



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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<b>Bill Number:</b>	S. 0556	Introduced on February 26, 2019
<b>Author:</b>	Massey	
<b>Subject:</b>	Equal Opportunity Education Scholarship Account Act	
<b>Requestor:</b>	Senate Education	
<b>RFA Analyst(s):</b>	Shuford	
<b>Impact Date:</b>	July 30, 2019	

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### **Fiscal Impact Summary**

This bill may reallocate up to \$243,078,775 of state funding for school districts to the Equal Opportunity Education Scholarship Account (EOESA) program scholarships in School Year 2020-2021. For School Year 2021-2022, reallocations could total up to \$511,621,350. Expenditure reallocations of state school district funding when the program becomes unlimited in School Year 2022-2023 are undetermined, as we believe that any forecast of appropriation 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. This analysis anticipates that the effective date of the scholarship program will become school year 2020-2021 as school year 2019-2020, as specified in the bill, has already begun.

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 Education Oversight Committee (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 up to 4 percent 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. We estimate that a 4 percent deduction for administrative expenses would total \$9,723,151 in FY 2020-21. Likewise, a 4 percent deduction from the \$511,621,350 in potential scholarships in FY 2021-22 would total \$20,464,854.

The expenditure impact of this bill on local school districts is undetermined. However, we expect the local school districts savings will be based on the resulting reduction in the number of

students, teachers, and schools, which likely will be significantly less than the estimated amount of reallocated state per pupil funding. Assuming the students utilizing the scholarships 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 consolidate classrooms and schools, but this will take longer to put into place.

The local school district revenue reduction of this bill corresponds to the state expenditures that are reallocated to the grant programs. We anticipate a maximum reduction of \$243,078,775 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 \$511,621,350 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**

### **Introduced on February 26, 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 that the resident school district to which the eligible student participating in the program would have been assigned would have received for the eligible student participating in the program, as determined by the State Revenue and Fiscal Affairs Office (RFA).

Administrative costs of the South Carolina Education Oversight Committee are deducted from this funding. We anticipate that total expenditures will not change from this legislation, but state expenditures to local school districts will be reallocated to EOESA program scholarships.

Based on RFA estimates of total state funding of shared expenses per pupil for FY 2016-17, we anticipate that this amount, including EFA funding, EIA funding, reimbursements for Act 388 of 2016, and other state sources will amount to approximately \$7,255 in FY 2020-21 and \$7,635 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 total school district expenditures 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 needs a student may require. 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 needs, this would affect our estimated expenditure impact. This analysis anticipates that the effective date of the scholarship program will become school year 2020-2021 as school year 2019-2020, as specified in the bill, has already begun.

The table below provides estimates of the number of eligible students specified in Section 59-8-130(6) 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 who needs special education and related services 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**

<b>§59-8-130(6)</b>	<b>Eligible Student Includes:</b>	<b>Number</b>	<b>Source</b>
(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	47,000	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	300	Department of Social Services
(a)(iv)	Eligible to receive funding according to pupils in poverty weighting under the EFA	446,000	RFA estimate based on Current Population Survey, US Census Bureau
(a)(v)	Previously received exceptional needs children scholarship	2,000	SC Department of Education 2018-2019 45-Day Count

**(continued below)**

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

	<b>Eligible Student Includes:</b>	<b>Number</b>	<b>Source</b>
(a)(vi)	In foster care with permanent plan of termination of parental rights and adoption	4,200	Department of Social Services
(a)(vii)	Previously in foster care and adopted	3,000	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
<b>Subtotal</b>		<b>613,300</b>	
<b>AND</b>			
(b)(i)	Previously enrolled in SC public school in the last two semesters (school year)	711,000	RFA school age population and enrollment estimate less the number of grade 12 graduates
(b)(ii)	Eligible to enroll in a kindergarten program	56,800	RFA school age population and enrollment estimate for the number of students entering kindergarten
<b>Total of (a) and (b)(ii)</b>		<b>670,100</b>	

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 670,100 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 33,505 students, or 5 percent of the estimated 670,100 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(6). 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 students.

The number of eligible students times the estimated \$7,255 in total state funding of shared expenses per pupil suggests that \$243,078,775 could be reallocated from state funding for school districts to EOESA grants managed by the Education Oversight Committee. For school year 2021-2022, 10 percent of the eligible students times the estimated \$7,635 in total state funding of shared expenses per pupil suggests that \$511,621,350 could be reallocated from state funding for school districts to EOESA grants managed by the Education Oversight Committee.

Expenditure reallocations of state per pupil funding when the program becomes unlimited in School Year 2022-2023 are undetermined. Appropriations changes 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 appropriation changes for 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 will provide a better understanding of parental demand for the proposed program and the resulting expenditure reallocations for the State.

These estimates of 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.

Additionally, sixteen South Carolina counties have two or fewer private school options for students. Based on our analysis, this proposal would nearly double private school enrollment levels statewide in just one year. The ability of the private education sector to handle this increase in enrollment is unknown. Without the debt funding capabilities of public schools, independent schools may find it difficult to construct new classrooms and schools to accommodate the new students.

Reallocation of these education funds to EOESA scholarships may prove difficult. Total state funding of shared expenses per pupil includes appropriations and allocations from many sources including reimbursements for property tax relief. These reimbursements are allocated to school districts, but are mandated by law for property tax relief. The amounts of these reimbursements would not be affected by a reduction in the number of public school children. In general, property tax relief reimbursements are based upon either the amount of property taxes exempted or a statutory formula. Since the number of public school children does not determine these reimbursements, redirecting the total state funding of shared expenses per pupil as required by this legislation would not automatically reduce property tax reimbursements. Without further legislative changes, the State would be required to increase expenditures to fund the property tax reimbursements and fund the EOESA program.

In addition, while the majority of the funds appropriated to school districts from the Education Finance Act, the Education Improvement Act, and the Education Lottery are tied directly to pupil counts, many are not. For example, Retirees Insurance appropriations are tied to the number of retired teachers and their salaries. Reallocations of any funds not tied directly to the number of pupils will create difficulties during the appropriations process and may reduce school district allocations or require additional expenditures.

**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 next 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 4 percent 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. Using our estimate of \$243,078,775 in potential scholarships, this suggests that a 4 percent deduction for administrative expenses would total \$9,723,151 in FY 2020-21. Likewise, a 4 percent deduction from the \$511,621,350 in potential scholarships in FY 2021-22 would total \$20,170,000. The EOC researched the 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 they 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 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.

### **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 for the EOC, or \$229,978,320. Similarly,

the savings could total \$484,080,240 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 students, 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 consolidate classrooms and schools, but this will take longer to put into place. Given the estimated 5 to 10 percent reduction in the number of public school students, we anticipate only marginal expenditure reductions for teachers, school classrooms, and buildings. Savings on counseling, libraries, and school leadership would be similarly minimal. Significant savings from the EOESA scholarship program will require reductions in the number of classrooms and schools. This level of savings will require years for the school districts to implement.

Further, the bill excludes the estimated 44,500 private school students and 21,000 home school students from participation in the EOESA. However, these students 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. Unfortunately, we have no way to determine or estimate the number of students that may transfer to a public school in order to become eligible for the grant program. This aspect of the bill may offset a portion of any expenditure savings during the implementation of the EOESA program. To the extent possible, given millage rate increase restrictions, local school districts are expected to increase local property tax millage rates to offset the increased expenditures.

### **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 670,100 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 33,505 students, or 5 percent of the estimated 670,100 eligible students, may participate in the EOESA program in school year 2020-2021. The number of eligible students times the estimated \$7,255 in total state funding of shared expenses per pupil suggests that \$243,078,775 in local school district revenues from the State could be reallocated to EOESA grants. For school year 2021-2022, 10 percent of the eligible students times the estimated \$7,635 in total state funding of shared expenses per pupil suggests that \$511,621,350 could be reallocated from school districts to EOESA grants managed by 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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