

Fiscal Note

BILL # HB 2291

TITLE: empowerment scholarships accounts; expansion

SPONSOR: Lesko

STATUS: As Introduced

PREPARED BY: Steve Schimpp

Description

The bill would expand the definition of “qualifying student” under the Empowerment Scholarship Accounts (ESA) program to include a student who met any of the following criteria as long as they met other existing criteria for the program (such as being a prior public school student or an incoming kindergartner): 1) has a parent who is a police officer, firefighter, emergency medical technician or other specified emergency responder; 2) is a sibling of a current or previous ESA recipient; or 3) as of the 2016-17 school year (SY 2017), meets eligibility requirements for free or reduced price lunches under the National School Lunch and Child Nutrition Acts (the bill increases this income threshold 15% annually after SY 2017).

Estimated Impact

Starting in FY 2016, the bill is projected to increase state costs by approximately \$46,100 in FY 2016, \$3.5 million in FY 2017, \$7.6 million in FY 2018 and \$12.5 million in FY 2019 (the last year that program growth is capped) relative to current law.

The current program caps ESA enrollment growth at an additional 0.5% each year through FY 2019. This would equate to a marginal program cap of 5,900 students by FY 2019. Actual enrollment is currently considerably less than the cap. The JLBC Baseline assumes that 1,000 new students would enter the program in FY 2019 absent this bill.

The bill is expected to incentivize additional students, especially private school participants, to enroll in ESAs. Participation is projected to ramp up over a 3 year period of time, starting in FY 2017, so that the full cap is utilized by FY 2019. This increased usage of the existing cap results in the bill's fiscal impact.

To the extent that ESAs would facilitate existing private school students to remain in their current setting rather than transfer to the public school system, the bill would result in foregone state costs. The magnitude of that impact cannot be predicted in advance.

Under current law, the enrollment cap expires after FY 2019. At that time, the bill could generate significantly higher costs as more of the current private school system could qualify for ESAs.

Analysis

Existing Participation and Current Cap

For the first 3 years of the existing program, the Arizona Department of Education (ADE) reports ESA enrollments of 144 students (FY 2012), 302 students (FY 2013) and 692 (to date) in FY 2014. New program participation in FY 2014 therefore is substantially below the current 5,500 pupil cap (*see Table 1*). The JLBC Baseline assumes that 1,000 new students would enter the program in FY 2019 absent this bill.

Eligibility Criteria

An estimated 150,000 public school pupils currently are eligible for ESAs, which primarily includes pupils with disabilities and pupils from “D” or “F” schools (*see Table 2*). In FY 2016, the bill would expand ESA eligibility to children of emergency responders and siblings of current ESA recipients. These FY 2016 changes are expected to have a minimal fiscal impact given the limited size of the affected populations.

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Starting in FY 2017, the bill would expand ESA eligibility to pupils eligible for “free or reduced price lunches” (FRPL) under the federal school lunch program. This would increase the number of ESA-eligible public school pupils (apart from the previously-described cap) in FY 2017 by roughly 485,700 (1,096,000 public school pupils [from Table 1] X 58% currently FRPL eligible [ADE data] = 635,700 FRPL-eligible public school pupils; 635,700 - 150,000 already eligible for ESAs = 485,700 more pupils eligible for ESAs). This number would increase annually after FY 2017, as the bill would raise the household income eligibility threshold for ESAs by 15% each year after FY 2017 (*see Table 3*).

Fiscal Year	Prior Year Enrollment ^{1/}	Assumed Growth Rate	Current Year Enrollment ^{1/}	New ESA Cap (0.5%)	Cumulative Cap
2014	1,096,750	1.0%	1,107,718	5,539	5,539
2015	1,107,718	1.1%	1,119,902	5,600	11,138
2016	1,119,902	1.2%	1,133,341	5,667	16,805
2017	1,133,341	1.3%	1,148,075	5,740	22,545
2018	1,148,075	1.4%	1,164,148	5,821	28,366
2019	1,164,148	1.5%	1,181,610	5,908	34,274

^{1/} Grand total student enrollment (not ADM) in public schools (not ESAs).

Fiscal Year	General Criteria (must meet any of following)	Additional Criteria (plus at least one of the following)
FY 2014 (current law)	<ol style="list-style-type: none"> 1. Disabled 2. Attended (or if incoming Kindergartner, in boundary of) “D” or “F” school 3. Previous ESA or disabled scholarship recipient 4. Active duty military dependent 5. Ward of juvenile court 	<ol style="list-style-type: none"> 1. Attended governmental primary or secondary school as full time student in prior year 2. Previous ESA recipient 3. Received or previously eligible for corporate displaced/disabled STO scholarships
FY 2015 (current law)	Any of the above	Any of the above, plus 4. Eligible to attend kindergarten
FY 2016 (HB 2291)	Any of the above, plus 6. Parent is an emergency responder 7. Sibling is or was an ESA recipient	Any of the above
FY 2017 – FY 2019 (HB 2291)	Any of the above, plus 8. Family income exceeds “free or reduced lunch” threshold by no more than 15% (threshold grows 15% annually after FY 2017)	Any of the above

* Growth is capped at 5,500 – 5,900 new pupils annually through FY 2019; no cap thereafter.

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Table 3
Household Income Eligibility Thresholds
By Year
(Family of 4)

<u>Fiscal Year</u>	<u>Threshold</u>
FY 2017 ^{1/}	\$46,353
FY 2018	\$53,294
FY 2019	\$61,289
FY 2020 and beyond	15% higher than prior year threshold

^{1/} Increases current (FY 2014) threshold by change observed for 3 year period from FY 2011 to FY 2014.

Per Pupil ESA Costs

A.R.S. § 15-2402C funds a student’s ESA at 90% of the sum of the Base Support Level (BSL) funding that they would have received at their former public school and Additional Assistance (AA) funding that they would have received if they had attended a charter school. (All ESA students receive AA funding at the charter school rate, which is substantially higher than the traditional public school AA rate.) Under this formula, ESA funding for newly-eligible non-disabled pupils under the bill would be approximately \$5,400 per year, on average. The state fiscal impact of ESAs for students made eligible by the bill will depend on where the child otherwise would have attended school. Based on formula modeling, the average state fiscal impact of moving to an ESA would be as follows: a cost of \$602 for each former traditional public school pupil, a saving of \$(642) for each former charter pupil and a cost of \$5,158 for each kindergartner who would have attended private school even without an ESA (see Table 4).

Table 4

Estimated State Fiscal Impact Per Pupil ^{1/}

<u>Student Placement Without ESA</u>	<u>Prior Average State Funding</u>	<u>ESA Average</u>	<u>ESA Above/(Below) Alt Setting</u>
Traditional District School	\$4,741	\$5,343	\$602
Charter School	\$6,218	\$5,576	\$(642)
Private School (kindergarten only)	\$0	\$5,158	\$5,158

^{1/} Non-disabled pupils only (disabled pupils already eligible for ESAs).

Emergency Responder Children & ESA Siblings (FY 2016)

The bill would make emergency responder children and siblings of current or previous ESA recipients eligible for ESAs starting in FY 2016. This analysis assumes that these aspects of the bill would increase ESA enrollment in FY 2016 by 1% of the additional enrollment projected for other private and public school pupils for FY 2019 above FY 2018, or about 49 students. Assuming that the proportion of these students coming from charter, traditional district, and private schools (kindergartners) in FY 2019 would be 9%, 80% and 11%, respectively, as is assumed in this analysis, and assuming the per pupil differences shown in Table 4, the state fiscal impact for FY 2016 would be \$46,100 (see Table 5).

Newly-Eligible Private School Pupils (FY 2017)

Prior to FY 2015, a student effectively had to attend a public school in the prior year in order to be eligible for an ESA. As a result, their ESA funding typically did not represent a new state cost, since the student would have received public school funding apart from the program. Starting in FY 2015, however, existing law makes kindergartners who meet other program criteria (such as living within the boundaries of a “D” or “F” school) also eligible for ESAs. As a result, a student who would have enrolled in a private school for kindergarten in any circumstance and who is disabled, lives within the boundaries of a “D” or “F” school, is an active duty military dependent or is a ward of juvenile court (see Table 2) is now eligible for an ESA under current law.

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The state incurs a cost estimated at \$5,158 for these private school pupils (*see Table 4*), since they otherwise would not receive any school-related state funding. That cost for a pupil who is disabled, lives within the boundaries of a “D” or “F” school, is an active duty military dependent or is a ward of juvenile court would not be attributed to this bill because those pupils already are eligible for ESAs under current law. An incoming private school kindergartner who would become newly eligible for an ESA under the bill starting in FY 2017 because they are FRPL-eligible, however, would represent a new state cost, since such students are not currently eligible for ESAs.

The opportunity for incoming FRPL-eligible private school kindergartners to receive a \$5,158 ESA grant starting in FY 2017 under the bill creates a strong incentive for parents of FRPL-eligible children who would attend private school under any circumstance to apply for ESAs starting in FY 2017, since that grant would reduce or eliminate their existing out of pocket costs for private school tuition. Currently 58% of public school students are FRPL eligible according to ADE data. This analysis assumes that 33.3% of private school kindergartners would be FRPL eligible based on U.S. Census data on household income levels for private school pupils. This implies that approximately 1,076 private school kindergartners would become newly eligible for ESAs under the bill (43,100 reported private school pupils statewide X 7.5% assumed to be kindergartners X 33.3% assumed FRPL eligible = 1,076 new ESA eligible private school kindergartners per year).

This analysis assumes that 50% of FRPL eligible private school kindergartners would receive ESAs under the bill starting in FY 2017. A relatively high participation rate is assumed because of the incentive for private school parents to reduce or eliminate their out of pocket private school tuition costs under the bill. This analysis assumes that the remaining 50% of eligible private school kindergartners would not apply due to a lack of awareness of the program, missed application deadlines, limited cap capacity (through FY 2019), or other logistical constraints. Under these assumptions, 538 new private school kindergartners would receive ESA funding each year starting in FY 2017 (1,076 new ESA eligible private school kindergartners each year X 50% = 538 new private school ESAs). This would increase state costs by approximately \$2.8 million annually starting in FY 2017 (538 new ESAs X \$5,200 average estimated ESA funding per pupil = \$2.8 million). By FY 2019 (the last uncapped ESA year), it would increase state costs by approximately \$8.4 million (\$2.8 million cost per new private school kindergarten cohort X 3 new cohorts by FY 2019 = \$8.4 million).

Newly-Eligible Public School Pupils (FY 2017)

The bill would make approximately 485,700 additional public school pupils eligible for ESAs starting in FY 2017 by expanding the program to FRPL eligible pupils, as noted above. The number of newly-eligible public school pupils who could receive ESAs through FY 2019, however, would be limited by the current cap on annual ESA annual growth (*see Table 1*). In addition, this analysis assumes that already-eligible students would take up 1,000 of new ESA “slots” each year under existing caps and that private school kindergartners would occupy an additional 538 new “slots” annually. This would leave only 4,370 additional “slots” available for FRPL eligible public school pupils (5,908 new “slots” available in FY 2019 [from Table 1] - 1,000 taken by existing eligibles - 538 taken by private school kindergartners = 4,370 net available new “slots”).

In addition, this analysis assumes that it would take 3 years for public school students to “ramp up” their ESA participation to capped levels due to a lower incentive for public school parents to apply (since they otherwise would not be paying private school tuition). It assumes, however, that by FY 2019 parents of roughly 1% of current public school students would chose over a 3 year period (from FY 2017 to FY 2019) to transfer their children to private schools under the bill. This includes parents who would be sending their pupils to private school currently if they could afford it or who have left private school because they could no longer afford it (particularly for private high schools). It also anticipates that announced marketing plans for the program will increase ESA participation by children of such parents.

Under these assumptions, the bill is projected to add 140 new ESA participants from charters and 1,259 from districts in FY 2017, plus an additional 285 from charters and 2,567 from districts in FY 2018 and 437 from charters and 3,933 from districts in FY 2019. This analysis assumes that charter pupils would account for 10% of these new “public school” ESA “slots” and that traditional school district pupils would account for 90%. This would equate to 867 former charter school pupils and 7,798 former traditional public school pupils receiving ESAs in FY 2019. The fiscal impact of these students in FY 2019 is estimated at \$(556,600) in savings from former charter students and a \$4.7 million cost from former traditional public school students.

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Summary

Under the assumptions described above, this analysis projects that the bill would increase state costs by \$46,100 in FY 2016, and cumulatively by \$3.5 M in FY 2017, \$7.6 M in FY 2018 and \$12.5 million in FY 2019 (see Table 5 below).

Table 5				
Summary				
<u>Student Type</u>	<u>New Students</u>	<u>New Cost</u>	<u>Cumulative Students</u>	<u>Cumulative Cost</u>
FY 2016				
Charter (-\$642)	5	(3,200)	5	(3,200)
District (+\$602)	39	23,500	39	23,500
Private Kindergartners (+\$5,158)	<u>5</u>	<u>25,800</u>	<u>5</u>	<u>25,800</u>
Total	49	46,100	49	46,100
FY 2017				
Charter (-\$642)	140	(80,800)	145	(93,000)
District (+\$602)	1,259	758,100	1,298	781,600
Private Kindergartners (+\$5,158)	<u>538</u>	<u>2,776,100</u>	<u>543</u>	<u>2,801,900</u>
Total	1,937	3,444,400	1,986	3,490,500
FY 2018				
Charter (-\$642)	285	(183,100)	430	(276,100)
District (+\$602)	2,567	1,545,400	3,865	2,327,000
Private Kindergartners (+\$5,158)	<u>538</u>	<u>2,776,100</u>	<u>1,081</u>	<u>5,578,000</u>
Total	3,391	4,138,400	5,377	7,628,900
FY 2019				
Charter (-\$642)	437	(280,500)	867	(556,600)
District (+\$602)	3,933	2,367,600	7,798	4,694,600
Private Kindergartners (+\$5,158)	<u>538</u>	<u>2,776,100</u>	<u>1,620</u>	<u>8,354,100</u>
Total	4,908	4,863,200	10,285	12,492,100

Local Government Impact

School districts would serve fewer students under the bill than they would under current law due to increased student participation in ESAs. This would reduce the amount of budget override taxes that school districts would be eligible to generate relative to current law, since that funding is based on a percentage of a school district's K-12 formula funding. It also potentially would reduce tax rates in non-state aid districts to the extent that those district served fewer students than under current law because of the bill, since those districts self-fund their own K-12 formula costs.