

Fiscal Note

BILL # SB 1118

TITLE: ~~technical correction; heritage fund; audit~~
NOW: STO; scholarships; increase

SPONSOR: Gowan

STATUS: Senate Engrossed

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Description

SB 1118 as amended would expand eligibility for switcher individual or low-income corporate school tuition organization (STO) scholarships to students who were homeschooled, moved from out of state, or held an Empowerment Scholarship Account (ESA). The bill would also increase the maximum amount for a low-income corporate scholarship.

Estimated Impact

To the extent SB 1118 incentivizes additional donations to the individual STO scholarship programs, the bill would reduce state General Fund revenues. The magnitude of this impact is difficult to predict with certainty. We assume that donations to the switcher individual STO credit program would increase by 1%, which would decrease General Fund revenues by \$(400,000) annually.

The Arizona Department of Revenue has not yet provided an estimate of the bill's impact.

Analysis

Under current law, students receiving switcher individual or low-income corporate STO scholarships must meet one of the following criteria: (1) have attended an Arizona public school as a full-time student for at least 90 days of the prior fiscal year; (2) is enrolled in a private school kindergarten program; (3) is enrolled in a private preschool program for students with disabilities; (4) is a dependent of a United States military service member stationed in Arizona; or (5) have received a switcher individual, low-income corporate, or disabled/displaced corporate STO scholarship in a prior year. To be eligible for the low-income corporate STO scholarship, the student's family income must also not exceed 185% of the income threshold for reduced price lunches. For the 2020-2021 academic year, the maximum eligible family income is \$89,670 for a family of 4.

SB 1118 would expand eligibility for switcher individual and low-income corporate scholarships to private school students who were previously homeschooled, moved from out of state, or held an ESA. Students receiving the low-income corporate scholarship would still be required to meet the family income threshold. The bill would not affect eligibility for original individual or disabled/displaced corporate scholarships. It would also not allow students to accept both an STO scholarship and an ESA.

Corporate income tax credits for low-income STO scholarships have an aggregate cap. In FY 2019, the maximum of \$89,161,006 in donations eligible for a tax credit was fully utilized. As a result, this bill is unlikely to impact total donations to the low-income corporate program.

There is no aggregate cap, however, on tax credits through the individual STO scholarship programs. As a result, SB 1118 may affect donations for individual STO scholarship programs. Parents of students who are currently homeschooled or transferring from out of state may be more likely to enroll their children in a private school, compared to under current law, as a result of their students' eligibility for STOs. These parents would have a greater incentive to donate, or to recruit others to donate, which would increase both total tax credits and total scholarships available under the program, and result in corresponding reductions in General Fund revenues.

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Given the variety of factors other than availability of STO scholarships, however, that may influence parental decisions about the choice of schooling for their children, it is difficult to know how many parents of currently homeschooled or out-of-state students would enroll their children in private school and thereby generate additional donations to the STO program. We assume that there could be a 1% increase in donations under SB 1118. In FY 2019, the switcher individual STO scholarship program received \$42 million in donations. Therefore, under our assumptions, the bill would reduce General Fund revenues by approximately \$(400,000) annually. Because students that were homeschooled or out of state did not previously attend an Arizona public school, there would be no Basic State Aid savings associated with these students shifting to private schools.

We further assume that the number of students switching from the ESA program into a STO would be minimal because the average value of the ESA award is higher. Any General Fund revenue reductions associated with STOs for former ESA students would also be offset by reduced ESA costs within the Arizona Department of Education budget.

The bill would also increase the maximum amount for a low-income corporate scholarship for a high school student. Currently, this scholarship cap increases by \$100 each year. The bill would allow the scholarship cap to increase by \$200 each year. *Table 1* displays the scholarship caps under current law and under the proposal.

<u>Academic Year</u>	K-8 and Preschool with Disabilities		9-12	
	<u>Current Law</u>	<u>Proposal</u>	<u>Current Law</u>	<u>Proposal</u>
2020/2021	\$5,600	\$5,600	\$6,900	\$7,500
2021/2022	\$5,700	\$5,800	\$7,000	\$7,700
2022/2023	\$5,800	\$6,000	\$7,100	\$7,900

Local Government Impact

None