



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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*This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.*

**Bill Number:** H. 5164    Introduced on February 28, 2024  
**Author:** Erickson  
**Subject:** Education Scholarship Trust Fund  
**Requestor:** House Education and Public Works  
**RFA Analyst(s):** Wren  
**Impact Date:** March 5, 2024

**Fiscal Impact Summary**

This bill makes changes to the Education Scholarship Trust Fund (ESTF) program to expand the students who may participate in the program, change the amount that students receive and the eligible expenses, and change the program oversight and regulatory responsibilities for the S.C. Department of Education (SCDE).

The scholarship allocation is \$6,000 per student for the 2024-25 school year. Under the bill, for all subsequent school years, the allocation must be increased by the percentage increase in State Aid to Classrooms funding unless otherwise specified in the appropriations act. Additionally, beginning in school year 2027-28, the program is no longer limited to 15,000 students. Instead, SCDE must submit an annual budget increase request based on the number of current scholarship recipients and previously unmet demand for scholarships as evidenced by the prior year’s applications. Beginning in 2027-28, the program will depend on the number of students who wish to participate and the amount of funding appropriated. The table below provides the estimated scholarship program funds by year based on the new estimated allocation per student. The estimated allocation per student is based on applying historical growth in State Aid to Classrooms funding. However, actual allocations will depend on the actual increase, if any, in the State Aid to Classrooms appropriation each year.

School Year	Number of Students	Estimated Allocation per Student	Estimated Maximum Scholarship Funding
2024-25	5,000	\$6,000	\$30,000,000
2025-26	10,000	\$6,507	\$65,070,000
2026-27	15,000	\$7,057	\$105,855,000
2027-28 forward	No Limit - Dependent on Funding	\$7,653	Dependent on Funding

In the bill, the program is expanded so that eligible students may be current public school, home school, or private school students. Based on the changes to the requirements for participating in the program, we estimate that there may be up to 185,000 students who may wish to participate in the program beginning in 2027-28 when the program is no longer limited. This includes all private and home school students and 12 percent of current public school students. The estimate of students who may come from public schools is based on the experience in similar programs

enacted in Arizona in 2022 and Florida in 2023. Given the significant number of students who will be eligible and the wide range of eligible expenses, we anticipate that program participation will likely be limited only by funding in 2027-28. At an estimated allocation of \$7,653 per student, each 10,000 students would require \$76,530,000 in funding beginning in 2027-28.

SCDE indicates that the department received \$1,000,000 in FY 2022-23 in nonrecurring funds for various costs related to the ESTF pilot program. These funds covered expenses such as staff costs, linking studies for summative assessments, and marketing. Also, the department received approximately \$2,000,000 in nonrecurring funds in FY 2023-24 for startup expenses related to the ESTF program. Of this amount, approximately \$1,500,000 was paid to a vendor for the application system and the parent and student portal. The remaining funds of approximately \$500,000 will be used for linking studies for alternative assessments. Additionally, SCDE indicates that \$90 per student will go to the vendor for costs associated with the portal. The table below provides the cost per student for each school year. Any remaining funds will be retained by SCDE to fund staff and any program activities that are not covered by the vendor contract, which are currently undetermined. Further, SCDE does not anticipate any cost savings as a result of this bill since vendor contracts for the first several years of implementation have been established already.

<b>School Year</b>	<b>Number of Students</b>	<b>Vendor Cost Per Student of \$90 (in addition to start-up costs)</b>
2024-25	5,000	\$450,000
2025-26	10,000	\$900,000
2026-27	15,000	\$1,350,000
2027-28 forward	No Limit - Dependent on Funding	Dependent on Participation

The bill also increases the amount that SCDE may deduct from the ESTF for administering the program from 2 percent to an amount up to 5 percent. This change will increase Other Funds revenue of SCDE as shown in the table below. The amount that SCDE will be able to retain in 2027-28 and thereafter will depend on program funding.

<b>School Year</b>	<b>2% for SCDE (Current Law)</b>	<b>Increase to 5% for SCDE</b>	<b>Difference</b>
2024-25	\$600,000	\$1,500,000	\$900,000
2025-26	\$1,200,000	\$3,254,000	\$2,054,000
2026-27	\$1,800,000	\$5,293,000	\$3,493,000
2027-28 forward	\$1,800,000	Dependent on Program Funding	Dependent on Program Funding

The impact on local expenditures and revenues will depend on actual program participation and actions taken by districts in response to any changes in enrollment. School districts may be able to realign resources to realize savings, but this will take time to implement. When the participation is unlimited beginning in 2027-28, the bill may have a greater impact on local districts. Potential savings in future years will be largely dependent on the number of participants

and actions taken by school districts in response to changes in enrollment. Similarly, the actual reduction in local revenue will depend upon the number of students leaving the district and participating in the program and the district's actual state funding amount that is reduced due to the decrease in enrollment.

## **Explanation of Fiscal Impact**

**Introduced on February 28, 2024**

### **State Expenditure**

This bill makes changes to the ESTF program to expand the students who may participate in the program, change the allocation amount to students, and change the responsibilities for SCDE in overseeing the program. The bill deletes the requirement that an eligible student must have attended a public school in this state during the previous school year and includes charter schools as eligible schools. The bill also deletes the current household income requirement beginning in school year 2026-27. Additionally, the bill specifies that the allocation must be \$6,000 per student for the 2024-25 school year. For all subsequent school years, the allocation must be increased by the percentage increase in State Aid to Classrooms funding in the appropriations act. The bill further makes changes to the student application process that is managed by SCDE and deletes certain regulatory and reporting requirements required by the department. The amount that SCDE is allowed to retain for administering the program is increased from 2 percent to 5 percent of the total program appropriations.

Participation in the program is currently limited to 5,000 students in 2024-25, 10,000 students in 2025-26, and 15,000 students in 2026-27 and thereafter. The bill eliminates the 15,000 student cap beginning in 2027-28 and specifies that SCDE must submit an annual budget request based on the number of current scholarship recipients and previously unmet demand for scholarships as evidenced by the prior year's applications. The program would then be limited only by the amount of funding appropriated beginning in 2027-28. The table below estimates the funding for the program that will be required each year to fund the number of scholarships allowed and the amount SCDE will be allowed to retain based on 5 percent of the program. Beginning in 2027-28 when there is no cap on the number of eligible students, the number of participants will depend on funding provided. Further, these estimates for the amount per student are based on growth of 8.45 percent in State Aid to Classrooms appropriations for FY 2023-24.<sup>1</sup> The actual scholarship amount per student will depend upon the percentage increase, if any, in State Aid to Classrooms appropriated each year.

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<sup>1</sup> The growth figure for State Aid to Classrooms (SAC) is based on appropriations for SAC in FY 2022-23 with the additional rolled-up line items compared to SAC appropriations for FY 2023-24. Based on discussions with SCDE, the department currently anticipates that the growth will be based on the increase in the amount specified in the Appropriations Act, which does not include health insurance allocations that are included in district payments.

School Year	Number of Allowed Students	Estimated Allocation Per Student	Estimated Maximum Scholarship Funding	5 Percent Retained by SCDE	Net ESTF Program Funds
2024-25	5,000	\$6,000	\$30,000,000	\$1,500,000	\$28,500,000
2025-26	10,000	\$6,507	\$65,070,000	\$3,254,000	\$61,816,000
2026-27	15,000	\$7,057	\$105,855,000	\$5,293,000	\$100,562,000
2027-28 forward	No Limit	\$7,653	Dependent on Funding	Dependent on Funding	Dependent on Funding

For 2027-28, we estimate that approximately 185,000 students may be interested in participating when the program is longer limited to 15,000 students. This figure includes all projected private school students (57,000) and home school students (33,000). Additionally, based upon similar programs in Arizona and Florida, we estimate that 12 percent of the projected public school students (95,000) may be interested in participating in the program. The bill expands the list of qualifying expenses, which may also increase the number of students who choose to participate in the program. Based on this information, we anticipate that participation will only be limited by funding appropriated. At a scholarship amount of 7,653, funding for each 10,000 students will cost approximately \$76,530,000 for 2027-28.

**S.C. Department of Education.** This bill makes changes to the application process that is administered by SCDE and increases the number of students that are allowed to participate in the program beginning with school year 2027-28. SCDE indicates that the department received \$1,000,000 in FY 2022-23 in nonrecurring funds for various costs related to the ESTF pilot program. These funds covered expenses such as staff costs, linking studies for summative assessments, and marketing. Also, the department received approximately \$2,000,000 in nonrecurring funds in FY 2023-24 for startup expenses related to the ESTF program. Of this amount, approximately \$1,500,000 was paid to a vendor for the application system and the parent and student portal. The remaining funds of approximately \$500,000 will be used for linking studies for alternative assessments. Additionally, SCDE indicates that \$90 per student will go to the vendor for costs associated with the portal. The table below provides the on-going vendor costs by year per student. Any remaining funds will be retained by SCDE to fund staff and any program activities that are not covered by the vendor contract. Further, SCDE does not anticipate any cost savings as a result of this bill since vendor contracts for the first several years of implementation have been established.

School Year	Number of Students	Vendor Cost Per Student of \$90 (in addition to start-up costs)
2024-25	5,000	\$450,000
2025-26	10,000	\$900,000
2026-27	15,000	\$1,350,000
2027-28 forward	No Limit - Dependent on Funding	Dependent on Participation

### State Revenue

This bill increases the amount that SCDE may deduct from the ESTF for administering the program from 2 percent to 5 percent. Please see the table below for the estimated increase in Other Funds revenue of SCDE by year. The amount for 2027-28 and thereafter will depend on funding.

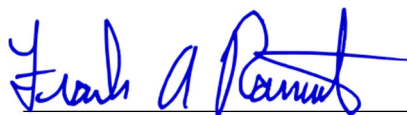
School Year	2% for SCDE (under current legislation)	Increase to 5% for SCDE	Difference
2024-25	\$600,000	\$1,500,000	\$900,000
2025-26	\$1,200,000	\$3,254,000	\$2,054,000
2026-27	\$1,800,000	\$5,293,000	\$3,493,000
2027-28 forward	\$1,800,000	Dependent on Funding	Dependent on Funding

### Local Expenditure

The overall expenditure impact of this bill on local school districts is undetermined. The potential reduction in school district expenditures due to students enrolling in the program will vary depending on the degree to which districts can consolidate resources by reducing the number of teachers or classrooms. Assuming the students are spread throughout the state, each school district would see only a reduction in the variable costs per student. School districts may be able to realign resources to realize savings, but this will take time to implement. When the participation is unlimited beginning in 2027-28, the bill may have a greater impact on local districts. Potential savings in future years will be largely dependent on the number of participants and actions taken by school districts in response to changes in enrollment.

### Local Revenue

The overall impact on local revenues is undetermined. When the participation is unlimited beginning in 2027-28, the actual reduction in local revenue will depend upon the number of students leaving the district and participating in the program and the district's actual state funding amount that is reduced due to the decrease in enrollment.



Frank A. Rainwater, Executive Director