



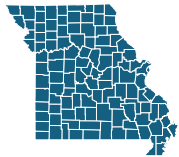
Fixing the MOScholars Program

The Policy



Empowerment scholarship accounts (ESAs) allow families to use their state education dollars to tailor their children's education, either by paying for private school tuition or by covering educational costs associated with homeschooling or microschoools.

The Facts



The existing MOScholars program is limited to qualifying children in just 10 of the over 1,000 cities and 5 of the 114 counties in the state.



The existing MOScholars program requires scholarship-granting organizations to raise the scholarship dollars by soliciting tax-credit-eligible donations.



The MOScholars program doesn't give low-income students and students with disabilities the additional funding they otherwise qualify for under the foundation formula.



The state's current formula for determining the amount of state funds a district receives sends \$175M to \$200M per year to districts for students that are no longer attending school. This money could publicly fund at least 25,000 ESAs.

Good ESA Policy Checklist



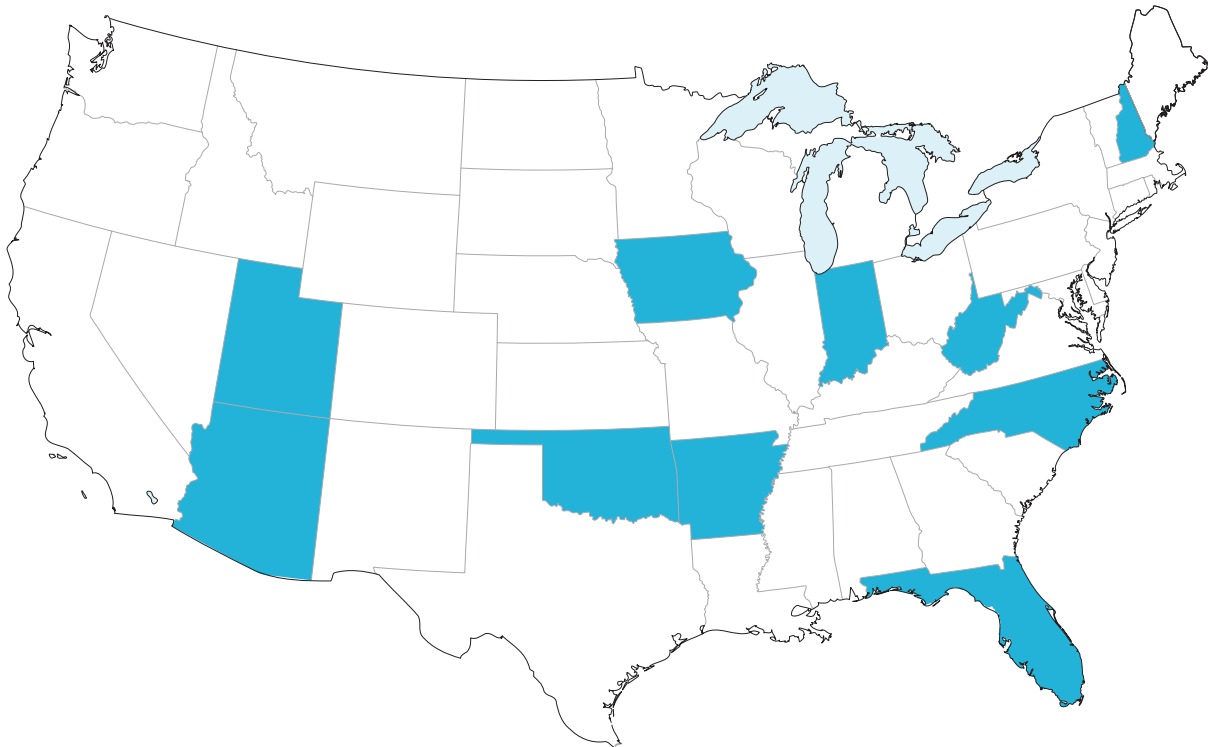
No geographical restrictions

Higher scholarship amounts for low-income students and students with disabilities

Higher income eligibility—from the current 200% of the federal poverty line to 300%

Public funding for at least the first \$25 million in scholarships

Within the last two years, ten states—Arizona, Arkansas, Florida, Indiana, Iowa, New Hampshire, North Carolina, Oklahoma, Utah, and West Virginia—have passed laws to give all parents access to their state dollars for school choice.



Talk to a Policy Expert

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ESA Scholarships Model Policy

Simple revisions to existing law could increase the funding for, and expand the availability of, the MOScholars program.

166.700. Definitions. — As used in sections [166.700 to 166.720](#), the following terms mean:

(1) "**Curriculum**", a complete course of study for a particular content area or grade level, including any supplemental materials;

(2) "**District**", the same meaning as used in section [160.011](#);

(3) "**Educational assistance organization**", the same meaning as used in section [135.712](#);

(4) "**Parent**", the same meaning as used in section [135.712](#);

(5) "**Private school**", a school that is not a part of the public school system of the state of Missouri and that charges tuition for the rendering of elementary or secondary educational services;

(6) "**Program**", the same meaning as used in section [135.712](#);

(7) "**Qualified school**", a home school as defined in section [167.031](#) or any of the following entities that is incorporated in Missouri and that does not discriminate on the basis of race, color, or national origin:

(a) A charter school as defined in section [160.400](#);

(b) A private school;

(c) A public school as defined in section [160.011](#); or

(d) A public or private virtual school;

(8) "**Qualified student**", any elementary or secondary school student who is a resident of this state ~~and resides in any county with a charter form of government or any city with at least thirty thousand inhabitants~~ who:

(a) Has an approved "individualized education plan" (IEP) developed under the federal Individuals with Disabilities Education Act (IDEA), 20 U.S.C. Section 1400, et seq., as amended; or

ESA Scholarships Model Policy

(b) Is a member of a household whose total annual income does not exceed an amount equal to ~~two~~ three hundred percent of the income standard used to qualify for free and reduced price lunches, and meets at least one of the following qualifications:

a. Attended a public school as a full-time student for at least one semester during the previous twelve months; or

b. Is a child who is eligible to begin kindergarten or first grade under sections [160.051 to 160.055](#).

166.705. Missouri empowerment scholarship account, written agreement, contents — renewal — withdrawal from program, effect of — moneys tax exempt to parents. — 1. A parent of a qualified student may establish a Missouri empowerment scholarship account for the student by entering into a written agreement with an educational assistance organization. The agreement shall provide that:

(1) The qualified student shall enroll in a qualified school and receive an education in at least the subjects of English language arts, mathematics, social studies, and science;

(2) Except for a qualified student who is in the custody of the state, the qualified student shall not be enrolled in a public school operated by, or a charter school located within, the qualified student's district of residence and shall release the district of residence from all obligations to educate the qualified student while the qualified student is enrolled in the program. This subdivision shall not be construed to relieve the student's district of residence from the obligation to conduct an evaluation for disabilities;

(3) The qualified student shall receive a grant, in the form of moneys deposited in accordance with section [135.714](#), in the qualified student's Missouri empowerment scholarship account equal to the current year student adequacy target (SAT) multiplied by any applicable foundation formula weights for low-income students, students with disabilities, or English-language learners;

(4) The moneys deposited in the qualified student's Missouri empowerment scholarship account shall be used only for the following expenses of the qualified student:

(a) Tuition or fees at a qualified school;

(b) Textbooks required by a qualified school;

(c) Educational therapies or services from a licensed or accredited practitioner or provider including, but not limited to, licensed or accredited paraprofessionals or educational aides;

(d) Tutoring services;

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(e) Curriculum;

(f) Tuition or fees for a private virtual school;

(g) Fees for a nationally standardized norm-referenced achievement test, advanced placement examinations, international baccalaureate examinations, or any examinations related to college or university admission;

(h) Fees for management of the Missouri empowerment scholarship account by firms selected by the educational assistance organization;

(i) Services provided by a public school including, but not limited to, individual classes and extracurricular programs;

(j) Computer hardware or other technological devices that are used to help meet the qualified student's educational needs and that are approved by an educational assistance organization;

(k) Fees for summer education programs and specialized after-school education programs;

(l) Transportation costs for mileage to and from a qualified school; and

(5) Moneys deposited in the qualified student's Missouri empowerment scholarship account shall not be used for the following:

(a) Consumable educational supplies including, but not limited to, paper, pens, pencils, or markers;

(b) Tuition at a private school located outside of the state of Missouri; and

(c) Payments or reimbursements to any person related within the third degree of consanguinity or affinity to a qualified student.

2. Missouri empowerment scholarship accounts are renewable on an annual basis upon request of the parent of a qualified student. Notwithstanding any changes to the qualified student's multidisciplinary evaluation team plan, a student who has previously qualified for a Missouri empowerment scholarship account shall remain eligible to apply for renewal until the student completes high school and submits scores to the state treasurer from a nationally standardized norm-referenced achievement test, advanced placement examination, international baccalaureate examination, or any examination related to college or university admission purchased with Missouri empowerment scholarship account funds.

3. A signed agreement under this section shall satisfy the compulsory school attendance requirements of section [167.031](#).

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4. A qualified school or a provider of services purchased under this section shall not share, refund, or rebate any Missouri empowerment scholarship account moneys with the parent or qualified student in any manner.

5. If a qualified student withdraws from the program by enrolling in a school other than a qualified school or is disqualified from the program under the provisions of section [166.710](#), the qualified student's Missouri empowerment scholarship account shall be closed and any remaining funds shall be returned to the educational assistance organization for redistribution to other qualified students. Under such circumstances, the obligation to provide an education for such student shall transfer back to the student's district of residence.

6. Any funds remaining in a qualified student's Missouri empowerment scholarship account at the end of a school year shall remain in the account and shall not be returned to the educational assistance organization. Any funds remaining in a qualified student's Missouri empowerment scholarship account upon graduation from a qualified school shall be returned to the educational assistance organization for redistribution to other qualified students.

7. Moneys received under sections [166.700 to 166.720](#) shall not constitute Missouri taxable income to the parent of the qualified student.

166.710. Annual audits of accounts — disqualification from program, when — referral for misuse of money — rulemaking authority. — 1. Beginning in the 2023–24 school year and continuing thereafter, the state treasurer shall conduct or contract for annual audits, and may conduct or contract for random and quarterly audits as needed, of Missouri empowerment scholarship accounts to ensure compliance with the requirements of subsection 1 of section [166.705](#).

2. A parent, qualified student, or vendor may be disqualified from program participation if the state treasurer, or the state treasurer's designee, finds the party has committed an intentional program violation consisting of any misrepresentation or other act that materially violates any law or rule governing the program. The state treasurer may remove any parent or qualified student from eligibility for a Missouri empowerment scholarship account. A parent may appeal the state treasurer's decision to the administrative hearing commission. A parent may appeal the administrative hearing commission's decision to the circuit court of the county in which the student resides.

3. The state treasurer may refer cases of substantial misuse of moneys to the attorney general for investigation if the state treasurer obtains evidence of fraudulent use of an account.

4. The state treasurer shall promulgate rules containing the following to implement and administer the program:

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- (1) Procedures for conducting examinations of use of account funds;
- (2) Procedures for conducting random, quarterly, and annual reviews of accounts;
- (3) Creation of an online anonymous fraud reporting service;
- (4) Creation of an anonymous telephone hotline for fraud reporting; and
- (5) A surety bond requirement for educational assistance organizations.

5. Any rule or portion of a rule, as that term is defined in section [536.010](#), that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of [chapter 536](#) and, if applicable, section [536.028](#). This section and [chapter 536](#) are nonseverable and if any of the powers vested with the general assembly pursuant to [chapter 536](#) to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2021, shall be invalid and void.

166.715. Misuse of moneys, penalty — financial institutions immunity from liability, when.

— 1. A person commits a class A misdemeanor if the person is found to have knowingly used moneys granted under section [135.714](#) for purposes other than those provided for in sections [166.700 to 166.720](#).

2. No financial institution shall be liable in any civil action for providing a scholarship account's financial information to the state treasurer unless the information provided is false and the financial institution providing the false information does so knowingly and with malice.

166.720. Government control or supervision over qualified schools prohibited, when — qualified schools not agents of state — transfer of student, effect of. — 1. Sections [166.700 to 166.720](#) shall not be construed to permit any governmental agency to exercise control or supervision over any qualified school in which a qualified student enrolls other than a qualified school that is a public school.

2. A qualified school, other than a qualified school that is a public school, that accepts a payment from a parent under sections [166.700 to 166.720](#) shall not be considered an agent of the state or federal government due to its acceptance of the payment.

3. A qualified school shall not be required to alter its creed, practices, admissions policy, or curriculum in order to accept students whose parents pay tuition or fees from a Missouri empowerment scholarship account to participate as a qualified school.

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*4. (1) Any qualified student receiving a Missouri empowerment scholarship who leaves a public school or charter school, as such terms are defined in [chapter 160](#), in the qualified student's resident school district to enroll in a qualified school that is not the qualified student's resident school district shall continue to be counted in the resident public school or charter school's weighted average daily attendance as a resident student for the purposes of determining state and federal aid for the qualified student's resident school district or charter school.

(2) The qualified student will continue to be counted for such purpose as provided:

(a) For ~~five~~ two years after the qualified student no longer attends school in the qualified student's resident school district;

(b) Until any calendar year that the qualified student no longer receives grant money in their scholarship account;

(c) Until the qualified student is counted in the weighted average daily attendance for a public school or charter that they are a resident student in; or

(d) Until the qualified student graduates.

(3) The educational assistance organization and the state treasurer shall provide the necessary information to the department of elementary and secondary education to allow the federal and state aid to continue to the public school or charter school in the qualified student's resident school district previously attended by the qualified student.

(4) The provisions of this subsection shall terminate five years after August 28, 2021.

5. In any legal proceeding challenging the application of sections [166.700 to 166.720](#) to a qualified school, the state shall bear the burden of establishing that the law is necessary and does not impose any undue burden on qualified schools.

6. The provisions of section [23.253](#) of the Missouri sunset act shall not apply to sections [166.700 to 166.720](#).



POLICY B R I E F

NOVEMBER 2023



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IMPROVING THE MOSCHOLARS PROGRAM

By Susan Pendergrass

KEY TAKEAWAYS

- Because the MOScholars scholarship program has no public funding, it has yet to reach even 2,000 recipients. In 2022, only \$3.1 million in donations was received—not even close to the \$25 million limit.
- Shortcomings in the Missouri Foundation Funding formula resulted in \$175 million in state funds being directed to districts for students who were not enrolled there. A portion of these funds could be used to publicly fund the first \$25 million in MOScholars scholarships.
- If the program has a steady funding stream, eligibility should be expanded to all districts in the state, not just those in communities of 30,000 or more residents.
- A further expansion of the program should raise the income eligibility limit from 200 percent of the federal poverty line to 300 percent.
- In addition to the base Student Adequacy Target (SAT) amount received as a scholarship, low-income students and students with disabilities should receive the SAT weights that are used to calculate weighted average daily attendance (WADA) for the Foundation Funding formula.

ADVANCING LIBERTY WITH RESPONSIBILITY
BY PROMOTING MARKET SOLUTIONS
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BACKGROUND

In 2021, the Missouri Legislature passed House Bill 349 and Senate Bill 86. These bills established the Missouri educational scholarship program, MOScholars. The program gives dollar-for-dollar tax credits to individuals and businesses that donate to one of six approved scholarship granting organizations, also known as Educational Assistance Organizations (EAOs). These EAOs can then give scholarships to qualified students who apply for them. To qualify, a student must live in one of five counties with a charter form of government or 10 cities in the state that have at least 30,000 residents. Students must also live in a family with a household income that is no more than 185 percent of the federal poverty line (the same threshold to qualify for free or reduced-price lunch) or be identified as having a disability. If scholarship funds are still available after all applications from these groups have been filled, then the income eligibility threshold rises to 200 percent of the federal poverty line.

While it is good that some Missouri students can access this program, limitations built into the law make it unlikely to reach many families. The major limitation is requiring EAOs to raise money for the scholarship funds. Although EAOs were able to raise over \$9 million in the first year of the program—which is not even close to the \$25 million limit—last year they had raised only \$3 million by the start of the school year, putting the program at risk. For the program to be financially secure, reliable government funding is needed. As is evident from the past two years, private donations can't always be counted on. This is especially true during economic downturns, when the need for scholarship assistance is greatest.

One source of funds that would be appropriate for this program is the hold-harmless provision in the foundation formula that protects districts with declining enrollment. Missouri has the most generous enrollment-related revenue protections of any state in the nation. By allowing districts to use the highest average daily attendance of the prior three years, the state knowingly sends foundation-formula funds to districts for students who are not enrolled there. If Missouri had just changed

this policy to the highest average daily attendance of the prior two years, rather than three, there would have been \$30 million available last year to publicly fund MOScholars scholarships.

Alternatively, Missouri could revise the program so that the tax credits are issued directly to the parents rather than requiring the involvement of EAOs. In Oklahoma's program, passed this year, families can take a refundable tax credit of at least \$5,000 and up to \$7,500 to cover private school tuition.

A second limitation is the exclusion of Missouri families who live in small towns or rural areas. It's not that there aren't schools in these areas to receive scholarship students. In 2020, more than half (53 percent) of Missouri's private schools were in small towns or rural areas. These schools enrolled over 20,000 students. It's also unlikely that there is no demand for this program outside of our largest communities. Iowa passed a publicly funded universal school choice program this year, and by August it had awarded scholarships to students in 96 of its 99 counties—virtually everywhere in the state.

A third limitation of the existing MOScholars program is that the income limit is too restrictive. The free and reduced-price lunch threshold is a family income of just \$46,000 for a family of three. The maximum family income for the MOScholars program is just \$49,000 for a family of three. While it would clearly be difficult for a family below these income limits to afford private school, it would also be difficult for families making under \$60,000. Several states have raised the limits on their scholarship program to a more reasonable household income for most families. New Hampshire raised its from 300 percent of the poverty limit to 350 percent. Indiana raised its limit this year to 400 percent—making it essentially universal for all but the wealthiest families.

What Does This Mean for Missouri?

There are many ways that the MOScholars program could be improved.

- First, Missouri should make a public funding commitment to this program rather than leaving the fundraising of \$25 million to just six nonprofit organizations. This could be done by redirecting foundation-formula funds from students who don't exist to families that need the funds by limiting foundation average daily attendance to the higher of the prior two years. Minimally, the state could use this redirected money to fund the first \$25 million in scholarships with any additional funds raised adding to the total cost of the program.
- In the absence of a commitment to publicly fund the program, Missouri could shift the tax credit directly to parents.
- The geographic restrictions of the MOScholars program should be eliminated. There are students in small towns and rural areas who could benefit from this program in the same way that students from larger communities do.
- If public funding is provided, the program should be expanded to include Missouri families who aren't at the very bottom of the income distribution, but who would still struggle to pay private school tuition.

Susan Pendergrass is the director of education policy for the Show-Me Institute

CONCLUSION

Missouri is now practically surrounded by states that allow their families to choose their children's school, with state money following them. Iowa and Arkansas have passed publicly funded universal school choice programs that allow families to choose any public or private school. Oklahoma pays the first \$5,000 to \$7,500 in private school tuition for its families through refundable tax credits. Kansas greatly strengthened its public school choice program last year. Missouri's first attempt at giving families similar choices is too small and too weak. It's time to fix the shortcomings and make sure that the program can survive and grow.



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