

Fiscal Note

BILL # SB 1395

TITLE: empowerment scholarship accounts; program revisions

SPONSOR: Allen S

STATUS: As amended by Senate FIN

PREPARED BY: Steve Schimpp

Description

The bill modifies statutory requirements for administering the Empowerment Scholarship Account (ESA) program.

Estimated Impact

The bill would increase state General Fund costs for ESAs by an estimated \$290,000 in FY 2020, \$580,000 in FY 2021 and \$870,000 in FY 2022 above the FY 2020 Baseline. Actual costs would depend on the impact of the bill on ESA eligibility and participation rates, which cannot be predicted with certainty.

Analysis

The bill potentially could increase ESA eligibility and participation rates by making the following statutory changes:

- 1) Base "D or F" eligibility on *residence* within a "D or F" school or school district rather than *attendance* at a "D or F" school.
- 2) Define "eligible to enroll in kindergarten" for purposes of ESAs as meaning a child at least four but under seven years of age.

"D or F" Eligibility

Currently about \$6.3 million (7%) of ESA costs are attributed to students from "D or F" schools. The bill potentially could increase this cost by making students who reside within the attendance boundaries of a "D or F" school or school district eligible for an ESA even if they do not currently attend a "D or F" school. Current law requires both conditions to be met for ESA eligibility.

Students who live within the boundaries of a "D or F" school but attend private school or home school would not be affected by this portion of the bill, since ESA eligibility rules require a student to have attended public school full time in the prior year. Likewise, incoming kindergartners would not be affected because prior year attendance requirements for ESAs do not apply to them.

This portion of the bill therefore would affect only current public school students in Grades K - 12 who live within the attendance boundaries of a "D or F" school but attend an "A – C" public school under open enrollment. The number of such students who would apply for an ESA under the bill is unknown. A recent analysis of public school enrollment patterns within Maricopa County, however, found that 47% of sampled students attended a public school other than in their school of residence.

This suggests that the number of public school students *residing* within the attendance boundaries of a particular "D or F" school could be roughly 47% higher than the number of students *attending* that "D or F" school. If so, ESA costs for pupils qualifying under "D or F" criteria potentially could increase by roughly 47% under the bill, or by \$3 million (\$6.3 million current estimated cost X 47% ≈ \$3 million).

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The net increase in *state* costs would be much lower, however, because affected students currently attend public school, so already receive Basic State Aid funding. Each non-disabled public school pupil (such as a pupil qualifying under "D or F" criteria) who switches to an ESA increases state costs by an estimated \$1,047.

Currently ESAs serve an estimated 920 students from "D or F" schools (\$6.3 million ÷ \$6,850 estimated average ESA cost per non-disabled pupil = 920 students). A 47% increase in ESAs for students residing in "D or F" schools districts therefore would increase state General Fund costs by an estimated \$452,700 if it occurred (920 current students X 47% assumed increase X \$1,047 estimated cost increase per pupil = \$452,700). Increases in ESA participation rates under this portion of the bill would be expected to appear over a multi-year period due to normal implementation lags. The estimated fiscal impact for this portion of the bill for FY 2020 therefore is \$150,000 (\$452,700 estimated long-term impact ÷ 3 year assumed "phase in" period ≈ \$150,000).

"Eligible to Enroll in Kindergarten"

The bill would define "eligible to enroll in kindergarten" for purposes of ESAs as meaning a child at least 4 but under 7 years of age. This same change was proposed in HB 2465 from the 2017 Legislative Session and the [fiscal note](#) for that bill estimated it would increase state General Fund costs by \$420,000. This analysis assumes the same fiscal impact for HB 1395, but over a 3-year period due to normal "phase in" lags. This implies a fiscal impact of \$140,000 for this portion of the bill for FY 2020. The estimated impact would increase to \$280,000 in FY 2021 and \$420,000 in FY 2022 above the FY 2020 Baseline.

Total Estimated Impact

HB 2465 therefore would have a total estimated state fiscal impact of \$290,000 for FY 2020, which would consist of \$150,000 for "D or F" eligibility and \$140,000 for the revised definition of "eligible to enroll in Kindergarten." That combined impact would increase to an estimated \$580,000 for FY 2021 and \$870,000 for FY 2022 under an assumed 3 year "phase in" of the proposed changes.

Local Government Impact

The bill would reduce local K-12 Qualifying Tax Rate (QTR) collections by approximately \$(6,000) for every student, if any, that switched from a "non-state aid " school district to an ESA under the bill.