



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: H. 3681 Amended by House Ways and Means General Government Subcommittee on April 30, 2019
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Subject: Equal Opportunity Education Scholarship Account Act
Requestor: House Ways and Means
RFA Analyst(s): Shuford
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Fiscal Impact Summary

We anticipate that total state expenditures will not change from this legislation, but state education expenditures and property tax reimbursements to local school districts will be reallocated to the Equal Opportunity Education Scholarship Account (EOESA) program scholarships and Education Oversight Committee (EOC) administrative costs. We estimate that up to \$223,244,900 of state funding for school districts for the estimated 33,470 eligible students will be reallocated to EOESA program scholarships in School Year 2020-2021. For School Year 2021-2022, reallocations could total up to \$458,539,000 for the 66,940 eligible students. In School Year 2022-2023, the EOESA program becomes unlimited. Reallocations of school district funding for School Year 2022-2023 are undetermined, as we believe that any forecast of funding changes for School Year 2022-2023 would be premature given the significant structural changes in education opportunities proposed by this legislation. Information gleaned during the first two years of operation will provide a better understanding of parental demand for the proposed program and the resulting expenditure reallocations.

The expenditure reallocation estimates discussed within this analysis should be considered a maximum amount. Parental decisions will be the major determinate of whether a student attends an independent or public school, and there is little information on enrollment shifts from other states on a grant program of this extent.

The bill requires the EOC to implement and administer the EOESA program. The EOC indicates that these additional responsibilities will require one FTE position for a Program Manager II. The salary and employer contributions for this position will total \$105,386 in FY 2019-20. Additional expenditures of \$50,000 in other operating costs are anticipated for marketing the program, developing a handbook for parents and students, office supplies, and computer expenses. Recurring expenditures will total \$155,386 in FY 2019-20 as the bill authorizes EOESA expenditures in the current fiscal year.

In addition, this legislation allows the EOC to retain 4 percent or less of all grants to oversee the scholarship accounts and administer the financial management of the program for the first three years. In subsequent years, the deduction is limited to 3 percent or less. We estimate that a 4 percent deduction for administrative expenses would total \$8,929,796 in FY 2020-21 for vendor payments to oversee the scholarship accounts and administer the financial management of the

program. Likewise, a 4 percent deduction from the \$458,539,000 in potential scholarships in FY 2021-22 would total \$18,341,560.

We do not anticipate any additional expenditures by the Departments of Revenue and Education to deposit funds for eligible students into EOESA program accounts. The EOC shall present calculations of the individual account values to the agencies.

The expenditure impact of this bill on local school districts is undetermined. We expect local school districts' savings will be based on the resulting reduction in the number of teachers and schools, which likely will be significantly less than the estimated amount of reallocated state per pupil funding. The bill mandates that utilization of the EOESA program is limited to 5 percent of all eligible students for the 2020-2021 school year and 10 percent of eligible students for the 2021-2022 school year. Given an estimated 20 students per teacher in core curriculum classrooms, a reduction of 1 or 2 students per class will not likely enable school districts to eliminate classes or result in significant savings for school districts. Assuming the students utilizing the scholarships are spread throughout the State, each school district would see only a reduction in some variable costs per student. Over time, school districts may be able to reduce the number of teachers and consolidate classrooms and schools, but this will take longer to implement.

The local school district revenue reduction from this bill corresponds to the state expenditures that are reallocated to the grant programs. We anticipate a maximum reduction of \$223,244,900 in local school district revenues from reallocated state funding of shared expenses per pupil in School Year 2020-2021. For School Year 2021-2022, up to \$458,539,000 could be reallocated from state funding of shared expenses per pupil and result in local school district revenue reductions. The local school district revenue impact from reduced state per pupil funding when the program becomes unlimited in School Year 2022-2023 is undetermined as we believe that any forecast of the number of parents and students choosing to participate in the EOESA program in School Year 2020-2021 would be premature, given the significant structural changes in education opportunities proposed by this legislation. Information gleaned during the first two years of operation would provide a better understanding of parental demand for the proposed program and the resulting revenue impact on the school districts.

Explanation of Fiscal Impact

Amended by House Ways and Means General Government Subcommittee on April 30, 2019

State Expenditure

This bill creates the Equal Opportunity Education Scholarship Account program to provide a scholarship for eligible students equal to the calculated amount of total state funding of shared expenses per pupil. This amount includes all state appropriations to local school districts including funding from Education Finance Act (EFA), Education Improvement Act (EIA), Education Lottery, state grants, and state property tax reimbursements. These funds are redirected from local school district funding on a per pupil basis to create each EOESA account. Administrative costs of the EOC are deducted from this funding.

We anticipate that total state expenditures will not change from this legislation, but state education expenditures and property tax reimbursements to local school districts will be reallocated to EOESA program scholarships and EOC administrative costs. Based on RFA estimates of total state funding of shared expenses per pupil for FY 2020-21, we anticipate that this amount, which includes EFA funding, EIA funding, reimbursements for Act 388 of 2006, and other state sources, will amount to approximately \$6,670 in FY 2020-21 and \$6,850 in FY 2021-22.

Since the General Assembly has great discretion in the appropriations process to determine state per pupil funding, these estimates are based solely on the growth in state property tax reimbursements and total school district appropriations in recent years. These estimated amounts are also a statewide average across all school districts. An individual student’s total state funding can vary greatly depending on the student’s grade, poverty standing, and any special educational needs. The analysis anticipates that a general cross section of students will participate in the EOESA program. If participants in the EOESA program reflect predominately higher or lower per pupil funding, this would affect our estimated expenditure impact.

The table below provides estimates of the number of eligible students specified in Section 59-8-130(7) of the bill. These estimates may include the same student in more than one definition of eligible student. For example, students eligible as a child with a disability under the Individuals with Disabilities Education Act (IDEA) could also be included in other specific categories such as a special needs child identified by the Department of Social Services. Unfortunately, estimating the number of unduplicated students will require access to data containing personally identifiable information, which is not available for this analysis.

Estimated Number of Eligible Students by Category for School Year 2020-2021

§59-8-130(7)	Eligible Student Includes:	Number	Source
(A)(I)	Disability with special needs under IDEA	97,000	SC Department of Education
(A)(II)	Diagnosed within the last three years by a licensed speech language pathologist, psychiatrist, or medical, mental health, psychoeducational, or other comparable licensed health care provider as having a neurodevelopmental disorder, a substantial sensory or physical impairment such as being deaf or blind or having an orthopedic disability, some other disability, or an acute or chronic condition that significantly impedes the student’s ability to learn and succeed in school without specialized instructional and associated supports and services tailored to the child’s unique needs	* 44,500	Centers for Disease Control and Prevention, Autism and Developmental Disabilities Monitoring (ADDM) Network, National Institutes of Health, and Spina Bifida Association of America
(A)(III)	Special needs child identified by DSS	* 280	Department of Social Services

(continued below)

**Estimated Number of Eligible Students by Category for School Year 2020-2021
(Continued)**

§59-8-130(7)	Eligible Student Includes:	Number	Source
(A)(IV)	Eligible to receive funding according to pupils in poverty weighting under the EFA	446,000	SC Department of Education 2018-2019 45-Day Count
(A)(V)	Previously received exceptional needs children scholarship	2,000	Exceptional SC Annual Report
(A)(VI)	In foster care with permanent plan of termination of parental rights and adoption	* 3,970	Department of Social Services
(A)(VII)	Previously in foster care and adopted	* 2,850	RFA estimate based on Department of Social Services data
(A)(VIII)	Child of parent or guardian in active duty military (including National Guard and Reserve on active duty) or was killed in the line of duty	13,800	SC Department of Education
Subtotal		610,400	
AND			
(B)(I)	Previously enrolled in SC public school in the last two semesters (school year)	700,000	RFA school age population and enrollment estimate less the number of grade 12 graduates
(B)(II)	Eligible to enroll in a kindergarten program	59,000	RFA school age population and enrollment estimate for the number of students entering kindergarten
Total of (A) and (B)(II)		669,400	
	School Year 2020-21 Eligible Students	33,470	Up to 5 percent of all eligible students
	School Year 2021-22 Eligible Students	66,940	Up to 10 percent of all eligible students

Notes: * The number of students in these categories excludes 5.4 percent of the estimated total to account for independent school students who are not eligible for the EOESA program.

Utilization of the program is limited to 5 percent of all eligible students for the 2020-2021 school year and 10 percent of eligible students for the 2021-2022 school year. In future years, eligibility is unlimited. For school year 2020-2021, we anticipate that the maximum number of eligible students will total approximately 669,400 students. This number includes the estimates reported in the table above as defined in Section 59-8-130(A) and (B)(II). Students who attended independent and homeschools in the prior school year are not eligible for the EOESA scholarships.

To estimate the state expenditure impact, this analysis anticipates that a maximum of 33,470 students, or 5 percent of the estimated 669,400 eligible students, may participate in the EOESA

program in school year 2020-2021. As discussed earlier, the estimated number of eligible students may include the same student in more than one subcategory in Section 59-8-130(7). We use the higher estimate as it is unclear whether the EOC, the agency tasked with determining the overall number of eligible students, will have access to personally identifiable information necessary to estimate an unduplicated eligible student count for the purpose of determining 5 percent of eligible students.

The estimated number of eligible students times the \$6,670 in estimated total state funding of shared expenses per pupil suggests that up to \$223,244,900 could be reallocated from state funding for school districts to EOESA grants managed by the EOC. For school year 2021-2022, 10 percent of the estimated eligible students times the \$6,850 in estimated total state funding of shared expenses per pupil suggests that up to \$458,539,000 could be reallocated from state funding for school districts to EOESA grants managed by the EOC.

These estimates of participating students should be considered a maximum amount. Parental decisions will be the major determinate of whether a student attends a private or public school, and there is little information on enrollment shifts from other states for a grant program of this extent. However, programs in other states with eligibility criteria that include provisions for low income and disabled students report a range of participation rates from 1 percent to 11 percent, which suggests that the 5 percent and 10 percent participation limits mandated during the first two years of this proposal may be reached.

Expenditure reallocations of state per pupil funding when the program becomes unlimited in School Year 2022-2023 are undetermined. Funding reallocations based on the estimated demand for the grants may be more identifiable by that school year since the State will have two years of experience with the EOESA program. We believe that any forecast of funding changes for School Year 2022-2023 would be premature given the significant structural changes in education opportunities proposed by this legislation. Information gleaned during the first two years of operation will provide a better understanding of parental demand for the proposed program and the resulting expenditure reallocations for the State.

Education Oversight Committee. The bill requires the EOC to implement and administer the EOESA program. These additional staff duties include, but are not limited to, processing applications, providing written guidance on allowable uses of the grants, maintaining a list of participating schools, avoiding duplication of payments, and prohibiting school participation for failure to comply with standards or failure to provide educational services. EOC indicates these additional program responsibilities will require 1.0 FTE position for a Program Manager II. The salary and employer contributions for this position would total \$105,386 in FY 2019-20. Additional expenditures in FY 2019-20 of \$50,000 in other operating costs are anticipated for marketing the program, developing a handbook for parents and students, office supplies, and computer expenses. Recurring expenditures will total \$155,386 in FY 2019-20 as the bill authorizes EOC expenditures once the bill is enacted to initiate the program for the upcoming school year.

In addition, the EOC expects to contract with a qualified vendor to oversee the scholarship accounts and administer the financial management of the program. This bill authorizes the

committee to deduct up to a limit of 4 percent or less of all grants to cover the costs of the program for the first three years. In subsequent years, the deduction is limited to 3 percent or less. Using our estimate of \$223,244,900 in potential scholarships, this suggests that a 4 percent deduction for administrative expenses would total \$8,929,796 in FY 2020-21. Likewise, a 4 percent deduction from the \$458,539,000 in potential scholarships in FY 2021-22 would total \$18,341,560. The EOC researched administrative costs reported by two similar but smaller programs in Arizona and Florida. Data from these programs suggest that a 4 percent deduction would be sufficient for the administration and financial management expenditures of the EOESA program.

In addition, the EOC is required to conduct or contract for the auditing of the scholarship accounts. The EOC indicates it would procure an outside vendor to perform these audits. Proceeds from the 4 percent deduction for administrative and financial management of the EOESA program would be utilized for the auditing expense.

Finally, the EOC is required to contract with one or more qualified and experienced researchers to conduct a study of the program with funds other than state funds. The study shall cover a period of at least five years. The EOC indicates that by the sixth year of the program the committee will be able to procure grants or private funds to cover the cost of evaluating the program. In summary, the EOC anticipates the proposed 4 percent or less deduction in the first three years of the program from EOESA scholarship accounts for administrative and financial management will provide sufficient funding based on other states' experiences. This three-year period should provide enough time to analyze program utilization, expenditures, and the sufficiency of the deduction for when the deduction is reduced to 3 percent or less.

Department of Revenue and Department of Education. These agencies are required to deposit funds for eligible students into EOESA program accounts. The EOC shall present calculations of the individual account values to the agencies. We do not anticipate any additional expenditures for the agencies to perform these duties.

State Revenue

N/A

Local Expenditure

The expenditure impact of this bill on local school districts is undetermined for the following reasons. The theoretical maximum savings the school districts could anticipate in school year 2020-2021 would be the full amount of state appropriations reallocated to the EOESA scholarships less the expense deduction of 4 percent or less for the EOC, or \$214,315,104. Similarly, the savings could total \$440,197,440 in School Year 2021-2022. We believe these amounts should be considered a long-term objective.

In contrast, we expect actual local school districts' savings will be based on the anticipated reduction in the number of teachers and schools. Assuming the students are spread throughout the State, each school district would see only a reduction in the variable costs per student. Over time, school districts may be able to reduce the number of teachers and consolidate classrooms and schools, but this will take longer to implement.

As the bill mandates that utilization of the EOESA program is limited to 5 percent of all eligible students for the 2020-2021 school year and 10 percent of eligible students for the 2021-2022 school year, we anticipate only marginal expenditure reductions for teachers, school classrooms, and buildings. Savings on counseling, libraries, and school leadership would be similarly minimal. Based on RFA analysis of Department of Education data, we estimate an average of 20 students per teacher in the core subjects of mathematics, English language arts, science, and social studies. With the anticipated 5 to 10 percent reduction in the number of students in each classroom, this would result in a reduction of 1 to 2 students per teacher. Therefore, we do not anticipate significant savings from the EOESA scholarship program.

A risk to the estimate is a change in behavior of the estimated 44,900 private school students and 21,000 home school students. A portion of these students not currently attending public schools could become eligible by attending a public school for one year. This may create a temporary increase in public school attendance to gain eligibility for the EOESA program scholarships. The risk to the estimate from this behavior change is undetermined as we have no way to determine or estimate the number of students who may transfer to a public school in order to become eligible for the grant program. If public school attendance is increased, the additional marginal expenditures from increased enrollment may offset a portion of any expenditure savings during the implementation of the EOESA program.

Local Revenue

Utilization of the EOESA program is limited to 5 percent of eligible students for the 2020-2021 school year and 10 percent of eligible students for the 2021-2022 school year. In future years, eligibility is unlimited. For school year 2020-2021, we anticipate that the number of eligible students may reach approximately 669,400 students. This number includes the estimates reported in the table above as defined in Section 59-8-130(A) and (B)(II).

The local school district revenue impact of this bill corresponds to the state expenditures that are reallocated to the grant programs. The EOESA funds must be subtracted from state funds otherwise payable to the school districts and will result in a reduction in local revenue. As described in the State Expenditure section above, this analysis anticipates a maximum of 33,470 students, or 5 percent of the estimated 669,400 eligible students, may participate in the EOESA program in school year 2020-2021. The estimated number of eligible students times the \$6,670 in estimated total state funding of shared expenses per pupil suggests that up to \$223,244,900 could be reallocated to EOESA grants. For school year 2021-2022, 10 percent of the estimated eligible students times the \$6,850 in estimated total state funding of shared expenses per pupil suggests that up to \$458,539,000 could be reallocated from school districts to EOESA grants managed by the EOC.

The local school district revenue impact from reduced state per pupil funding when the program becomes unlimited in School Year 2022-2023 is undetermined. Appropriations changes based on the demand for the grants may be more identifiable by that school year since the State will have two years of experience with the EOESA program. We believe any forecast of the number of parents and students choosing to participate in the EOESA program in School Year 2022-2023 would be premature, given the significant structural changes in education opportunities proposed by this legislation. Information gleaned during the first two years of operation would provide a

better understanding of parental demand for the proposed program and the resulting revenue impact on the school districts.



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