

**GENERAL ASSEMBLY OF NORTH CAROLINA**

**Session 2015**

**Legislative Fiscal Note**

**BILL NUMBER:** Senate Bill 561 (Fourth Edition)

**SHORT TITLE:** Funds for Special Education Scholarships.

**SPONSOR(S):**

**FISCAL IMPACT**

(\$ in millions)

**Yes**
         
  **No**
         
  **No Estimate Available**

	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>	<b>FY 2018-19</b>	<b>FY 2019-20</b>
<b>State Impact</b>					
General Fund Revenues:	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
General Fund Expenditures:	\$2.8	\$0.5	\$0.5	\$0.4	\$0.4
State Positions:	0.0	0.0	0.0	0.0	0.0
<b>NET STATE IMPACT</b>	<b>(\$2.8)</b>	<b>(\$0.5)</b>	<b>(\$0.5)</b>	<b>(\$0.4)</b>	<b>(\$0.4)</b>

<b>Local Impact*</b>					
Revenues:	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Expenditures:	\$0.0	(\$0.6)	(\$0.7)	(\$0.7)	(\$0.7)
<b>NET LOCAL IMPACT</b>	<b>(\$0.0)</b>	<b>\$0.6</b>	<b>\$0.7</b>	<b>\$0.7</b>	<b>\$0.7</b>

\*Local expenditures might not decrease by these amounts. See page 6 for additional clarification on the LEA Impact.

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:**

State Education Assistance Authority, Department of Public Instruction, Local Education Agencies

**EFFECTIVE DATE:** Effective July 1, 2016

**TECHNICAL CONSIDERATIONS:**

None

**BILL SUMMARY:**

This bill would appropriate from the General Fund an additional \$2.8 million for Special Education Scholarships for Children with Disabilities (Scholarships).

**ASSUMPTIONS AND METHODOLOGY:**

Estimating the fiscal impact of this bill requires comparing the estimated impact of the Program in its current incarnation (“Existing Program Estimate”), and comparing to the estimated fiscal

impact if funding for scholarships is increased by \$2.8 million (“Proposed Estimate”). In both cases, developing the estimated impact requires the following variables:

1. Elasticity of demand for private education;
2. Average scholarship size;
3. Projected average private school tuition costs in North Carolina;
4. Projected enrollment at North Carolina’s private schools, absent the Scholarship program;
5. Projected expenditures (State and local) per student in North Carolina’s public schools;
6. Estimate of the number of students (public and private) meeting the Scholarship program’s eligibility requirements;
7. Private school demand for scholarships;
8. Turnover rate of scholarship students; and
9. Cost of Individualized Education Plan (IEP) Reevaluations.

It is important to note that the same values are used for each variable in both the Existing Program Estimate and the Proposed Estimate.

1. Elasticity of Demand for Private Education

The elasticity of demand for private education versus public education answers the question: as the price for private schools goes down, how many students would be expected to leave public schools and enter private schools?

This analysis assumes an elasticity of demand for private education of 0.12. Elasticity of demand tells you what sort of change in demand one would expect, given a percentage change in price in that good. For example, an elasticity of 0.50 means that for every 10% decrease in the cost of private education, one would expect a 5% increase in the number of children attending private schools.

Actual data from the 2015-16 school year reveals an implied elasticity for Scholarships. For FY 2015-16, the State Education Assistance Authority (SEAA) estimates 1,213 eligible applications for Scholarships. If the estimated figures for FY 2015-16 average private school tuition (\$9,732) and percent of public school students meeting the eligibility criteria (12%) are accurate, that implies an elasticity of demand for private education of 0.12.

2. Average Scholarship Size

Two different average scholarship sizes are utilized in this analysis.

For the purposes of determining how many students would be expected to leave public schools and enter private schools, the maximum scholarship amount of \$8,000 is used. That is because when considering the range of private schools available, scholarship awardees could potentially reduce their private school costs by as much the maximum scholarship amount.

For the purposes of calculating the fiscal impact of actual scholarships issued, the estimated average scholarship size of \$7,200 is used. This is based on data from FY 2014-15 indicating that actual scholarships were approximately 90% of the maximum scholarship size (for FY 2014-15, the maximum annual scholarship size was \$6,000). As a result, this analysis assumes

that the average scholarship size of issued scholarships will be 90% of the maximum scholarship amount.

3. *Estimating Average Private School Tuition Costs in North Carolina*

There are no organizations that comprehensively track current tuition prices in North Carolina. The most comprehensive source for national data appears to be the US Department of Education's National Center for Education Statistics. Their most recent data from the 2011-12 school year indicates that private school tuitions across the country averaged \$10,740 per year.<sup>1</sup>

This analysis estimates that average private school tuition in North Carolina is \$9,732 for the 2015-16 school year. Given the slow economic recovery, it is unlikely that private school tuitions have risen significantly since the 2011-12 school year. This number is then adjusted to account for North Carolina's below-average cost of living. Analysis from the South Carolina Department of Commerce indicates that North Carolina's cost of living is approximately 90% of the national average.<sup>2</sup> Therefore, to estimate the private school tuition in North Carolina for the 2014-15 school year, this analysis multiplies \$10,740 by 90%. To estimate how tuitions will increase in future years, this analysis utilizes forecasted inflation numbers for Salaries & Wages from Moody's economy.com.<sup>3</sup>

4. *Projected Enrollment at North Carolina's Private Schools*

This analysis assumes that – absent the Program proposed by this bill – private school enrollments will grow at a rate of 0.5% per year based on the actual enrollments over the last ten years. The North Carolina Division of Non-Public Education does not project enrollment at North Carolina's private schools. This analysis projects private school enrollment based on the historic growth rate in private school enrollment from 2003-04 to 2013-14. Over this period, private school enrollment in North Carolina has grown at an average rate of 0.5% per year.<sup>4</sup>

5. *Projected Expenditures per Student in North Carolina's Public Schools*

This analysis estimates that State expenditures in FY 2015-16 will be approximately \$8,949 per student. This figure is based off of the FY 2014-15 per-student appropriation for charter schools of \$4,933 per student, plus an additional \$3,927 per student to account for estimated expenditures for Children with Disabilities. Both of these figures are added together, then increased by 1% to approximate year-over-year growth from FY 2014-15 to FY 2015-16.

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<sup>1</sup> National Center for Education Statistics, *Digest of Education Statistics: 2013 Tables and Figures*, Table 205.50, as found at: [http://nces.ed.gov/programs/digest/d13/tables/dt13\\_205.50.asp](http://nces.ed.gov/programs/digest/d13/tables/dt13_205.50.asp).

<sup>2</sup> Wang, Masoudie, and Gunnlaugsson, "Annual Cost of Living Index Applied to South Carolina Sub-State Areas," South Carolina Department of Commerce – Division of Research, p. 3, January 2009. As found at: [http://greenwoodpartnershipalliance.com/site/wp-content/themes/golden\\_essence\\_261/images/pdf/Cost%20of%20Living%20SCDOC2009.pdf](http://greenwoodpartnershipalliance.com/site/wp-content/themes/golden_essence_261/images/pdf/Cost%20of%20Living%20SCDOC2009.pdf).

<sup>3</sup> April 2014 projections found at: <http://www.economy.com/default.asp>.

<sup>4</sup> Private School Statewide Statistical History as found at: <http://www.ncdnp.org/documents/2013EnrollmentHistoryByYear.pdf>.

This analysis assumes that expenditures per student in North Carolina public schools will increase at an average rate of 1% per year over the next five fiscal years in order to approximate historical trends.

State average local expenditure per child for operational expenses for FY 2015-16 is estimated to be \$2,137. This is derived by taking the FY 2013-14 figure, and increasing it by a 1% annual rate. Per the reasons above, this number is also anticipated to grow at an average annual rate of 1% over the period covered by this fiscal analysis.

6. Number of Public School Children Meeting Eligibility Requirements

Under normal circumstances, an elasticity of 0.50 would mean that for every 10% decrease in the cost of private education, you would expect a 5% increase in the number of children attending private schools. This relationship, however, assumes that the lower cost of private schools would be available to all public school students. Because of the Scholarship's eligibility requirements, only a certain subset of public school students (see [G.S. 115C-112.5.\(2\)](#) for a complete list of eligibility requirements) will be able to take advantage of the Scholarships.

As a result of the eligibility requirements, it is necessary to discount the expected increase in private school enrollment. Consider the above example, where elasticity is still 0.50, but now only 50% of public school children are eligible for the tax credit. Under this situation, a 10% decrease in the cost of private education would be associated with a 2.5% increase in the number of children attending private schools. The new equation is as follows:

$$\begin{aligned} \text{\% increase in private school enrollment} &= \text{\% change in private school costs} \\ &\text{times elasticity} \\ &\text{times \% of children eligible for the scholarship} \end{aligned}$$

According to data from the Department of Public Instruction (DPI), approximately 12% of public school students would be eligible to apply for Scholarships. As such, the elasticity is discounted by 12% when estimating increases in private school enrollment.

7. Private School Demand for Scholarships

Data provided by the SEAA indicates that approximately 54% of applications for FY 2015-16 from students entering first grade had not previously been enrolled in a public school. Assuming the same percentage would apply to kindergarten applications implies that approximately 60 of this year's applicants would have likely attended a nonpublic school in the absence of the Scholarship program.

8. Turnover Rate for Scholarship Students

This analysis requires examining how cohorts of each type of scholarship student advance through school from year-to-year. As a result, one must estimate how many scholarship students will continue receiving their scholarship in subsequent years, and how many will choose not to participate in the Scholarship program again.

We do not yet have complete data to determine the actual program turnover rate. However, it appears that retention might be close to 95%. As a result, this analysis assumes a turnover rate of 5%.

9. *Cost of Individualized Education Plan (IEP) Reevaluations*

The Program requires the Authority to ensure that each scholarship student is reevaluated at least every three years by a local educational agency (LEA) in order to verify that the student continues to be a child with a disability. Each reevaluation costs approximately \$1,500. The amount required for reevaluations is transferred from the Authority to DPI each year for distribution to the LEAs.

The annual figure varies under each scenario, as it is dependent upon the number of new scholarships issued in a given year. Based on actual data provided by the Authority, all scenarios assume that 286 new scholarships were issued in FY 13-14 and 362 new scholarships issued in FY 14-15. Per information provided by the Authority, this analysis assumes that one third of each cohort would require a reevaluation in each fiscal year.

**Estimated Program Fiscal Impact**

***State Impact – Scholarships & Changes in Public School Expenditures***

Applying all of the above estimated variables allows us to produce an estimate of potential annualized costs/savings to State and local governments for both the Existing Program Estimate scenario as well as the Proposed Estimate scenario. The difference between the two scenarios provides the ultimate fiscal impact of this bill.

In addition to looking at two scenarios, each scenario must examine the impact of two different types of students:

1. Public school awardees: students who are incentivized by the Scholarship program to transfer from a public school to a private school (demand estimated based on elasticity calculations); and
2. Private school awardees: students who would have attended a nonpublic school in the absence of the Scholarship program.

For each public school awardee, there is an associated State expenditure of \$7,700. Of this amount, \$7,200 is associated with the Scholarship, and \$500 is associated with a re-evaluation costs (approximately 1/3 of students require a \$1,500 re-evaluation each year). On the other hand, there is a decrease in State expenditures when these students are no longer counted towards public school average daily membership (ADM) in subsequent school years.<sup>5</sup> State expenditures decrease by an amount equal to the statewide average per pupil allocation for ADM and 55% of the amount associated with the per pupil allocation for children with disabilities.<sup>6</sup>

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<sup>5</sup> A school district's ADM provides the basis for State funding. It is decreased in the year after a student initially receives his or her Scholarship.

<sup>6</sup> Approximately 45% of school districts are above the children with disabilities funding cap. As a result, their children with disabilities allotment does not decrease when an individual student with a disability leaves that district.

In contrast, the State loses money for each private school awardee. Each student who would have attended a nonpublic school in the absence of the Scholarship program costs the State the average scholarship award of \$7,200 per student.

As shown in the tables below, the changes proposed by this bill are likely to have a slightly negative fiscal impact for the State.

### ***LEA Impact***

Local education agencies (LEAs) experience a decrease in local expenditure *requirements* related to each student who is incentivized by the Scholarship program to transfer from a public school to a private school. There is no LEA fiscal impact related to those students who would have attended a private school in the absence of the Scholarship program.

It is important to note that LEAs will not necessarily decrease expenditures or provide tax relief to citizens as enrollments decrease in their public schools. The amounts shown as “Potential Change in LEA Expenditures” indicate the amount by which LEAs could *potentially* decrease their local expenditures, and still provide the same per student local support for public schools as currently provided.

### ***Fiscal Impact Summary***

The tables below summarize the total fiscal impact of the Program, utilizing the data described above. The final table compares the Existing Program Estimate to the Proposed Estimate to derive the ultimate estimate of the fiscal impact of the proposed changes to the Program.

**Estimated Fiscal Impact - Special Education Scholarship Grants**  
**Existing Program Estimate**

	2015-16	2016-17	2017-18	2018-19	2019-20
Appropriation	\$4,591,000	\$4,591,000	\$4,591,000	\$4,591,000	\$4,591,000
Admin Costs	(\$183,640)	(\$183,640)	(\$183,640)	(\$183,640)	(\$183,640)
IEP Reevaluations (prior cohorts)	(\$818,500)	(\$823,000)	(\$782,500)	(\$756,500)	(\$718,500)
Carried Over from Prior Year	\$1,610,250	\$3,110	\$1,370	\$7,190	\$4,782
Available for Existing Scholarships	\$5,199,110	\$3,587,470	\$3,626,230	\$3,658,050	\$3,693,642
Cost of Existing Scholarships	\$4,456,800	\$4,890,600	\$3,406,320	\$3,424,788	\$3,456,355
Existing Private School Awardees	0	6	6	7	10
Existing Public School Awardees	619	491	467	468	470
Available Dollars for New Scholarships	\$742,310	\$9,070	\$222,790	\$235,782	\$239,087
Cost of Pvt Education	\$9,732	\$9,819	\$9,944	\$10,089	\$10,207
Maximum Scholarship Amount	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Average Scholarship Granted	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
Tuition Discount	82%	81%	80%	79%	78%
Elasticity of Demand	0.12	0.12	0.12	0.12	0.12
Percent of Public School Students Eligible	12%	12%	12%	12%	12%
% Change in Pvt. School Demand	1.18%	1.17%	1.16%	1.14%	1.13%
Expected Pvt. School Population (absent this bill)	97,745	98,234	98,725	99,219	99,715
Private K-1 Students	16,058	16,138	16,219	16,300	16,381
Private School Demand for New Scholarships	60	60	61	61	61
Public School Demand for New Scholarships	534	662	677	665	655
Total Demand for New Scholarships	594	722	738	726	716
Value of New Scholarships Demanded	\$5,167,800	\$6,277,686	\$6,418,487	\$6,315,868	\$6,232,966
New Scholarships Granted	96	1	28	30	31
% of New Scholarships to Pvt School Students	10%	8%	8%	8%	9%
New Private School Awardees	10	0	2	3	3
New Public School Awardees	86	1	26	27	28
IEP Reevaluations (new scholarships)	(\$48,000)	(\$500)	(\$14,000)	(\$15,000)	(\$15,500)
Total IEP Reevaluation Transfer	(\$866,500)	(\$823,500)	(\$796,500)	(\$771,500)	(\$734,000)
Statewide Avg. Per Pupil Allocation for ADM	\$4,982	\$5,032	\$5,083	\$5,133	\$5,185
Per Pupil Allocation for CWD	\$3,966	\$4,006	\$4,046	\$4,086	\$4,127
Change in Public School Expenditures	(\$4,434,462)	(\$5,101,064)	(\$3,595,491)	(\$3,638,827)	(\$3,690,124)
<b>Net Change State General Fund Expenditures</b>	<b>\$156,538</b>	<b>(\$510,064)</b>	<b>\$995,509</b>	<b>\$952,173</b>	<b>\$900,876</b>
LEA Exp. Per Eligible Student	\$2,137	\$2,158	\$2,180	\$2,202	\$2,224
<b>Potential Change in LEA Expenditures</b>	<b>(\$1,267,020)</b>	<b>(\$1,457,483)</b>	<b>(\$1,027,308)</b>	<b>(\$1,039,690)</b>	<b>(\$1,054,347)</b>

<b>Private School Turnover</b>	<b>5%</b>
<b>Public School Turnover</b>	<b>5%</b>

## Estimated Fiscal Impact - Special Education Scholarship Grants Proposed Estimate

	2015-16	2016-17	2017-18	2018-19	2019-20
Appropriation	\$7,391,000	\$7,391,000	\$7,391,000	\$7,391,000	\$7,391,000
Admin Costs	(\$295,640)	(\$295,640)	(\$295,640)	(\$295,640)	(\$295,640)
IEP Reevaluations (prior cohorts)	(\$818,500)	(\$989,000)	(\$940,500)	(\$915,000)	(\$869,000)
Carried Over from Prior Year	\$1,610,250	\$3,810	\$4,070	\$6,930	\$5,720
Available for Existing Scholarships	\$7,887,110	\$6,110,170	\$6,158,930	\$6,187,290	\$6,232,080
Cost of Existing Scholarships	\$4,456,800	\$7,277,760	\$5,800,320	\$5,822,550	\$5,850,167
Existing Private School Awardees	0	35	33	37	42
Existing Public School Awardees	619	812	772	771	770
Available Dollars for New Scholarships	\$3,430,310	\$11,770	\$361,130	\$367,620	\$385,154
Cost of Pvt Education	\$9,732	\$9,819	\$9,944	\$10,089	\$10,207
Maximum Scholarship Amount	\$8,000	\$8,000	\$8,000	\$8,000	\$8,000
Average Scholarship Granted	\$7,200	\$7,200	\$7,200	\$7,200	\$7,200
Tuition Discount	82%	81%	80%	79%	78%
Elasticity of Demand	0.12	0.12	0.12	0.12	0.12
Percent of Public School Students Eligible	12%	12%	12%	12%	12%
% Change in Pvt. School Demand	1.18%	1.17%	1.16%	1.14%	1.13%
Expected Pvt. School Population (absent this bill)	97,745	98,234	98,725	99,219	99,715
Private K-1 Students	16,058	16,138	16,219	16,300	16,381
Private School Demand for New Scholarships	60	60	61	61	61
Public School Demand for New Scholarships	534	341	372	362	355
Total Demand for New Scholarships	594	401	433	423	416
Value of New Scholarships Demanded	\$5,167,800	\$3,484,986	\$3,764,987	\$3,679,768	\$3,622,966
New Scholarships Granted	445	1	46	47	50
% of New Scholarships to Pvt School Students	10%	15%	14%	14%	15%
New Private School Awardees	45	0	6	7	7
New Public School Awardees	400	1	40	40	43
IEP Reevaluations (new scholarships)	(\$222,500)	(\$500)	(\$23,000)	(\$23,500)	(\$25,000)
Total IEP Reevaluation Transfer	(\$1,041,000)	(\$989,500)	(\$963,500)	(\$938,500)	(\$894,000)
Statewide Avg. Per Pupil Allocation for ADM	\$4,982	\$5,032	\$5,083	\$5,133	\$5,185
Per Pupil Allocation for CWD	\$3,966	\$4,006	\$4,046	\$4,086	\$4,127
Change in Public School Expenditures	(\$4,434,462)	(\$7,373,028)	(\$5,941,329)	(\$5,993,362)	(\$6,045,840)
<b>Net Change State General Fund Expenditures</b>	<b>\$2,956,538</b>	<b>\$17,972</b>	<b>\$1,449,671</b>	<b>\$1,397,638</b>	<b>\$1,345,160</b>
LEA Exp. Per Eligible Student	\$2,127	\$2,148	\$2,170	\$2,191	\$2,213
<b>Potential Change in LEA Expenditures</b>	<b>(\$1,260,972)</b>	<b>(\$2,096,576)</b>	<b>(\$1,689,461)</b>	<b>(\$1,704,257)</b>	<b>(\$1,719,180)</b>
<b>Private School Turnover</b>	<b>5%</b>				
<b>Public School Turnover</b>	<b>5%</b>				

## Estimated Fiscal Impact - Special Education Scholarships Increase Appropriation by \$2.8 million

	2015-16	2016-17	2017-18	2018-19	2019-20
General Fund Revenue - Budget Estimate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
General Fund Revenue - Proposed Estimate	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Net Impact - General Fund Revenues</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
State Expenditures - Budget Estimate	\$0.16	(\$0.51)	\$1.00	\$0.95	\$0.90
State Expenditures - Proposed Estimate	\$2.96	\$0.02	\$1.45	\$1.40	\$1.35
<b>Net Impact - State Expenditures</b>	<b>\$2.80</b>	<b>\$0.53</b>	<b>\$0.45</b>	<b>\$0.45</b>	<b>\$0.44</b>
<b>Net Fiscal Impact on State</b>	<b>(\$2.80)</b>	<b>(\$0.53)</b>	<b>(\$0.45)</b>	<b>(\$0.45)</b>	<b>(\$0.44)</b>
LEA Expenditures - Budget Estimate	(\$1.27)	(\$1.46)	(\$1.03)	(\$1.04)	(\$1.05)
LEA Expenditures - Proposed Estimate	(\$1.26)	(\$2.10)	(\$1.69)	(\$1.70)	(\$1.72)
<b>Net Fiscal Impact on LEA</b>	<b>(\$0.01)</b>	<b>\$0.64</b>	<b>\$0.66</b>	<b>\$0.66</b>	<b>\$0.66</b>

**SOURCES OF DATA:**

- Moody’s Analytics *Economy.com* inflationary rate estimates for salaries & wages
- North Carolina Department of Public Instruction (DPI)
- National Center for Education Statistics, Digest of Education Statistics: Advance Release of Selected 2013 Tables.
- Wang, Masoudie, and Gunnlaugsson, “Annual Cost of Living Index Applied to South Carolina Sub-State Areas,” South Carolina Department of Commerce – Division of Research, p. 3, January 2009
- North Carolina Division of Non-Public Education
- North Carolina State Education Assistance Authority (SEAA)

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**DATE:** September 29, 2015



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