

Fiscal Note

BILL # HB 2482

TITLE: empowerment scholarships; expansion; phase-in

SPONSOR: Olson

STATUS: As Introduced

PREPARED BY: Matt Beienburg

Description

The bill would expand the definition of a qualified student under the Empowerment Scholarship Account (ESA) program to include all prior public school students in grades K-12 who instead opt for the ESA program. The bill would phase in the expansion over 3 years by including students in grades K-5 in FY 2017, students in grades K-8 in FY 2018, and students in grades K-12 beginning FY 2019.

Estimated Impact

Based on the estimated increases in ESA participation and the estimated fiscal impact of each student who opts into the ESA program, we estimate that the bill would increase state General Fund costs by \$1.5 million in FY 2018, by \$3.6 million in FY 2019, and by \$7.6 million in FY 2020.

These estimates assume no newly-eligible students would join the ESA program in FY 2017 because the ESA application period for that year will end before the legislation would take effect. However, SB 1280 would require the Arizona Department of Education (ADE) to accept ESA applications year-round. If that legislation is also enacted, we estimate that the bill would accelerate the state general fund costs to \$1.0 million in FY 2017, \$3.0 million in FY 2018, and \$5.2 million in FY 2019.

ADE does not have a fiscal impact estimate for this bill.

Analysis

Background – ESA Eligibility

The ESA program (A.R.S. § 15-2401) is currently open to Arizona resident students who meet at least one of the following requirements:

- A full-time Arizona public school student in the prior year.
- A prior ESA participant.
- A student who received or was eligible to receive a displaced or disabled School Tuition Organization (STO) scholarship and previously attended public school full time.
- An incoming kindergartner.
- A child who currently is eligible to enroll in a public school program for preschool children with disabilities.

The ESA participant also must meet at least one of a second set of conditions:

- A child with a disability.
- A child attending a failing school or school district.
- An incoming kindergartner who resides within the boundaries of a failing school or school district.
- A child with a military parent or guardian on active duty or who was killed in the line of duty.
- A child who is a ward of the juvenile court and is residing in prospective permanent placement foster care.
- A child who is a ward of the juvenile court and who achieved permanency through adoption.
- A child who is the sibling of a current or previous ESA recipient.
- A child who lives on an Indian reservation.

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The bill would add to the second set of conditions any child who previously attended a public school in Grades K-3 (for FY 2017), K-8 (for FY 2018) and K-12 (for FY 2019) and would exempt these students from the first set of conditions above.

Background – ESA Costs

Eligible students can use monies in an ESA to attend private school or fund other educational expenses, such as textbooks and tutoring. The ESA has a dollar value of approximately \$5,400 for a non-disabled student.

The program’s net cost or savings largely depends on the student placement in the absence of the ESA. Under current law, ESAs are funded at 90% of Basic State Aid per pupil costs. Charter schools receive more funding than traditional district schools under the Basic State Aid formula. ADE interprets statute as setting the starting point of the 90% at essentially the charter school level of reimbursement for all students. As a result, the non-disabled student ESAs would save \$(700) if the student were otherwise in a charter school. The ESA would cost \$700 more if the student were otherwise in a traditional district school. (See Table 1.)

If a non-disabled student would have otherwise attended a private school in any circumstance and receives an ESA, the state’s cost is approximately \$5,400.

	Estimated ESA (Savings) or Cost Per Pupil					
	Disabled Students ^{1/}			Non-Disabled Students		
	Former Charter	Former District	Other ^{2/}	Former Charter	Former District	Other ^{2/}
Cost/(Savings) Per Pupil	\$(2,700)	\$(1,400)	\$24,700	\$(700)	\$700	\$5,400

^{1/} Qualify for special education “Group B” funding pursuant to A.R.S. § 15-943.
^{2/} Includes ESA students who otherwise would not attend public schools, which could include some incoming kindergartners, disabled preschoolers and military dependents, since A.R.S. § 15-2401 does not require these students to attend public school prior to receiving an ESA.

Current and Newly-Eligible Students

ESA eligible populations total approximately 180,300 of the students attending Arizona district or charter schools in FY 2017. Of this amount, an estimated 118,300 represent special education students (108,900 district students + 9,400 charter students), while approximately 62,000 students are eligible through the other criteria (approximately 50,000 attending schools and districts rated a D or F letter grade + 7,000 residing on a reservation and attending non-D or F school districts + an estimated 5,000 from the remaining categories = 62,000). Assuming a roughly proportional number of charter and district students are eligible through the non-special education criteria, an estimated 52,700 are district students (62,000 X 85%) and 9,300 (62,000 X 15%) are charter students. The total number of ESA eligible district students is therefore estimated to be 161,600 (108,900 special education students + 52,700 other), and the total number of eligible charter students is 18,700 (9,400 special education students + 9,300 other).

In FY 2017, an estimated 929,700 students will attend district schools in Arizona, and 176,700 students will attend charter schools (totaling 1,106,400 students in public schools statewide).

Of these amounts, an estimated 768,100 district students would be newly eligible for ESAs under full K-12 expansion (929,700 district students total – 161,600 currently-eligible district students = 768,100), and 158,000 charter students would be newly eligible (176,700 charter students – 18,700 currently eligible = 158,000).

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Given the phased-in expansion of ESA eligibility under HB 2482, these students would incrementally become eligible over 3 years. *Table 2* below summarizes the estimated number of newly-eligible students each year under the bill based on the share of district and charter K-12 students in grades K-5, K-8, and K-12, respectively. In FY 2017, an estimated 435,900 students in grades K-5 (355,300 district students + 80,600 charter students) would become newly eligible under the bill. (As noted above, however, these students would be unable to participate in FY 2017 due to the current ESA application timeline). The cumulative number of newly-eligible students would rise to 658,200 in FY 2018, 952,300 in FY 2019, and 965,600 in FY 2020.

	<u>FY 2017 (K-5)^{3/}</u>	<u>FY 2018 (K - 8)</u>	<u>FY 2019 (K - 12)</u>	<u>FY 2020 (K-12)</u>
Districts	355,300	540,400	789,800	800,800
Charters	<u>80,600</u>	<u>117,800</u>	<u>162,500</u>	<u>164,800</u>
Total	435,900	658,200	952,300	965,600

^{1/} Based on share of district and charter Average Daily Membership (ADM) in each grade (from Superintendent’s Annual Report, 2014-2015 Vol. I): 46.3% of district ADM in grades K-5; 23.1% in grades 6-8, 30.6% in high school; 51.0% of charter ADM in grades K-5, 22.5% in grades 6-8, 26.5% in high school.

^{2/} Assumes 1.4% enrollment growth in FY 2018, FY 2019, and FY 2020.

^{3/} Students would be made eligible under the bill but unable to participate in FY 2017 due to ESA application timeline.

Estimated Participation

The cost of ESA expansion depends heavily upon the percentage of students whose parents would avail themselves of the expanded program. Under current law, we estimate that 3,019 students will participate in FY 2017, or approximately 1.7% of currently-eligible students.

Given the relative newness of the program, reported uncertainty among parents regarding eligibility, and continued growth in ESA participation, it is unclear that 1.7% represents a reliable, long-term estimate of the share of eligible students who would participate in the ESA program. The Nevada Education Savings Account (ESA) Program is the nation’s only analogous savings account program to offer near-universal eligibility, but is currently only in the enrollment stage of its first year and therefore cannot provide more useful indications of an average long-term participation rate.

The U.S. Department of Education’s evaluation of the D.C. Opportunity Scholarship Program (DCOSP)—a \$7,500 scholarship usable for tuition, fees, and transportation to private schools for low income students in Washington D.C. found that 5.7% of all traditional and charter students applied and 3.2% ultimately used a scholarship to transfer from their current school. Among traditional public school students, 16.4% applied for a scholarship, compared to only 1.8% among charter school students. It is unclear whether the participation rates observed for DCOSP would apply to Arizona, however, as it targets low-income students only.

Absent other reliable indicators of the likely long-term program participation rate, this analysis estimates the 3-year fiscal impact assuming the continuation of a 1.7% participation rate among eligible populations. It assumes that in the first 2 years, however, a smaller proportion of eligible students would participate due to more limited awareness of the program’s expansion. We assume, therefore, that 0.5% of newly-eligible students in year 1 (FY 2018) would participate, 1.0% of the cumulative newly-eligible students in year 2 (FY 2019) would participate, and 1.7% of the cumulative newly-eligible students in year 3 (FY 2020) would participate.

Based on these participation rates, an estimated 3,300 newly-eligible students would opt into the ESA program in FY 2018 (0.5% X 658,200 newly-eligible students as shown in *Table 2* = 3,300), and 6,200 additional students would join in FY 2019 ((1.0% X 952,300 cumulative newly-eligible students) – 3,300 who had already joined in FY 18 = 6,200).

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Through FY 2019, however, yearly marginal expansion of the ESA program is limited by Laws 2013, Chapter 250 to 0.5% of total Arizona public school enrollment. Consequently, no more than an estimated 5,600 and 5,700 new marginal ESA accounts may be opened in FY 2018 and FY 2019, respectively. Of these amounts, an estimated 1,000 would be filled by growth from currently-eligible students, leaving at most 4,600 and 4,700 potential new ESA accounts to arise in each of those years from the expanded eligibility pool. Since the estimated increase in ESA participants in FY 2018 falls below that year's cap, the ESA cap would affect only FY 2019 ESA growth, limiting it to 4,700 new students (5,700 cap – 1,000 filled by currently-eligible students = 4,700), compared to the estimated 6,200 that would otherwise join the program that year. (See *Table 3*).

Upon expiration of the enrollment growth cap, an estimated 8,400 additional students would participate in the program in FY 2020 ((1.7% X 965,600 cumulative newly-eligible students) – (3,300 + 4,700) = 8,400).

These annual marginal increases in ESA program participation due to the bill would thus be 3,300 in FY 2018, 4,700 in FY 2019, and 8,400 in FY 2020. These would translate to a cumulative rise in ESA participation due to the bill of 3,300 in FY 2018, 8,000 in FY 2019, and 16,400 in FY 2020.

Table 3			
Newly-Eligible Students Participating in ESA Program			
	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Cumulative Newly Eligible	658,200	952,300	965,600
<u>Newly Eligible to Participate</u>			
Participation Rate	0.5%	1.0%	1.7%
Students (Cumulative, Before Cap)	3,300	9,500	16,400
Students (Marginal, Before Cap) ^{1/}	3,300	6,200	8,400
Marginal Cap (0.5%)	5,600	5,700	N/A
Spots Filled by Currently Eligible	(1,000)	(1,000)	N/A
Max Marginal Students from Bill	4,600	4,700	N/A
<u>Participating</u>			
Marginal (Not to Exceed Cap) ^{2/}	3,300	4,700	8,400
Cumulative	3,300	8,000	16,400
^{1/} Calculated as difference between Cumulative Newly Eligible in current year – Cumulative Participating in prior year. ^{2/} Calculated as the lesser of Newly Eligible to Participate (Marginal, Before Cap) and Max Marginal Students from Bill (maximum marginal spots for students newly eligible under the bill).			

Estimated Cost

Based on the estimated increases in ESA participation described above and the net change in state costs per pupil who joins the ESA program, we estimate the bill will increase state General Fund costs by \$1,470,000 in FY 2018, \$3,640,000 in FY 2019, and \$7,560,000 in FY 2020, as shown in *Table 4*.

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	<u>ESA Cost (\$)</u> ^{1/}	<u>FY 2018</u>		<u>FY 2019</u>		<u>FY 2020</u>	
		<u>ESAs</u> ^{2/}	<u>(\$)</u>	<u>ESAs</u> ^{2/}	<u>(\$)</u>	<u>ESAs</u> ^{2/}	<u>(\$)</u>
Charter							
Charter	(700)	600	(420,000)	1,400	(980,000)	2,800	(1,960,000)
District	700	<u>2,700</u>	<u>1,890,000</u>	<u>6,600</u>	<u>4,620,000</u>	<u>13,600</u>	<u>9,520,000</u>
District + Charter		3,300	1,470,000	8,000	3,640,000	16,400	7,560,000

^{1/} Net increase (decrease) in state costs to fund ESA student switching from charter/district school.
^{2/} Cumulative new ESA participants, under annual new enrollment cap of 0.5% statewide public enrollment through FY 2019.

Additional Potential Costs

Upon the expiration of the state ESA enrollment caps in FY 2020, it is possible that enrollment would increase significantly beyond the estimates provided above. If ESA participation were to reach 5% of newly-eligible K-12 students, for example, there would be an estimated 48,300 additional students participating in the ESA program under the bill at an estimated state cost of \$22,263,200 (\$28,029,600 in additional costs for students switching from district schools + \$(5,766,400) savings from charter students switching to ESAs).

In addition, the National Center for Education Statistics reports that 43,100 Arizona students attended private school as of FY 2012. While HB 2482 states that a student must “attend a public school in a kindergarten program or any of grades one through twelve” in order to be newly eligible, as introduced it exempts these students from the requirement that they attend a public school for 100 days of the prior year. While this analysis does not posit a material state cost from current private school students switching to public school and back again, it is possible that existing private school students and incoming private school kindergarten students could enroll in public school on a very short-term basis under the bill in order to qualify for ESA funding in the subsequent school year.

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 districts served fewer students than under current law because of the bill, since those districts self-fund their own K-12 formula costs.