



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 0622 Introduced on April 5, 2017
Author: Massey
Subject: Equal Opportunity Education Scholarship Account Act
Requestor: Senate Education
RFA Analyst(s): Shuford and Powell
Impact Date: April 27, 2018

Estimate of Fiscal Impact

	FY 2018-19	FY 2019-20
State Expenditure		
General Fund	\$0	\$0
Other and Federal	See Below	See Below
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	See Below	See Below
Local Revenue	See Below	See Below

Fiscal Impact Summary

This bill may reallocate up to \$245,520,000 of state per pupil funding to the Equal Opportunity Education Scholarship Account (EOESA) program scholarships in School Year 2018-2019. For School Year 2019-2020, reallocations could total up to \$514,800,000. Expenditure reallocations of state per pupil funding when the program becomes unlimited in School Year 2020-2021 are undetermined, as 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.

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 I. The salary and employer contributions for this position would total \$104,508 in FY 2018-19. 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.

In addition, this legislation allows the EOC to deduct 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 \$9,820,800 in FY 2018-19. Likewise, a 4 percent deduction from the \$514,800,000 in potential scholarships in FY 2019-20 would total \$20,592,000.

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.

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 \$245,520,000 in local school district revenues from reallocated state per pupil funding in School Year 2018-2019. For School Year 2019-2020, up to \$514,800,000 could be reallocated from state per pupil funding 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 2020-2021 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 April 5, 2017

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 per pupil funding to the participating student's school district as projected by the 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 revenue per pupil by school district for Proviso 1.3 in the FY 2017-18 Appropriations Act, we anticipate that total state per pupil funding, including EFA funding, EIA funding, reimbursements for Act 388 of 2016, and other state sources will amount to approximately \$6,200 in FY 2018-19 and \$6,500 in FY 2019-20. Since the General Assembly has great discretion in the appropriations process to determine state per pupil funding, these estimates are based solely on growth in recent years. These estimated amounts are also a statewide average across all school districts. An individual student's total per pupil 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.

The table below provides estimates of the number of eligible students as defined in 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. In addition, there may be an overlap in students participating in the Educational Credit for Exceptional Needs Children scholarship program. While the proposed legislation prohibits dual participation, we do not anticipate any expenditure or revenue impact on the current Exceptional Needs scholarships or tax credits utilization.

Estimated Number of Eligible Students by Category for School Year 2018-2019

§59-8-130(4)	Eligible Student Includes:	Number	Source
(a)	Disability with Special Needs under IDEA	97,000	SC Department of Education
	Diagnosed by a physician or psychologist:		
(b)(i)	Autism Spectrum Disorder	12,126	Centers for Disease Control and Prevention Autism and Developmental Disabilities Monitoring (ADDM) Network
(b)(ii)	Cerebral Palsy	3,192	Centers for Disease Control and Prevention Autism and Developmental Disabilities Monitoring (ADDM) Network
(b)(iii)	Down Syndrome	776	Centers for Disease Control and Prevention
(b)(iv)	Prader-Willi Syndrome	94	National Institutes of Health
(b)(v)	Spina Bifida	195	Spina Bifida Association of America
(b)(vi)	Muscular Dystrophy	72	Centers for Disease Control and Prevention
(b)(vii)	Williams Syndrome	125	National Institutes of Health
(b)(viii)	Hearing or Vision Impairment	30,514	National Institutes of Health
(b)(ix)	Learning Disability Defined by IDEA	70,416	National Institutes of Health
(c)	Special Needs Child Identified by DSS	296	Department of Social Services
(d)	Income Eligibility for Free or Reduced Price Lunch	321,000	RFA Estimate Based on Current Population Survey, US Census Bureau
(e)	Previously Received Exceptional Needs Children Scholarship	2,000	RFA Estimate Based on Exceptional SC Annual Reports

§59-8-130(4)	Eligible Student Includes:	Number	Source
(f)	In Foster Care with Permanent Plan of Termination of Parental Rights and Adoption	4,133	Department of Social Services
(g)	Previously in Foster Care and Adopted	3,000	RFA Estimate Based on Department of Social Services Data
(h) and (i)	Child of Parent or Guardian on Active Duty Military (including National Guard and Reserve on active duty) or was Killed in the Line of Duty	13,795	SC Department of Education
(j)(i)	Previously enrolled in SC public school in the last two semesters (school year)	703,424	RFA School Age Population and Enrollment Estimates
(j)(ii)	Eligible to enroll in a kindergarten program	60,312	RFA Estimate based on FY 2017-18 45 Day ADMs Including Regular and Special Districts, and RFA School Age Population and Enrollment Estimates for Private and Homeschool students

Utilization of the program by eligible students is limited to 5 percent of eligible students for the 2018-2019 school year and 10 percent of eligible students for the 2019-2020 school year. In future years, eligibility is unlimited. For school year 2018-2019, we anticipate that the number of eligible students will total approximately 792,000 students. This estimate includes the number of students enrolled in a South Carolina public school for the previous school year and the number of students eligible to enroll in a kindergarten program. We include further 6.2 percent of the students estimated for Section 59-8-130(4)(b) through (i) as enumerated in the table above. The 6.2 percent rate is the current estimated ratio of private school students to public school students. We use this ratio to estimate the number of private school students included in these categories who may participate in the EOESA program.

To estimate the state expenditure impact, this analysis anticipates that a maximum of 39,600 students, or 5 percent of the estimated 792,000 eligible students, may be eligible to participate in the EOESA program in school year 2018-2019. The number of eligible students times the estimated \$6,200 in total state per pupil funding suggests that \$245,520,000 could be reallocated from state per pupil funding for school districts to EOESA grants managed by the Education Oversight Committee. For school year 2019-2020, 10 percent of the eligible students times the estimated \$6,500 in total state per pupil funding suggests that \$514,800,000 could be reallocated from state per pupil 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 2020-2021 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. 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 per pupil funding 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.

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 state per pupil funding 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, Education Finance Act employee fringe appropriations are tied to the number of 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, ensuring eligible students and parents are informed of which providers are participating in the program, 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. The EOC indicates these additional responsibilities will require one FTE position for a Program Manager I. The salary and employer contributions for this position would total \$104,508 in FY 2018-19. 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.

The EOC expects to contract with a qualified vendor to oversee the scholarship accounts and administer the financial management of the program. This legislation allows the EOC 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 \$245,520,000 in potential scholarships, this suggests that a 4 percent deduction for administrative expenses would total \$9,820,800 in FY 2018-19. Likewise, a 4 percent deduction from the \$514,800,000 in potential scholarships in FY 2019-20 would total \$20,592,000. 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 2018-2019 would be the full amount of state appropriations reallocated to the EOESA scholarships less the expense deduction of 4 percent for the EOC, or \$235,699,200. Similarly, the savings could total \$494,208,000 in School Year 2019-2020. We believe these amounts should be considered a long-term objective.

In contrast, we expect the 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 and 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 47,000 private school students and 20,000 home school students from participation in the EOESA program unless they qualify under one of the specific categories specified in the legislation. 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, local school districts will 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 2018-2019 school year and 10 percent of eligible students for the 2019-2020 school year. In future years, eligibility is unlimited. For school year 2018-2019, we anticipate that the number of eligible students will total approximately 792,000 students. This estimate includes the number of students enrolled in a South Carolina public school for the previous school year and the number of students eligible to enroll in a kindergarten program. We include further 6.2 percent of the students estimated for Section 59-8-130(4)(b) through (i) as enumerated in the State Expenditure section. The 6.2 percent rate is the current estimated ratio of private school students to public school students. We use this ratio to estimate the number of private school students included in these categories who may participate in the EOESA program.

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 39,600 students, or 5 percent of the estimated 792,000 eligible students, may participate in the EOESA program in school year 2018-2019. The number of eligible students times the estimated \$6,200 in total state per pupil funding suggests that \$245,520,000 in local school district revenues from state per pupil funding could be reallocated to EOESA grants. For school year 2019-2020, 10 percent of the eligible students times the estimated \$6,500 in total state per pupil funding suggests that \$514,800,000 could be reallocated from school districts to EOESA grants managed by the Education Oversight Committee.

The local school district revenue impact from reduced state per pupil funding when the program becomes unlimited in School Year 2020-2021 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 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.

A handwritten signature in blue ink that reads "Frank A. Rainwater". The signature is fluid and cursive, with a long horizontal stroke at the end.

Frank A. Rainwater, Executive Director