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Fiscal Note & Local Impact Statement

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Version: As Introduced

Primary Sponsor: Reps. McClain and John

Local Impact Statement Procedure Required: Yes

Andrew C. Ephlin, Budget Analyst

Highlights

- The bill's Backpack Scholarship Program makes all public, nonpublic, and homeschool students in grades K-12 eligible for a state scholarship, funded through an education savings account (ESA), to attend a participating nonpublic school or receive home education beginning in FY 2025.
- State expenditures would increase by about \$1.13 billion in FY 2025 if all 185,400 newly eligible nonpublic students take a scholarship under the bill. However, it is likely that not all of these students will receive a Backpack scholarship for various reasons, meaning that the bill's actual costs will likely be lower than the \$1.13 billion estimate especially in the early years of the program. For every 1% of newly eligible nonpublic students that do not participate, program costs decrease by an estimated \$11.3 million annually.
- State aid for public school students taking a scholarship will follow students to nonpublic schools where students are educated. Because the state's school funding formula is based on enrollment, school districts and other public schools whose students take the scholarship are likely to lose state foundation aid. However, the formula's guarantee provision may partially offset the decreases in state aid.
- The bill appropriates \$5.0 million from the GRF in FY 2024 for the Treasurer of State to administer the Backpack Scholarship Program and oversee the ESAs.

Detailed Analysis

Summary of the bill

Under current law, the state operates four scholarship programs that grades K-12 students who meet certain criteria may take advantage of to attend an approved education

provider other than the student's resident school district, typically a chartered nonpublic school. The Educational Choice ("EdChoice") Scholarship Program is open to grades K-12 students who would otherwise attend certain low-performing, higher poverty schools or whose household income is at or below 250% of federal poverty guidelines. The Cleveland Scholarship Program is open to all students residing in the Cleveland Municipal School District (CMSD). Finally, the Jon Peterson Special Needs (JPSN) Scholarship and the Autism Scholarship programs offer scholarships to students with an individualized education program (IEP) due to a disability whose parents choose to enroll the student in an approved special education program other than the one offered by the student's school district.

Beginning in FY 2025, the bill's Backpack Scholarship Program qualifies any public, nonpublic, or home-educated student enrolling in grades K-12 or the equivalent to receive a scholarship funded through an education savings account (ESA) for the student. It does not limit the number of Backpack scholarships. A student receiving a Backpack scholarship must either enroll in a participating chartered or nonchartered nonpublic school or receive home instruction. The requirements for a nonpublic school to participate in the program are as follows: (1) notify the Treasurer of State (TOS) annually that the school is electing to participate, (2) follow certain testing requirements, (3) report aggregate results of the tests to TOS, and (4) agree to not charge any student whose family income is at or below 200% of the federal poverty guidelines tuition in excess of the student's scholarship amount.

ESA funds may be used to pay tuition and fees to attend a participating nonpublic school or pay for various other educational goods or services. Under the program, students in grades K-8 receive \$5,500 and students in grades 9-12 receive \$7,500, the current maximum amounts for an EdChoice scholarship or Cleveland scholarship. Like the current law maximum scholarship amounts, Backpack scholarship amounts increase in future fiscal years by the same percentage that the statewide average base cost per pupil increases in future years.

The bill eliminates the EdChoice and Cleveland Scholarship Program beginning in FY 2025, but allows students already receiving EdChoice or Cleveland scholarships under current law to participate in the Backpack Scholarship Program. The bill retains the JPSN and Autism scholarship programs and allows participants of these programs to also receive a Backpack scholarship.

Summary of fiscal effects

The bill's fiscal effects will be driven mainly by the number of nonpublic school and home-educated students who were previously ineligible for a scholarship but who will become eligible to receive one under the bill ("newly eligible nonpublic students").

To capture the full potential of the state's obligation with respect to these students, this analysis assumes that all newly eligible nonpublic students will apply for and accept a scholarship under the bill. Under this scenario, the additional annual cost to the state to cover these scholarships would be about \$1.13 billion based on FY 2022 data. However, it is likely that some newly eligible nonpublic students will not actually receive a scholarship for various reasons. For example, some chartered and nonchartered nonpublic schools may choose not to participate in the program. In addition, some parents or guardians may be unaware of their student's eligibility for a scholarship or choose not to accept one due the program's requirements. Consequently, the number of new scholarships and, thus, scholarship costs will likely be lower to some extent than the \$1.13 billion estimate, especially in the early years of the program.

We also assume the bill's expansion of scholarship eligibility will attract some students currently enrolled in public schools because it reduces the cost of a private education. The effect of these public-to-private school transfers would not be as extensive as that of covering scholarships for all newly eligible nonpublic students. Based on our research, we assume about 10,000 public school students will participate and receive a scholarship. The actual number could be more or less but may also grow over time. From a state perspective, the cost of the scholarships for these students is likely offset, more or less, by a corresponding annual decrease in spending on state foundation aid to public schools. However, this also means traditional school districts and community schools may lose potentially substantial amounts of revenue. Guarantee provisions, which have historically been included in the formula, may partially offset the decreases in state aid. Also, school district and other public school expenditures may decrease due to educating fewer students. The effects of the bill on both newly eligible nonpublic students and public school students are discussed in detail below.

New state responsibility – nonpublic and homeschool students

In FY 2022, there were approximately 185,400 students who would have been newly eligible nonpublic students if the bill had been effective in that year. This figure includes about 11,600 students participating in the JPSN and Autism scholarship programs. Table 1 below summarizes the enrollment of these students by school type and grade band.¹ For simplicity, we assume all EdChoice and Cleveland scholarship students will shift to a Backpack scholarship at no net cost to the state. Additional details follow the table.

Table 1. Estimated Nonpublic and Homeschool Students Eligible for Backpack Scholarship (Excluding Existing Scholarship Students), FY 2022			
School Type	Estimated K-8 Enrollment	Estimated 9-12 Enrollment	Total
Chartered nonpublic schools	62,806	27,670	90,476
Homeschools	32,878	14,613	47,491
Nonchartered nonpublic schools	24,786	11,016	35,801
JPSN scholarship recipients	5,291	2,498	7,789
Autism scholarship recipients	2,797	1,035	3,832
Total	128,558	56,831	185,389

According to the Ohio Department of Education (ODE), a total of 167,395 students attended chartered nonpublic schools in FY 2022. Subtracting the roughly 76,900 students receiving a state scholarship from this total leaves 90,500 chartered nonpublic students who would have attended a chartered nonpublic school even without the scholarship. School districts

¹ In cases where student headcounts by grade level were unavailable, we generally assumed students were evenly distributed in each grade level.

report to ODE the headcount of homeschool students residing in the district. There were about 47,500 homeschooled students in Ohio in FY 2022.

ODE does not collect enrollment data for nonchartered nonpublic schools (referred to as “nonchartered nontax” or NCNT schools). Due to this data limitation, we derived a rough estimate of NCNT school enrollment using data reported by the National Center for Education Statistics (NCES) and ODE. NCES reports the estimated total private school enrollment in grades K-12 by state, based on surveys of private schools.² We subtracted the 163,400 chartered nonpublic school students reported by ODE for FY 2020 from the 195,900 total nonpublic students NCES reported for Ohio for the same fiscal year.³ To estimate FY 2022 enrollment in NCNT schools, we assumed that the enrollment growth rate for NCNT schools in FY 2022 equaled a weighted average enrollment growth rate for chartered nonpublic schools and homeschool students between FY 2020 and FY 2022, or approximately 10%. The estimated number of K-12 students enrolled in NCNT schools in FY 2022 is about 35,800.

Cost of Backpack scholarships for nonpublic and homeschool students – new state responsibility

If all 185,400 or so nonpublic and homeschool students receive a Backpack scholarship, the cost to the state would be approximately \$1.13 billion. Table 2 below lists the projected costs for these students by grade band. Note that the scholarship amounts may be higher in future years, as the bill requires the maximum amount of a Backpack scholarship to increase by the same percentage that the state foundation funding formula’s statewide average base cost per pupil increases.

Table 2. Estimated Backpack Scholarship Cost for Nonpublic and Homeschool Students Representing a New State Responsibility (\$ in millions)			
Grade Band	Potential New Scholarships	Scholarship Amount	Scholarship Cost
Grades K-8	128,558	\$5,500	\$707.1
Grades 9-12	56,831	\$7,500	\$426.2
Total	185,389	--	\$1,133.3

However, it is likely that not all newly eligible nonpublic students will receive a Backpack scholarship for various reasons. To name a few examples, some nonpublic schools may choose not to participate due to testing requirements or other factors. Similarly, some parents or guardians

² See page C-24 of “[Characteristics of Private Schools in the United States: Results from the 2019-20 Private School Universe Survey \(PDF\)](#),” which may be accessed by conducting a keyword “Characteristics of Private Schools” search on the National Center for Education Statistics website: nces.ed.gov.

³ Ohio Department of Education, “[Enrollment Data: Fall Enrollment \(ADM\) – October 2019 Non-Public Buildings](#),” which may be accessed by conducting a keyword “Enrollment Data” search on ODE’s website: education.ohio.gov. Fall enrollment data was used here to coincide with the design of the NCES Private School Universe Survey, which asks respondents for student enrollment around the first day of October.

may not obtain a scholarship for their children due to the program's testing and other requirements or a lack of awareness of the program. For every 1% of newly eligible nonpublic students that do not participate, the estimated number of students receiving a Backpack scholarship decreases by 1,854 and the total cost of the scholarships decreases by an estimated \$11.3 million.

Public school student “transfers”

An eligibility expansion will likely attract some students currently enrolled in public schools to nonpublic schools due to the effective reduction in price. Some of these students may already be eligible for a traditional EdChoice scholarship. We modeled the fiscal effects associated with public school students by drawing on existing research on price elasticity of demand; that is, the responsiveness of public school students' interest in private school education to reductions in price (tuition). We applied the values found in the research to the estimated newly eligible public school population to calculate the induced enrollment of these “transfer” students in chartered nonpublic schools. The model implies roughly 10,000 public students would take a Backpack scholarship annually under the bill. The actual number could be more or less, depending on nonpublic school capacity and other factors, but could also grow over time as awareness of the program and school capacity build.

Backpack scholarships will be financed by direct state payments. Assuming an even distribution of students in each grade level, the state will pay an average of \$6,115 per Backpack scholarship. However, because the state foundation aid formula is based on enrollment, state foundation aid will decrease as public transfer students drop out of the enrollment counts used to fund public schools. In FY 2022, state foundation aid averaged \$4,953 per pupil. However, when considering how that aid changes when enrollment changes, one cannot look at the average state aid per pupil since the average will not tell you how much state aid decreases when one student leaves. Rather, one must look at how state aid changes on the margin. To calculate the estimated reduction in state foundation aid when one student leaves, we made some simplifying assumptions due to uncertainty surrounding the state foundation formula in years after FY 2023. Specifically, we calculated the statewide average marginal change in per-pupil funding for FY 2022 from “basic formula aid” for traditional districts when student counts were reduced by roughly the same amount of transfer students, spread proportionately across school districts. The basic formula aid calculation uses only the state share of the base cost and the wealth and capacity tiers of targeted assistance. In this scenario, the average per-pupil reduction in basic formula aid is about \$6,640. This calculation does not factor any phase-in or “guarantee” provisions, the latter of which have historically been included in the formula to protect a district's state aid from falling below a certain base level funding. As a result, the formula's guarantee provisions may partially offset the decreases in state aid, leading to a smaller per-pupil decrease than what the marginal reduction implies. These factors, when taken together, suggest that the net effect of the bill on state expenditures for public transfer students will be limited, with scholarship costs more or less offset by decreases in state aid to school districts.

From a school district perspective, the reduction in foundation aid could be substantial, but ultimately will depend on student participation rates in the scholarship program. As described above, guarantee provisions may limit potential revenue losses for school districts. In addition, school district and other public school expenditures may decrease due to educating fewer students.

Pupil transportation

Continuing law generally requires traditional school districts to transport to and from school resident students in grades K-8 who live more than two miles from the school they attend, including students that attend private schools.⁴ By rule of the State Board of Education, the mandate to transport private school students applies only to students enrolled in private schools that have received a charter from the State Board. However, the resident district is not obligated to transport a private school student if the travel time exceeds 30 minutes by school bus between the district school building to which the student otherwise would be assigned and the student's nonpublic school. In this case, a school district may offer a payment in lieu of providing transportation to the parent of the student.

The bill may increase transportation costs for school districts if a district transports recipients of the Backpack scholarship to chartered nonpublic schools outside its regular bus routes. However, the current transportation formula funds school districts based on either miles driven or the number of students transported, with additional weights given to chartered nonpublic students transported. Transportation funding is subject to a minimum state share floor. As a result, school districts may recoup a portion of the increased costs to transport scholarship students through the pupil transportation formula.

Administrative costs – Treasurer of State and ODE

The bill appropriates \$5.0 million from the GRF in FY 2024 for the Treasurer of State (TOS) to pay administrative costs associated with the Backpack Scholarship Program. TOS's administrative duties include the following:

- Developing an application procedure;
- Contracting with an entity to establish an ESA for each participating student;
- Disbursing funds from the ESAs;
- Employing personnel and contracting for necessary goods and services and professional and technical assistance;
- Establishing and annually updating a website with program information and participating schools;
- Ensuring ESA expenditures comply with the bill's requirements;
- Determining penalties for fraudulent activity; and
- Collaborating with stakeholders and state agencies to promote the program.

Since the bill repeals the EdChoice and Cleveland scholarship programs and makes TOS primarily responsible for administering Backpack scholarships, the bill may decrease ODE's administrative costs. However, ODE will retain some administrative responsibilities under the new program. Notably, ODE will fund the ESAs through payments made twice each year and continue to administer the student data verification code process to ensure student privacy.

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⁴ A district may choose to transport students it is not required to transport. For example, the law specifically permits, but in most circumstances does not require, school districts to provide transportation for resident high school students.