

Fiscal Note

BILL # HB 2504

TITLE: STO scholarships; foster care students

SPONSOR: Parker B

STATUS: As Introduced

PREPARED BY: Patrick Moran

Description

The bill would expand eligibility for scholarships from the "switcher" tax credit program for donations to School Tuition Organizations (STOs) and the corporate low-income STO program to include current and former foster children.

Estimated Impact

To the extent the bill 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 \$(500,000) annually. The Arizona Department of Revenue has not yet provided an estimate of the bill's impact.

Analysis

The "switcher" state individual income tax credit for donations to STOs are available to individuals who have already received the full tax credit under the original individual income tax credit for STO donations. In Tax Year (TY) 2023, the switcher credit allows a maximum additional credit equal to \$652 for single filers and \$1,301 for married couples filing jointly. Including the original individual credit, the total maximum credits available in TY 2023 are \$1,307 for single filers and \$2,609 for married couples filing jointly. The Department of Revenue (DOR) reports that donations qualifying for the Switcher Credit totaled \$48.3 million in FY 2021.

A.R.S. § 43-1603 stipulates that donations associated with the switcher credit may only be used to provide private school tuition scholarships for the private school pupils that meet at least one of the following criteria:

- Attended a governmental school as a full-time student in the prior fiscal year for at least 90 days.
- Is enrolled in a private kindergarten or preschool program for students with disabilities.
- Is a dependent of the armed forces that is stationed in Arizona.
- Is homeschooled before enrolling in a private school.
- Moved from out-of-state before attending a private school.
- Previously participated in the Empowerment Scholarship Account (ESA) Program and did not renew their ESA account in order to participate in the STO program.

The bill would expand eligibility for STO switcher scholarships to children who were placed in foster care at any time prior to graduating from high school or receiving a General Equivalency Diploma (GED). We estimate the bill would expand eligibility for switcher STO scholarships to at least the following populations:

- Children currently placed in Department of Child Safety (DCS) custody. Based on department data, there were a monthly average of 12,604 children in out-of-home care in FY 2022.
- Children previously in out-of-home care who exited DCS custody via adoption. DCS reports that there was a monthly average of 33,123 enrollees in the adoption subsidy program for children who exited out-of-home care for a permanent adoptive family.

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- Children previously in out-of-home care who exited DCS custody via permanent guardianship. DCS reports that there were a monthly average of 2,771 children enrolled in the permanent guardianship subsidy program in FY 2022.

Based on the above data, at least 48,498 current or former foster children would become eligible for a STO switcher scholarship under the bill. The actual number would likely be significantly higher because those figures do not include children who were previously in DCS custody but exited state care via reunification with biological parents or family members. Based on DCS data, approximately 50% of children exit DCS custody through family reunification. As a result, we estimate that the total number of children in Arizona who have ever been in the foster care system could be as high as 100,000, or approximately 5% of Arizona's child population.

The net increase in eligibility would be lower than 100,000, however, as current or former foster children would already be eligible for the program as long as they enrolled in a government school in 90 days during the previous fiscal year. We lack data, however, on how many current and former foster children meet such requirements.

The eligibility expansion would not increase the amount of tax credits that donating individuals can claim. We anticipate, however, that expanded eligibility for foster children may result in increased donations eligible for the credit by individuals who are either not currently receiving the switcher credit or that are receiving less than the full amount of the credit.

We expect, however, that the increase in donations to the switcher STO program would be significantly less than their estimated 5% share of the Arizona child population for the following reasons:

- Arizona foster children are eligible for the ESA program, which does not allow simultaneous participation in the STO program. The ESA award for non-disabled students is approximately \$7,000 and is higher for students with disabilities. To the extent that STO scholarships are lower than that amount, foster children in the ESA program may elect to stay in the program in lieu of switching to a STO.
- Current and former foster youth are already eligible for scholarships without a 90-day requirement under either the original individual income tax credit program or the corporate STO program for displaced or disabled students.
- As noted above, current and former foster children may already be eligible for a switcher STO scholarship if they attended a government school in the prior year for at least 90 days.

Based on the above factors, we estimate that the eligibility expansion for current and former foster children may increase donations to the STO switcher credit by 1% annually. Given the \$48.3 million of total donations to the switcher credit program in FY 2021, we estimate that a 1% increase would result in an annual revenue loss of approximately \$(500,000) beginning in FY 2024.

The bill also expands eligibility for STO scholarships to current and former foster children for the corporate low-income STO program. Unlike the individual switcher program, however, the credits available for donations to the corporate low-income scholarships are subject to an aggregate annual cap of \$142.1 million as of FY 2023. Over the last several years, corporate donations have reached or nearly reached the statutory limit. As a result, we expect the eligibility expansion to current or former foster youth would have little to no impact on state revenues.

Local Government Impact

Beginning in FY 2024, incorporated cities and towns receive 18% of individual and corporate income tax collections from 2 years prior from the Urban Revenue Sharing (URS) Fund established by A.R.S. § 43-206. Therefore, under the bill, URS distributions to cities and towns would decrease by \$(90,000) annually beginning in FY 2026.