity scholarship regardless of family income.
- The bill finances Opportunity scholarships through direct GRF payments rather than deductions of the state foundation aid allocated to the student's resident district. Scholarship recipients will not be counted in their resident district's student count for state foundation funding purposes.
- The bill caps the number of scholarship recipients at 60,000 each fiscal year, with 10% automatic increases in the number of available scholarships based on demand.
- If the number of scholarships awarded reaches the maximum 60,000 students, the net annual state costs are estimated to be \$48.0 million. If, over time, demand for the scholarships triggers the automatic increases in the number of available scholarships and those additional scholarships are awarded, the cost of the program will rise, potentially by a significant amount over the long term. Ultimately, the cost of the program will depend on state appropriation levels.
- Because the state's school funding formula is based on enrollment, school districts with students who take the scholarship are likely to lose state aid. Over time, the reduction could be substantial, but ultimately would depend on participation rates. School district expenditures may decrease due to educating fewer students.
- The bill creates education savings accounts for each Opportunity scholarship student whose scholarship amount exceeds the student's tuition and fees. The bill requires the Treasurer of State (TOS) and the Ohio Department of Education (ODE) to maintain the accounts and perform certain administrative and reporting duties. These requirements will increase the administrative costs of TOS and ODE.

Detailed Fiscal Analysis

Beginning in the 2018-2019 school year, the bill replaces both the traditional and income-based Educational Choice Scholarship Pilot Program (EdChoice) and the Cleveland Scholarship and Tutoring Program (CSTP) with a new, income-based scholarship program entitled the Opportunity Scholarship Program. While the Opportunity Scholarship Program is similar to the income-based EdChoice Program, it differs in a number of important respects. An overview of the current and proposed scholarship programs is provided below followed by a discussion of the potential fiscal effects of the new scholarship program and the process LSC used to calculate them.

Overview of EdChoice and Cleveland scholarship programs

The EdChoice Program awards scholarships that students use to attend participating nonpublic schools. A student may qualify for the traditional EdChoice program if they attend or would otherwise attend a school district that meets certain criteria indicative of poor academic performance. All traditional scholarship students are counted in their resident district's student count for the purposes of calculating funding through the school foundation formula. The scholarships are financed by deductions to the state foundation aid of scholarship recipients' districts of residence. Under current law, the scholarship amount is the lesser of tuition or \$4,650 for students in grades K-8 and \$6,000 for students in grades 9-12. EdChoice scholarships are also provided to certain low-income students, regardless of the performance of their public school. However, these scholarships are currently paid for directly from the GRF, not through a deduction of school district foundation aid. Under current law, income-based scholarships are phased-in by one grade level per year, such that, in FY 2017, only income-eligible students in grades K-3 qualify. In general, income-based scholarships are limited to students whose family income is at or below 200% of the federal poverty guidelines.

The Cleveland Scholarship Program, also known as the Pilot Project Scholarship Program, provides scholarships to students who are residents of the Cleveland Municipal School District to attend a participating nonpublic school. The program serves students in grades K-12, giving priority to students from low-income families. Scholarships are based on a school's tuition cost, with a maximum scholarship of \$4,250 for students in grades K-8 and \$5,700 for students in grades 9-12. CSTP is financed by both deductions of Cleveland's state aid and direct state payments from the GRF.

In FY 2017, there are about 37,000 recipients for the three scholarship programs combined, totaling approximately \$185 million in state foundation aid and direct GRF appropriations.

Opportunity Scholarship Program

Overview

The bill creates the Opportunity Scholarship Program to provide scholarships for students in grades K-12 who meet certain income eligibility criteria to pay the tuition

and fees to attend chartered nonpublic schools. The scholarships will be funded directly by GRF appropriations. As a result, students who receive the scholarship will not be counted in their resident district's average daily membership (ADM) for funding purposes. The bill imposes a statutory limit of 60,000 Opportunity scholarships that may be awarded each year. However, if the number of applications for scholarships exceeds 90% of the maximum permitted, the Ohio Department of Education (ODE) must increase the maximum number of scholarships permitted for the following school year by 10%. The new maximum would be used for each subsequent school year until the Department is again required to increase the number of scholarships due to the number of scholarship applications. For example, if the number of applications for the 2018-2019 school year, the first year of the program, exceeds 54,000, the cap on the number of scholarships for the 2019-2020 school year becomes 66,000. However, the number could also be limited based on the amount the General Assembly chooses to appropriate for the program. Additional details concerning scholarship eligibility and award amounts are described below.

Eligibility

To qualify for an Opportunity scholarship, a student must have a family income at or below 400% of the federal poverty guidelines (FPG) and, in general, cannot have been enrolled in a chartered nonpublic school in the school year prior to the year for which an Opportunity scholarship is sought. However, eighth grade students attending a chartered nonpublic school without a state scholarship are eligible for an Opportunity scholarship in the ninth grade provided the student meets the bill's income requirements. The far right column in Table 1 below shows the income levels under which a student may qualify for a scholarship based on their family size. Notwithstanding these income eligibility requirements, the bill qualifies all students who received a traditional or income-based EdChoice or Cleveland scholarship during the 2017-2018 school year and students who have a sibling who received such a scholarship during that school year for an Opportunity scholarship, regardless of family income.

Table 1. 2017 Federal Poverty Guidelines (FPG) and FPG Income Ratios by Persons in Family/Household			
Number of Persons in Family/Household	Poverty Guideline	200% of Poverty Guideline	400% of Poverty Guideline
2	\$16,240	\$32,480	\$64,960
3	\$20,420	\$40,840	\$81,680
4	\$24,600	\$49,200	\$98,400
5	\$28,780	\$57,560	\$115,120
6	\$32,960	\$65,920	\$131,840
7	\$37,140	\$74,280	\$148,560
8	\$41,320	\$82,640	\$165,280

Under the bill, a student who receives the Opportunity scholarship remains eligible and may continue to receive the scholarship in subsequent school years until the student completes high school, so long as the student meets certain conditions. In order to continue receiving the scholarship, a student's family income must not exceed 400% of FPG, unless the student previously received the EdChoice or Cleveland scholarships or is a sibling of such student. Additionally, each recipient of the scholarship must take each state assessment prescribed for the student's grade level and not be absent for more than 20 days of the school year, excluding excused absences.

Scholarship priority

If the number of students who apply for a scholarship exceeds the number of scholarships available for the applicable school year, the bill requires ODE to award scholarships in the following order of priority:

- (1) Eligible students who received scholarships in the prior school year (presumably, this includes students receiving scholarships under the existing Cleveland and EdChoice scholarship programs);
- (2) Eligible students with family incomes at or below 200% of the federal poverty guidelines;
- (3) For any remaining scholarships, eligible students selected by ODE by lottery.

Scholarship amounts

Under the bill, the annual Opportunity scholarship amount awarded to a student is based on the student's family income and grade level. The maximum amount of the scholarship is \$5,000 for students in grades K-8 and \$7,500 for students in grades 9-12. However, if the per-pupil formula amount used to calculate state foundation aid increases in a subsequent school year, the bill requires the maximum scholarship amounts to increase by the same percentage as the formula amount. Any student who received an EdChoice or CSTP scholarship, or had a sibling who received one of the scholarships, in the 2017-2018 school year receives the maximum scholarship amount, regardless of family income.

For students who qualify for the Opportunity scholarship based on family income, the scholarship amount is based on the student's family income as a percentage of FPG. A student with a family income at or below 200% of FPG receives the maximum scholarship amount. A student with a family income between 200% and 400% of FPG receives a scaled scholarship amount that is reduced by 0.5% for every 1% increase in the student's family income above 200% of FPG. A student with a family income at 400% of FPG receives half the scholarship amount (\$2,500 for grades K-8 and \$3,750 for grades 9-12). The scholarship amounts for the Opportunity scholarship are summarized in Table 2 below.

Table 2. Opportunity Scholarship Amounts		
Type of Recipient	Grades K-8	Grades 9-12
Student or sibling of student who received the EdChoice or CSTP scholarship in the 2017-2018 school year	\$5,000	\$7,500
Student with family income at or below 200% of FPG	\$5,000	\$7,500
Student with family income between 200% and 400% of FPG	Scholarship amount is reduced by 0.5% for every 1% increase in the student's family income above 200% of FPG	
Student with family income at 400% of FPG	\$2,500	\$3,750

To illustrate how the scholarship amounts will be determined, consider the following example of an elementary school student in a family of three with a family income of \$61,260. This income level represents a 50% increase above the 200% FPG threshold of \$40,840 for the student's family size. Thus, the student will receive a scholarship that is 25% lower than the full amount, or \$3,750 ($\$5,000 \times (1 - (0.5\% \times 50)) = \$3,750$). Scaled scholarship amounts for a family size of three at various family incomes are provided in Table 3 below.

Table 3. Selected Opportunity Scholarship Amounts Based on Income			
Family Income	Percent increase in income above 200% FPG	Scaled Scholarship Amount for Grades K-8	Scaled Scholarship Amount for Grades 9-12
\$40,840	0%	\$5,000	\$7,500
\$51,050	25%	\$4,375	\$6,563
\$61,260	50%	\$3,750	\$5,625
\$71,470	75%	\$3,125	\$4,688
\$81,680	100%	\$2,500	\$3,750

Unlike the scholarship amounts under the state's existing scholarship programs, which are limited to the tuition and fees charged by the participating private provider, the bill requires ODE to pay any excess scholarship amount after covering the tuition and fees of the chartered nonpublic school into an educational savings account. Educational savings accounts are discussed further below.

Fiscal effects

The cost for the Opportunity Scholarship Program depends on a variety of factors, including the number of students eligible for an Opportunity scholarship based on family income and opting to participate, the number of existing scholarship recipients that will participate in the new program, the cap on the number of scholarships, and the difference in cost between the Opportunity scholarship and the amount of per-pupil formula aid currently paid by the state for scholarship recipients through the state foundation formula. Each of these factors is discussed in more detail below. The first portion of this analysis discusses the underlying assumptions and costs associated with providing the maximum 60,000 scholarships permitted under the bill. The second portion of the analysis provides estimated annual fiscal effects under

hypothetical scenarios where participation is below or above 60,000 students, the latter of which may be helpful in understanding the potential longer term fiscal effects of the program as awareness of the program builds over time. These figures estimate the state's total annual liability for the program if the state were to appropriate all of the funds necessary for full funding.

Eligible students currently receiving EdChoice and Cleveland scholarships

The bill automatically qualifies students receiving either the EdChoice or Cleveland scholarship in the 2017-2018 school year for an Opportunity scholarship in the next school year and does not subject their scholarship amounts to the bill's income scale for new scholarship recipients. That is, existing EdChoice or Cleveland scholarship students receive the full amount of the Opportunity scholarship, regardless of income. Statewide, there are approximately 37,000 students receiving the scholarships in FY 2017. The number of current scholarship recipients by program and grade band is summarized in the table below.

Table 4. Current Scholarship Recipients by Program and Grade Band, FY 2017			
Scholarship Program	Grades K-8 Recipients	Grades 9-12 Recipients	Total Recipients
Traditional EdChoice Scholarship Program	17,018	4,546	21,564
Cleveland Scholarship Program	5,862	2,736	8,598
Income-based EdChoice Scholarship Program*	6,774	0	6,774
TOTAL	29,654	7,282	36,936

*Based on the FY 2017 appropriation divided by the maximum scholarship amount. In FY 2017, only income-eligible students in grades K-3 are eligible for income-based EdChoice scholarships.

Scholarship costs for current scholarship recipients

Because the bill grandfathers existing EdChoice or Cleveland scholarship students into the new program regardless of income, this analysis assumes that all current scholarship recipients will choose to receive the Opportunity scholarship. Overall, LSC estimates the total annual Opportunity scholarship cost for existing scholarship recipients to be approximately \$202.9 million.

Eligible students based on family income

LSC used school district-level income data collected through the U.S. Census Bureau's American Community Survey (ACS) to estimate the total number of Ohio public school students that are eligible for the Opportunity scholarship based on family income. Statewide, this data indicates that roughly 74% of Ohio children ages 6-17 have family incomes below 400% of FPG, including about 42% under 200% of FPG, 18% between 200% and 299% of FPG, and 14% between 300% and 399% of FPG. To calculate the total number of eligible public regular education students by grade band, LSC applied the percentage of children ages 6-17 in each of these three income brackets in each district to the district's FY 2017 student count for funding purposes (formula ADM) minus the district's total special education ADM and number of EdChoice and

Cleveland scholarship students included in formula ADM (special education students are assumed to not participate because the existing Jon Peterson Special Needs and Autism scholarship programs offer higher maximum scholarship amounts). We then multiplied these amounts by the percentage of each district's students in grades K-8 and 9-12 indicated by the district's enrollment data reported to ODE for FY 2016. Overall, we estimate that 1.04 million "new" public regular education students would be eligible for an Opportunity scholarship based on family income in FY 2017. Table 5 below shows the estimated number of eligible students by income bracket and grade band.

Table 5. Estimated Number of Public Regular Education Students Income-Eligible for the Opportunity Scholarship			
Income Level	Grades K-8	Grades 9-12	Total
Students at or below 200% of FPG	417,770	172,128	589,898
Students between 200% and 300% of FPG	179,968	75,705	255,672
Students between 300% and 400% of FPG	139,270	59,212	198,482
TOTAL	737,008	307,045	1,044,053

Scholarship costs for "new" recipients based on income

The remaining cost of the Opportunity Scholarship Program will come from scholarship payments for students who are not currently receiving an EdChoice or Cleveland scholarship and thus, are eligible for the program based on family income. As described above, there are an estimated 1.04 million public regular education students in Ohio that are eligible for the program. However, assuming that all current scholarship recipients will choose to receive the Opportunity scholarship, there would be 23,064 available scholarships for "new" recipients in the first year of the program given the 60,000 scholarship cap. If the number of students applying for a scholarship exceeds the number of scholarships available for the applicable school year, ODE must award the scholarships according to the priority list described above. Given that there are nearly 590,000 students with family incomes below 200% of the federal poverty level, the group of students receiving priority after those who received a scholarship in the previous year, it appears that the "new" recipients may be limited to students in this income group. Scholarship costs for these students were calculated on a school district level by first disaggregating the number of income-eligible students in this income bracket and then by grade band. The number of students from families at or below 200% of FPG in each grade band was then multiplied by the applicable scholarship amount. As noted above, the bill provides these students with the maximum scholarship amount. Overall, we estimate the cost of paying 23,064 Opportunity scholarships for income-eligible public regular education students to be \$132.1 million, which equates to about \$5,729 per pupil.

Total scholarship costs

Including the \$202.9 million cost for the grandfathered EdChoice and Cleveland scholarship students and the \$132.1 million for "new" scholarship recipients, the cost of

all Opportunity scholarships at the 60,000 scholarship cap totals to \$335.0 million. On a statewide per-pupil basis, the average scholarship cost amounts to \$5,584.

Reduction in state foundation aid

Under the bill, Opportunity scholarships will be financed by direct state payments instead of through a deduction of the resident school district's state foundation aid. Because the state foundation formula is based on enrollment, state foundation aid will decrease, as scholarship recipients will no longer be counted in their resident districts for funding purposes. To calculate the estimated reduction in state foundation aid, we made some simplifying assumptions due to uncertainty surrounding the parameters of the state foundation formula in FY 2019 and beyond.

Specifically, we calculated each district's average "basic formula aid" per pupil for FY 2017 using only the district's state share of the Opportunity Grant as well as Targeted Assistance, Capacity Aid, and the portion of Economically Disadvantaged Funds calculated using the base per-pupil amount of \$272, all of which were calculated without factoring in the formula's guarantee and gain cap provisions. Other categorical components were excluded for various reasons, including data limitations with respect to the formula components for which a scholarship recipient would otherwise generate funding for the resident district and the assumption that special education students will not take the Opportunity scholarship when the existing Jon Peterson Special Needs and Autism scholarship programs offer higher maximum scholarship amounts. On a statewide basis, average basic formula aid per pupil amounts to \$3,754 in FY 2017. This amount is not uniform among school districts due to the equalization effects associated with the calculation of the Opportunity Grant, Targeted Assistance, and Capacity Aid. Per-pupil amounts range from about \$300 for the wealthiest district to over \$10,000 for the least wealthy.

We multiplied each district's average basic formula aid per pupil by the estimated number of all Opportunity scholarship recipients in each district¹ to determine a rough estimate of the reduction in state foundation aid under the bill. In the scenario where the program reaches the maximum 60,000 scholarships, state foundation aid decreases by \$217.5 million.

Net state costs

Overall, we estimate the net increase in state costs of providing 60,000 scholarships to be \$48.0 million annually after taking into account the reduction in state foundation aid and subtracting FY 2017 funding levels for direct state payments for income-based EdChoice scholarships and Cleveland scholarships, which are no longer necessary under the bill. The calculation of net state costs is summarized in Table 6 below.

¹ We excluded the existing Cleveland scholarship students whose scholarships are directly paid by state appropriations.

Table 6. Net Annual State Costs of 60,000 Scholarships (in millions)	
Item	Amount
Total estimated annual scholarship cost	\$335.0
Estimated annual reduction in state foundation aid	-\$217.5
Elimination of directly funded CSTP payments	-\$38.0
Elimination of income-based EdChoice payments	-\$31.5
Net annual state cost	\$48.0

In general, the annual net cost of the bill results from the state's obligation to pay the entire scholarship amount for scholarship recipients. In contrast, under current law, the cost of educating these students is generally a shared responsibility between the state and the student's resident school district. The state pays a portion of the foundation formula cost for the student depending on the relative wealth of the district, with the remainder supported mostly by local funds.² Statewide average per-pupil figures help put the overarching fiscal effects of the bill into perspective. On average, the state is paying \$3,754 in basic formula aid per pupil in FY 2017. Under the bill, it will be responsible for paying an average scholarship cost of \$5,584 per pupil, an average increase of \$1,830 per pupil, or 48.7%. While the state will spend less to educate some students through direct payments under the scholarship program than through the foundation formula (particularly students residing in lower wealth areas who are currently funded at per-pupil levels greater than the district's estimated average scholarship cost), by and large the state will pay more per student under the bill than would otherwise be the case.

Different participation scenarios

Usage of the program may start out relatively low and increase as more people become aware of the program. As a result, usage of the scholarship program may increase above the 60,000 student cap based on demand, as provided in the bill. Therefore, this section of the analysis provides a range of cost estimates compared to the current law based on some hypothetical scenarios of different levels of student participation, both below and above the 60,000 scholarship cap. The results of each scenario are presented in Table 7 below. In each scenario, we continue to assume that all existing EdChoice and Cleveland scholarship students receive the Opportunity scholarship and add the number of public regular education students estimated to participate based on a uniform statewide rate necessary to achieve the stated participation level. We calculated the costs for these scholarship students in the same manner described above, assuming all "new" scholarship recipients will be from

² Students educated through most school choice programs are included in the resident district's student count for funding purposes and the payments to the educating school are deducted from the resident district's state aid based on the full per-pupil amounts applicable to the student (i.e., before the state share index is applied). Students educated through choice programs paid directly by the state are not included in their resident district's student count for funding purposes.

families at or below 200% of FPG. If demand for the scholarships from students in this group is less than the maximum number of scholarships available after the grandfathered recipients receive the scholarships, then students from higher income families would receive scholarships and the cost of the scholarship program would be less.

Table 7. Net State Costs at Certain Opportunity Scholarship Participation Levels Compared to Current Law (\$ in millions)				
Scenario	50,000 Students	66,000 Students	72,600 Students	79,860 Students
Existing scholarship recipients	36,936	36,936	36,936	36,936
Income-eligible students	13,064	29,064	35,664	42,924
Total participants	50,000	66,000	72,600	79,860
Total annual estimated scholarship cost	\$277.7	\$369.4	\$407.2	\$448.8
Estimated annual reduction in state foundation aid	-\$174.2	-\$243.6	-\$272.2	-\$303.6
Elimination of directly funded CSTP payments	-\$38.0	-\$38.0	-\$38.0	-\$38.0
Elimination of income-based EdChoice payments	-\$31.5	-\$31.5	-\$31.5	-\$31.5
Net annual state cost	\$34.1	\$56.4	\$65.6	\$75.7

As Tables 6 and 7 show, for every 10% increase in the number of scholarships, the net state cost increases in the scenarios by between \$8 million and \$10 million, with the cost differential rising with successive increases in the scholarship cap. If, over time, demand for the scholarships continues to trigger the automatic increases in the number of available scholarships and those additional scholarships are awarded, the cost of the program will rise, potentially by a significant amount over the long term. Ultimately, the number of scholarships and thus the cost of the program could be limited based on the amount the General Assembly chooses to appropriate for the program.

General effects on individual school districts

As described above, because the state's school funding formula is based on enrollment, school districts with students who take the scholarship are likely to lose state foundation aid. Over time, the reduction could be substantial, but ultimately would depend on student participation rates in the scholarship program. School district expenditures may decrease due to educating fewer students.

Education savings accounts

The bill requires ODE to establish and maintain an education savings account for each Opportunity 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 the student's education savings account.

The bill permits a student or parent to use the money in the student's education savings account for eligible future primary and secondary education expenses, such as tuition, textbooks, tutoring services, and costs related to advanced standing programs.

A student's account must be maintained until the student graduates from high school or certain other events occur, such as the student becomes a resident of another state or the money is used for an expense not allowed under the bill. Any money left in the account at that time must be transferred to ODE to be used for oversight and parental outreach for the Opportunity Scholarship Program.

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 of money in education savings accounts and interest credited to ODE. These requirements will increase the administrative costs of the Treasurer and ODE.

Pupil transportation

Under continuing law, students receiving the EdChoice and CSTP scholarships are entitled to receive transportation to and from the chartered nonpublic school by the student's resident district. The resident district is not obligated to transport a scholarship student if the travel time exceeds 30 minutes by school bus between the district school building to which the student otherwise would be assigned and the student's nonpublic school. In this case, a school district may offer a payment in lieu of providing transportation to the parent of the student. The bill requires recipients of the Opportunity scholarship to be transported in the same manner as under current law.

This provision may increase transportation costs for school districts if a district is transporting recipients of the Opportunity scholarship to nonpublic schools outside its regular bus route. However, the current transportation formula funds school districts based on either miles driven or the number of students transported, subject to a minimum state share floor. As a result, school districts may recoup a portion of the increased costs to transport scholarship students through the pupil transportation formula.

Other administrative requirements

The bill creates a number of administrative requirements for ODE and the State Board of Education in relation to the Opportunity Scholarship Program. A number of these provisions are required under current law for the operation of the EdChoice and CSTP scholarships, such as requiring ODE to conduct an application period for the Opportunity scholarship in generally the same manner as it conducts application periods for the EdChoice scholarship. In addition, the bill requires the State Board of Education to adopt rules that prescribe procedures for the administration of the Opportunity Scholarship Program. The administrative requirements under the bill may increase ODE's administrative responsibilities.

Synopsis of Fiscal Effect Changes

The substitute bill restrains the potential growth in the cost of the scholarship program by imposing a cap on the number of scholarships at 60,000 per year, with 10% automatic increases in the number of available scholarships based on demand. The As Introduced (previous) bill did not limit the number of scholarships that could be awarded in any given year.

The substitute bill limits the circumstances in which the funds in a student's education savings account may be used for purposes related to primary and secondary education. The previous bill permitted the account to also be used for post-secondary education expenses. As a result, the substitute bill creates the possibility that some education savings account funds that may have otherwise been used for post-secondary education expenses would instead go unused and be transferred to ODE to be used for oversight and parental outreach for the Opportunity Scholarship Program. On the other hand, students and parents may simply spend more on primary and secondary education expenses to ensure they use all of the funds in the account before it is closed upon the student's graduation from high school.