

Fiscal Note

BILL # HB 2853

TITLE: Arizona empowerment scholarship accounts; appropriations

SPONSOR: Toma

STATUS: As Introduced

PREPARED BY: Patrick Moran

Description

The bill would establish universal eligibility for the Empowerment Scholarship Accounts (ESA) and make several other miscellaneous changes to the program.

Estimated Impact

We anticipate the bill would increase state General Fund K-12 costs by \$33.4 million in FY 2023, \$64.5 million in FY 2024, and \$125.4 million in FY 2025. These impacts are summarized in *Table 1* below. We consider these estimates to be highly speculative, as the participation rate among currently ineligible pupils is difficult to know in advance.

	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
ESA Eligibility Expansion – Current Private School Students	17.4	34.8	69.7
ESA Eligibility Expansion – Current Homeschool Students	12.2	24.4	48.8
ESA Eligibility Expansion – Current Public School Students	1.6	3.1	4.7
ADE ESA Administration – 26 FTE Positions	<u>2.2</u>	<u>2.2</u>	<u>2.2</u>
	33.4	64.5	125.4

Analysis

According to the National Center for Education Statistics (NCES), there were 59,171 private school pupils in Arizona in FY 2020. By comparison, ADE reports that ESA program enrollment as of the third quarter of FY 2022 is 11,775, meaning there are at least 47,396 private school students that are not receiving an ESA. The actual number is likely higher because some ESA students are homeschooled instead of attending private school. As a result, we assume that approximately 50,000 current private school students who are not using the ESA program would become eligible for the program under the bill.

The participation rate among the 50,000 newly eligible students is uncertain, as some private school students would likely continue to prefer to receive a scholarship from a School Tuition Organization (STO) (simultaneous participation in the STO program and the ESA program is prohibited under current law). We expect, however, the ESA participation would grow over time given the higher average financial subsidy provided under the ESA program. While the ESA provide will provide an estimated \$6,966 per non-disabled pupil in FY 2023, we estimate the total average dollar value of STO scholarships per pupil is approximately \$4,300.

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Under the existing program, most students must transfer from a public school to a private school or home schooling to qualify for the ESA program. A kindergartner, however, can attend a private school and immediately qualify for an ESA.

The bill would allow any existing private school student to accept an ESA. In our prior analyses, we have assumed that private school kindergartners participate at a rate of 5%, 10% and 20% in the first 3 years. We apply those same participation rates for all private school students not currently receiving an ESA. The associated costs would be \$17.4 million in FY 2023, \$34.8 million in FY 2024, and \$69.7 million in FY 2025. If actual participation is higher or lower than 5% to 20%, our estimated fiscal impact will change.

The bill could impact the level of STO donations (and associated tax credits) if substantially more students opt to enroll in the ESA program in lieu of receiving a STO scholarship.

The bill would also expand eligibility to all homeschooled students. According to Arizona Families for Home Education, there are approximately 38,000 Arizona pupils who are homeschooled annually. Assuming that no more than 3,000 of those students are currently receiving an ESA, the bill could result in up to 35,000 homeschooled pupils becoming newly eligible for the ESA program. Assuming that homeschooled pupils opt into the program at the same rate as private school students, there would be additional costs of \$12.2 million in FY 2023, \$24.4 million in FY 2024, and \$48.8 million in FY 2025.

The bill would also impact public school enrollment to the extent that current public school students shift to private schools as a result of universal ESA eligibility. Based on prior analyses, we estimate that there are 859,000 current public school students that are ineligible for the ESA program. We assume that participation among newly eligible current public school students would be 4.2%, or 36,078 students ($4.2\% \times 859,000 = 36,078$). The 4.2% is the same as the estimated participation rate of currently eligible public school students. Consistent with prior analyses, we also assume that private schools would face capacity constraints in the short run that would limit their annual enrollment growth from new ESA students to 5%. Given that an ESA award for non-disabled students costs \$529 more on average than the standard Basic State Aid formula, the net fiscal impact would be an additional \$1.6 million in FY 2023, \$3.1 million in FY 2024, and \$4.7 million in FY 2025.

The bill also appropriates \$2.2 million from the General Fund to ADE in FY 2023 to hire 26 additional FTE Positions for administrative workload increases associated with the expansion of the ESA program. We assume this would be an ongoing appropriation in FY 2024 and FY 2025.

Local Government Impact

The bill would reduce Basic State Aid payments to school districts and charter schools as a result of estimated shifts in enrollment from public school to private school.

6/16/22