



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 0039 Amended by Senate Education on January 12, 2023
Author: Grooms
Subject: Education Scholarship Trust Fund
Requestor: Senate Education
RFA Analyst(s): Wren
Impact Date: January 17, 2023

Fiscal Impact Summary

This bill creates an education scholarship program to provide scholarship funding to qualifying elementary and secondary students to pay for eligible education expenses. The program will be administered by the S.C. Department of Education (SCDE). The scholarship amount per pupil is \$6,000 in the first year and is adjusted each year thereafter by the percentage increase in the actual state allocated revenue per pupil as calculated by the Revenue and Fiscal Affairs Office (RFA) pursuant to the annual appropriations act. Further, the bill establishes the Education Scholarship Trust Fund (ESTF) at SCDE and requires the State Treasurer’s Office (STO) to transfer the per pupil amount to the ESTF from funds appropriated to the program.

Based upon the number of students allowed to participate in the program by school year and the estimated per pupil funding amount, the scholarship funding would total up to \$30,000,000 in school year 2023-24, reaching up to \$98,589,000 in school year 2025-26 when the number of eligible students allowed to participate in the program reaches the maximum amount. Please see the table below for the estimated scholarship program funds by year.

School Year	Number of Allowed Students	Estimated Maximum Scholarship Funding
2023-24	5,000	\$30,000,000
2024-25	10,000	\$62,798,000
2025-26 forward	15,000	\$98,589,000

(Figures may be rounded)

This bill requires SCDE to administer the scholarship funding program and allows the agency to contract with qualified organizations or vendors. The bill also tasks SCDE with reporting requirements and to collaborate with the Education Oversight Committee (EOC) to develop a parental satisfaction survey about the program and to report its findings to the General Assembly annually. Initial funding to establish the program is dependent upon appropriations. The bill further allows SCDE to deduct an amount from the fund to cover the costs of overseeing the accounts and administering the program up to a limit of 3 percent in subsequent years. This will increase Other Funds revenue and expenditures of the agency. The expenditure impact of the bill on SCDE is pending, contingent upon a response. Based on the estimated funding, we anticipate that the bill will increase Other Funds revenue of SCDE by the appropriated amount for initial

expenses in FY 2023-24, \$1,884,000 in FY 2024-25, and \$2,958,000 in FY 2025-26 annually thereafter for administrative expenses. However, the amounts may vary depending upon expenditures by SCDE and appropriations.

This bill will have no expenditure impact on the Education Oversight Committee (EOC), as the agency will be able to assign duties among existing staff and can use existing equipment and supplies.

This bill will increase General Fund expenses of the STO by \$25,000 beginning in FY 2023-24 for 0.33 FTE to transfer the appropriate per pupil amounts to the ESTF.

We do not anticipate that the bill will have an expenditure impact on the Office of the Governor, Senate, or House of Representatives for participation in the ESTF Review Panel since members are not allowed to receive mileage or per diem.

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. Since the bill provides a phase-in on the number of eligible students per year, we anticipate only marginal expenditure reductions initial implementation. Therefore, we do not anticipate significant local expenditure savings from this education scholarship program in the initial years. 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.

The overall impact on local revenues is undetermined. The bill provides a phase-in of the number of eligible students for the scholarship program from 5,000 students in 2023-24 through 2025-26 until the number of students reaches the maximum limit of 15,000. The actual reduction in local revenue will depend upon the number of students leaving the district to participate in the program and the resulting decline in state revenues due to the decrease in enrollment.

Explanation of Fiscal Impact

Amended by Senate Education on January 12, 2023

State Expenditure

This bill creates an education scholarship program for elementary and secondary students, which will be administered by SCDE. Funds will be allocated to the parent of an eligible student to pay for qualifying expenses. The bill defines an eligible student as follows:

- A resident of this state;
- Attended a public school in this state the during the previous school year,

- had not yet attained the age of five on or before September first of the prior school year but has attained the age of five on or before September first of the current school year, or
- received a scholarship issued pursuant to this bill for the prior school year; and
- Has a statement of Medicaid eligibility,
 - has an IEP, or
 - has a sibling living in the same household who receives a scholarship pursuant to this bill.

The bill also limits the number of annual enrollees. In the first year, school year 2023-24, the program is limited to 5,000 scholarship students. In the second year, school year 2024-25, the program is limited to 10,000 scholarship students. In the third year, school year 2025-26 and beyond, the program is limited to 15,000 scholarship students. In 2026 and every five years thereafter, SCDE must conduct an eligibility and use review of the program and must make recommendations to the General Assembly to improve the program.

Additionally, the bill requires RFA to determine the percentage increase in the actual state allocated revenue per pupil pursuant to the annual appropriations act.

To project future funding requirements, our estimates are based upon a five-year growth rate in the state funding per pupil amount for the regular school districts from our Revenue Per Pupil Report. The funding in state funding per pupil includes funding from the Education Finance Act (EFA), Education Improvement Act (EIA), state grants, Education Lottery (when appropriated to K-12), and property tax reimbursements. 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 recent years and may vary.

The estimated maximum scholarship funding would total up to \$98,589,000 in school year 2025-26 when the number of eligible students allowed to participate in the program reaches the enrollment maximum of 15,000. Actual participation in the program may vary widely and determining a better estimate will require actual student enrollment. Additionally, in 2026 and every five years thereafter, the number of students and estimated scholarship amount may vary since SCDE must conduct an eligibility and use review of the program and make recommendations to the General Assembly to improve the program. Please see the table below for an analysis of the potential students and maximum scholarship funding.

Table 1

School Year	Number of Allowed Students	Estimated State Funding per Pupil	Estimated Maximum Scholarship Funding
2023-24	5,000	\$6,000	\$30,000,000
2024-25	10,000	\$6,280	\$62,798,000
2025-26 forward	15,000	\$6,573	\$98,589,000

(Figures may be rounded)

The amount of funding for the individual ESTF accounts is based upon \$6,000 per eligible student in the first year and is adjusted each year thereafter by the historical percentage increase in the actual state allocated revenue per pupil as calculated by RFA pursuant to the annual appropriations act. Section 59-8-120 (C) directs the STO to transfer the aforementioned amount per student to the ESTF upon request of the parent and approval of an eligible student's application by SCDE.

S.C. Department of Education. This bill requires SCDE to create a standard application process for the program, process and approve applications, establish conditions and requirements of the program, and promulgate regulations for the administration of the program. The bill also establishes the ESTF, which SCDE is responsible for administering including keeping records, managing accounts, and disbursing scholarships. Additionally, SCDE is required to create individual online accounts for each student and make payments to the online accounts on a quarterly basis. Furthermore, the bill requires the department to develop an online electronic system for payment for services by participating parents. The bill requires the General Assembly to provide funds to SCDE for the initial costs to create the program. The amount of funding will be contingent upon appropriations. Thereafter, SCDE may deduct an amount from the fund to cover the costs of overseeing the accounts and administering the program up to a limit of 3 percent. The bill further provides requirements for how SCDE will inform parents and students of the program, handle cases of misuse, and audit accounts.

This bill additionally requires SCDE to maintain a record of the number of applications received annually for the program, the number of students accepted into the program each year, and the number of students not accepted into the program each year with a corresponding explanation as to why the student was not accepted into the program. SCDE is required to provide a report on this information to the General Assembly each year. Furthermore, SCDE must collaborate with the EOC to develop and administer an annual parental satisfaction survey, the results of which are to be provided to the General Assembly each year.

The bill also requires SCDE to develop an application and process for participation in the program by education service providers. An education service provider is defined as a person or organization approved by SCDE that receives payments from education savings accounts to provide educational goods and services to eligible scholarship students. SCDE must publish on its website a comprehensive list of certified education service providers by February fifteenth of each year. Additionally, education service providers must ensure that each scholarship student in certain grades takes specified state assessments. Furthermore, SCDE must ensure that each education service provider has access to and is trained in administering the state assessments. SCDE must assume any costs associated with training, administering, or taking assessments with no charges to the provider or the ESTF students.

Also, the bill requires SCDE to make readily available on its website information in conformity with 34 C.F.R and 300.130 through 300.144, *Assistance to States for the Education of Children with Disabilities*, explaining to parents the rights of children with disabilities under IDEA both in public schools and as parentally placed students in private schools.

Further, the bill allows SCDE to contract with qualified organizations or vendors to administer some or all portions of the program, including the program application process, fund administration, account management, and account auditing.

The expenditure impact of this bill on SCDE is pending, contingent upon a response.

Education Oversight Committee. The bill requires the EOC to report on and publish associated learning gains and graduation rates to the public by means of a state website with data aggregated by grade level, gender, family income level, number of years of participation in the program, and race. The EOC must also evaluate and report the academic performance of scholarship students compared to similar public school student populations. Further, the EOC must collaborate with SCDE to develop and administer an annual parental satisfaction survey for all parents of scholarship students on issues relevant to the ESFT program. Results of the survey must be provided to the General Assembly by December thirty-first annually. The EOC indicates that the additional responsibilities can be accomplished by assigning duties among existing staff and by using existing equipment and supplies. Therefore, the bill will have no expenditure impact on the EOC.

Office of the Governor, Senate, and House of Representatives. This bill creates the ESTF Review Panel that must serve as an advisory panel to SCDE. The review panel must consist of ten members as follows:

- The Governor, or his designee, who will serve as chair of the panel; and
- Three members to be appointed by the Governor;
- One member appointed by the Speaker of the House of Representatives;
- One member appointed by the President of the Senate;
- One member appointed by the Chairman of House Education and Public Works;
- One member appointed by the Chairman of Senate Education; and
- Two parents of scholarship students to be appointed by the Governor.

The review panel may advise SCDE on whether certain expenses meet the requirements to be considered a qualified expense and may make recommendations to the General Assembly on improving the program. Members may not receive mileage or per diem.

We anticipate that any expenses for the Office of the Governor, Senate, and House of Representatives can be accomplished within existing appropriations. Therefore, the bill is not expected to have an expenditure impact on these entities.

State Treasurer's Office. Upon request of the parent and approval of an eligible student's application by SCDE, the STO is directed to transfer \$6,000 per scholarship student to the ESTF as directed by the General Assembly. This amount will be adjusted each year to reflect the percentage increase in the actual state allocated revenue per pupil as calculated by RFA. STO indicates that the bill will increase General Fund expenses of the agency by \$25,000 beginning in FY 2023-24 for 0.33 FTE to manage the responsibilities of the bill.

State Revenue

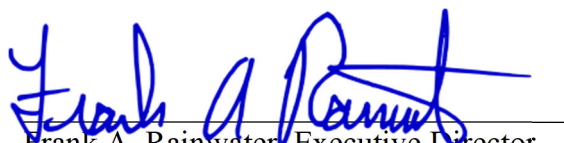
This bill requires SCDE to create a standard application process for the scholarship program, process and approve applications, establish conditions and requirements of the scholarship program, and promulgate regulations for the administration of the program. The bill also establishes the ESTF, which SCDE is responsible for administering including keeping records, managing accounts, and disbursing scholarships. Initial funding to establish the program is dependent upon appropriations. The bill further allows SCDE to deduct an amount from the fund to cover the costs of overseeing the accounts and administering the program up to a limit of 3 percent in subsequent years. We anticipate that the bill will increase Other Funds revenue of SCDE by the appropriated amount in FY 2023-24, \$1,884,000 in FY 2024-25, and \$2,958,000 in FY 2025-26 annually thereafter for administrative expenses. However, the amounts may vary depending upon expenditures by SCDE and appropriations.

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. Since the bill provides a phase-in on the number of eligible students per year, we anticipate only marginal expenditure reductions for teachers, school classrooms, and buildings during initial implementation. Savings on counseling, libraries, and school administration would be similarly minimal. Therefore, we do not anticipate significant local expenditure savings from this scholarship program in the initial years. 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. The bill provides a phase-in on the number of eligible students for the scholarship program for school years 2023-24 through 2024-25 until the number of students reaches the maximum limit of 15,000 in school year 2025-26. 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