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# OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research  
and Drafting

Legislative Budget  
Office

**S.B. 368**  
**134<sup>th</sup> General Assembly**

## Fiscal Note & Local Impact Statement

[Click here for S.B. 368's Bill Analysis](#)

**Version:** As Introduced

**Primary Sponsor:** Sen. O'Brien

**Local Impact Statement Procedure Required:** Yes

Brian Hoffmeister, Senior Budget Analyst, and other LBO staff

### Highlights

Fund	FY 2023	FY 2024	FY 2025 and Future Years
<b>State General Revenue Fund</b>			
Revenues	Loss between \$43.6 million and \$51.1 million	Loss between \$40.0 million and \$46.8 million	Annual loss of tens of millions of dollars
Expenditures	\$0	Up to \$527.6 million	Up to \$527.9 million annually
<b>Local Government Fund and Public Library Fund</b>			
Revenues	Loss between \$1.5 million and \$1.8 million	Loss between \$1.4 million and \$1.6 million	Annual loss of \$1 million or more
Expenditures	\$0	\$0	\$0
<b>Traditional School Districts and Community Schools</b>			
Revenues	\$0	Loss of up to \$68.5 million	Loss of up to \$66.5 million annually
Expenditures	\$0	Potential decrease	Potential decrease

Note: The fiscal year for the state, school districts, and certain other local governments runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

## EdChoice expansion

- The bill expands eligibility for the EdChoice Scholarship Program to all students in grades K-12 beginning in FY 2024. State expenditures will increase by estimated net amounts of \$527.6 million in FY 2024 and \$527.9 million in FY 2025 and following years. This estimate assumes that all 90,500 chartered nonpublic school students currently attending school without a scholarship will take one under the bill.
- However, not all of these students may receive an EdChoice scholarship for various reasons. For every 1% of newly eligible nonpublic students that do not participate, program costs decrease by an estimated \$5.4 million annually.
- 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. School districts and community schools will lose up to an estimated \$68.5 million in state aid in FY 2024 and \$66.5 million in FY 2025 and following years due to projected enrollment decreases. Public school expenditures may decrease to educate fewer students.

## Home school expenses tax credit

- The bill increases the per-child cap on the existing home schooling personal income tax credit from up to \$250 to up to \$2,000. The GRF would experience losses between \$43.6 million and \$51.1 million in FY 2023 and between \$40.0 million and \$46.8 million in FY 2024, with continuing losses in following years, from the increased value of the credit.
- The Local Government Fund and Public Library Fund would incur total losses between \$1.5 million and \$1.8 million in FY 2023 and between \$1.4 million and \$1.6 million in FY 2024, with continuing losses in future years, from the increased value of the credit.

## 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 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 the 2023-2024 school year (FY 2024), the bill expands eligibility for an EdChoice scholarship to all students in grades K-12 and, accordingly, eliminates the Cleveland Scholarship Program. It also eliminates Cleveland tutorial assistance grants, which fund tutoring services for students who remain in CMSD. The program appears to be dormant, as ODE reported making no payments for it in FY 2022. The bill allows students already receiving EdChoice or

Cleveland scholarships under current law to receive an EdChoice scholarship under the bill's expansion. The bill does not alter Jon Peterson Special Needs or Autism scholarships.

The bill also expands the existing personal income tax credit for households who provide home instruction to their children. Under current law, qualifying households may claim the credit for the lesser of \$250 or the amount expended on eligible educational expenses. The bill increases the credit to the lesser of \$2,000 or the amount expended on eligible educational expenses. This fiscal note details the effects of all of these provisions below.

## **EdChoice scholarship expansion**

The bill's fiscal effects on state expenditures and public school state aid revenues will be driven by (1) the number of chartered nonpublic school students who were previously ineligible for a scholarship but will become eligible to receive one under the bill, and (2) the number of public school students who leave to attend a nonpublic school using a scholarship.

This analysis assumes that all chartered nonpublic school students who do not have a state scholarship due to income or other eligibility factors will apply for and accept one, on the basis that individuals generally behave rationally and would take a scholarship if eligible. This assumption also captures the full potential of the state's obligation with respect to these students. Under this scenario, the additional annual cost to the state to cover these scholarships is roughly \$536.4 million. However, some chartered nonpublic students may not receive a scholarship for various reasons. If so, the number of new scholarships and, thus, scholarship costs would be lower to some extent.

We also assume the bill's expansion of scholarship eligibility will attract some students currently enrolled in public schools to chartered nonpublic schools because it reduces the cost of a private school 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 school students. Under our estimated scenario, new scholarships for these students would cost the state approximately \$59.7 million in FY 2024 and \$58.0 million in FY 2025, with a corresponding annual decrease in spending on state aid to public schools (and thus a loss in revenue to traditional school districts and community schools) of \$68.5 million in FY 2024 and \$66.5 million in FY 2025, for a net savings to the state of \$8.8 million in FY 2024 and \$8.5 million in FY 2025. The effects of the bill on both newly eligible chartered nonpublic school students and public school students are discussed in detail below.

### **New state responsibility – nonpublic students**

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 and, thus, represent the potential new state responsibility under the bill (referred to as "newly eligible" chartered nonpublic students). Table 1 below breaks out these students by grade band. While also eligible, we assume students receiving home instruction and students educated in nonchartered nonpublic schools (referred to as "nonchartered nontax" or NCNT schools) will not take an EdChoice scholarship, given that parents or guardians of those students likely chose those educational environments for specific reasons and the students would need to change schools

by enrolling in a chartered nonpublic school in order to participate in the program. The actual costs of the bill could be higher to the extent that such students participate.

<b>Grade Band</b>	<b>Annual New Scholarships</b>
Grades K-8	62,806
Grades 9-12	27,670
<b>Total</b>	<b>90,476</b>

Table 2 below lists the maximum and estimated average EdChoice scholarship amounts by grade band for FY 2023. We assumed the average scholarship amount in each grade band is 97% of the maximum amount to account for circumstances in which a student's tuition is lower than the maximum. Note that the scholarship amounts may be higher in future years, as continuing law requires the maximum amount of an EdChoice scholarship to increase by the same percentage that the state foundation funding formula's statewide average base cost per pupil increases. However, for purposes of this analysis, we hold these values constant into FY 2024 and FY 2025, as continuing law specifies the foundation funding formula only for FY 2022 and FY 2023. For FY 2024 and future years, the formula components will be calculated in a manner determined by the General Assembly.

<b>Grade Band</b>	<b>Amount</b>
Grades K-8 (Maximum)	\$5,500
Grades K-8 (Average)	\$5,335
Grades 9-12 (Maximum)	\$7,500
Grades 9-12 (Average)	\$7,275

We applied the average scholarship amounts for each grade band to the relevant grade band's newly eligible chartered nonpublic students. This yields potential costs of up to \$536.4 million in each fiscal year for the expansion of EdChoice scholarships to all 90,500 or so chartered nonpublic school students not currently receiving one under current law. Table 3 below lists the projected costs for these students by grade band.

<b>Grade Band</b>	<b>Annual New Scholarships</b>	<b>Annual Average Scholarship Amount</b>	<b>Annual Cost of New Scholarships</b>
Grades K-8	62,806	\$5,335	\$335.1 million
Grades 9-12	27,670	\$7,275	\$201.3 million
<b>Total</b>	<b>90,476</b>	<b>--</b>	<b>\$536.4 million</b>

Existing nonpublic students are the largest driver of the cost of the bill. There is also no mitigating “savings effect” as in the case of the public school transfer students (see below), as these existing nonpublic school students cost the state nothing under current law. However, not all newly eligible nonpublic students may receive an EdChoice scholarship for various reasons. To name a few examples, some nonpublic schools may choose not to participate due to testing requirements or other factors while some parents or guardians may not obtain a scholarship for their children for philosophical reasons 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 an EdChoice scholarship decreases by 905 and the total cost of the scholarships decreases by an estimated \$5.4 million annually.

### **New state responsibility – 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 increased nonpublic school enrollment suggested by our model is shown in Table 4 below. The model implies roughly 10,000 public students would take an EdChoice scholarship annually under the expansion proposed by the bill. Note that the estimate for FY 2025 is lower than FY 2024 due to projected increases in private school tuition in the model. Increased tuition costs, combined with scholarship amounts that are assumed to remain constant, lowers projected demand due to a smaller price discount.

<b>Grade Band</b>	<b>FY 2024</b>	<b>FY 2025</b>
Grades K-8	7,900	7,670
Grades 9-12	2,419	2,349
<b>Total</b>	<b>10,320</b>	<b>10,019</b>

We calculated the annual cost of the scholarships for public school transfer students by multiplying the induced enrollment by the estimated average scholarship for each grade band. This shift in enrollment has the potential to generate state savings. Because the state foundation formula is based on enrollment, state foundation aid will decrease as public students that leave public schools to take an EdChoice scholarship will no longer be counted in their educating school districts or other public schools for funding purposes. School district and other public school expenditures may decrease due to educating fewer students.

To calculate the estimated reduction in state foundation aid, 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 addition, the per-pupil marginal change was calculated without factoring in the H.B. 110 formula’s guarantee and phase-in provisions. In this scenario, the average per-pupil reduction in basic formula aid is about \$6,640. We multiplied the average per-pupil reduction in basic formula aid by the assumed number of scholarship recipients coming from public schools to determine a rough estimate of the annual reduction in state foundation aid.

### **Net change in state aid to public schools**

Generally speaking, the cost of the scholarships for newly eligible public transfer students is more than offset by a decrease in state foundation aid, leading to a relatively small savings effect to the GRF. The annual costs of new EdChoice scholarships for these students is roughly \$59.7 million in FY 2024 and \$58.0 million in FY 2025. However, state aid to public schools decreases by \$68.5 million in FY 2024 and \$66.5 million in FY 2025 as a result of students leaving to attend private schools using a scholarship, for a net savings to the state of \$8.8 million in FY 2024 and \$8.5 million in FY 2025 for these students. A summary of the net decrease appears in Table 5 below. The savings effect results from the average marginal reduction in state foundation aid per student generally being greater than the scholarship amounts for students in grades K-8, which represent most of the transfer students.

<b>Category</b>	<b>FY 2024</b>	<b>FY 2025</b>
Public transfer students	10,320	10,019
<b>Total scholarship cost (millions)</b>	<b>\$59.7</b>	<b>\$58.0</b>
Average reduction in foundation aid per pupil	-\$6,640	-\$6,640
<b>Total change in foundation aid (millions)</b>	<b>-\$68.5</b>	<b>-\$66.5</b>
<b>Net change in state aid (millions)</b>	<b>-\$8.8</b>	<b>-\$8.5</b>

## Summary of scholarship expansion fiscal effects

Overall, the bill's proposed expansion of eligibility for EdChoice scholarships to all K-12 students may provide roughly 101,000 students with a new EdChoice scholarship. If so, the bill increases state costs by an estimated \$527.6 million in FY 2024 and \$527.9 million in FY 2025 and following years. Costs may be higher depending on how the maximum scholarship amounts change over time. Table 6 below provides a summary of the total participation estimates and costs.

Table 6. EdChoice Eligibility Expansion Cost Summary (\$ in millions)		
Category	FY 2024	FY 2025
Nonpublic students – new state responsibility	90,476	90,476
Public transfer students	10,320	10,019
<b>Total scholarships</b>	<b>100,796</b>	<b>100,495</b>
Scholarship cost for nonpublic students – new state responsibility	\$536.4	\$536.4
Scholarship cost for public transfer students	\$59.7	\$58.0
<b>Total scholarship cost</b>	<b>\$596.1</b>	<b>\$594.4</b>
Change in foundation aid to public schools	-\$68.5	-\$66.5
<b>Total marginal cost</b>	<b>\$527.6</b>	<b>\$527.9</b>

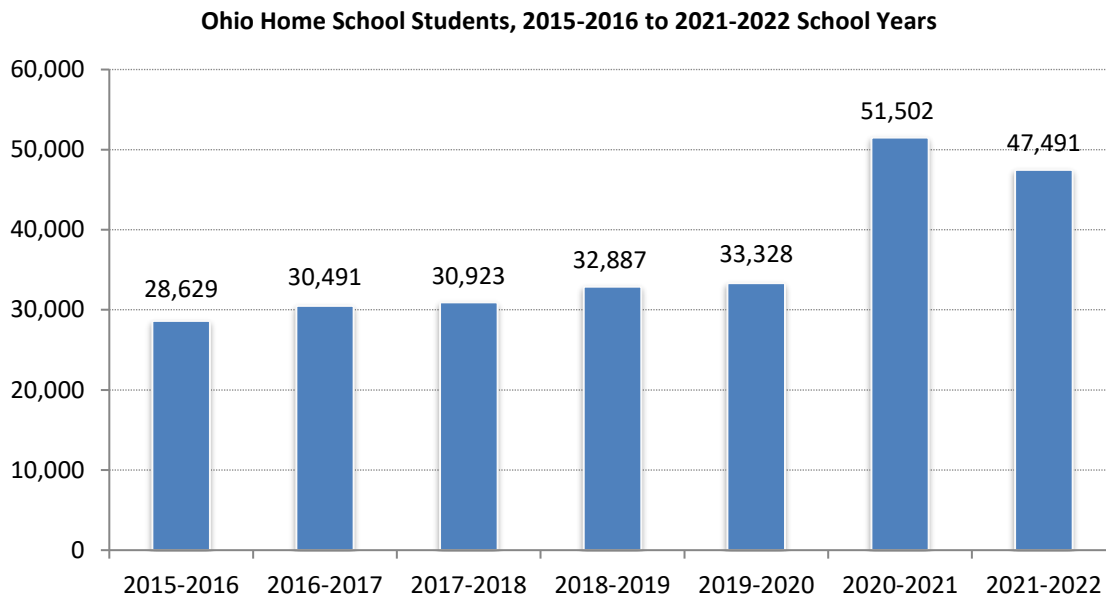
## Home school expenses tax credit

Beginning in tax year (TY) 2021, a new personal income tax (PIT) credit was made available to certain individuals who paid for home school expenses. To qualify for this credit, the taxpayer must pay for “educational expenses” for a dependent who is home schooled. The credit equals the lesser of \$250 or the amount paid for educational expenses. Given the recent enactment of this PIT credit, statistics are not yet available about its utilization on TY 2021 tax returns. The bill increases the value of this credit to the lesser of \$2,000 or amounts paid. The change applies to TY 2022, so it would reduce state tax revenues when PIT returns are filed in FY 2023.

Continuing law limits the educational expenses to the following items used in home school instruction: (1) books and subscriptions, (2) school supplies and supplementary materials, and (3) computer software and applications. Educational expenses do not include expenses or fees for computers or similar electronic devices or accessories. When administering this new credit, the Ohio Department of Taxation limited taxpayers to only one credit claimed per return, regardless of filing status. The bill further clarifies and codifies this practice by explicitly stating that married taxpayers filing a joint return may only claim one credit.

Only expenses for dependents who have been excused by the school district superintendent for formal home schooling qualify for this credit. According to Ohio Department of Education data, there were 33,328 students that met this criteria in FY 2020. In the five years

prior to the Covid-19 pandemic, the number of home schooled students grew about 3.9% per year. During the pandemic, the total increased to 51,502 before declining to 47,491 in FY 2022 (see chart below),<sup>1</sup> which is a school year in which many emergency measures related to the pandemic were scaled back. Ultimately, the number of home school students may revert to the pre-pandemic trends, but LBO assumes it will be a gradual process taking multiple years.



An analysis by the Ohio Department of Taxation estimated that about three home school children are educated by the typical qualifying household. By that metric, approximately 15,830 taxpayers could claim the credit for that recently completed academic year. At this time, LBO tentatively assumes that each family spends between \$500 and \$1,000 per child, so qualifying expenditures in a household with three home schooled children would vary between \$1,500 and \$2,000, of which the latter is the maximum limit authorized by the bill. In the current and successive academic year, LBO assumes home school enrollment will be 45,000 and 40,000 children, respectively.

The \$2,000 credit limit authorized by the bill is higher than the total state income tax due for the median Ohio household. The PIT credit is nonrefundable, so it is conceivable that the credit will fully offset the PIT liability of many qualifying households. Typically, the state revenue loss for a nonrefundable credit is lower than the estimated revenue loss for a fully refundable credit. To adjust for this circumstance, LBO staff referenced a recent National Center for Education Statistics (NCES) report, which surveyed the household income of families that home school their children. LBO assumed income amounts reported by NCES for 2016 grew at the same pace as Ohio median income, in order to estimate TY 2022 and TY 2023 household incomes, as well as their associated PIT liabilities.

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<sup>1</sup> Recent years' home school enrollment can be found on ODE's [reports portal](https://reports.portal.education.ohio.gov), [education.ohio.gov](https://education.ohio.gov).



<b>Table 7. Number of Home Schooled Students in U.S. and Estimated TY 2022 PIT Liability for Associated Income Classifications</b>		
<b>Household Income Classification</b>	<b>Number Home Schooled in U.S. During 2016</b>	<b>Estimated TY 2022 PIT Liability (Baseline Law)</b>
\$20,000 or less	184,000	\$0
\$20,001 to \$50,000	483,000	\$446
\$50,001 to \$75,000	435,000	\$1,369
\$75,001 to \$100,000	268,000	\$2,407
Over \$100,000	319,000	\$4,929
<b>Total</b>	<b>1,690,000</b>	<b>\$1,793 (avg.)</b>

Source: National Center for Education Statistics, "[School Choice in the United States: 2019](#)," Table 5.1; LBO tabulations using average incomes and TY 2022 state tax code to calculate PIT liability under baseline law

Based on these parameters, the PIT revenue loss would be between \$45 million and \$53 million in FY 2023 and between \$42 million and \$49 million in FY 2024. The GRF share of these revenue losses would be 96.64% in FY 2023 and 96.68% in FY 2024. The Local Government Fund and Public Library Fund would bear the remaining amounts. Nevertheless, this estimate should be considered preliminary, as LBO staff is still actively gathering research about educational expenditures incurred by the typical household with home schooled children. In the absence of this data, the resulting conclusions in this analysis are subject to revision. At minimum, LBO staff anticipates the likeliest revenue effect will be closer to the lower end of estimated losses provided in this fiscal note.