

Fiscal Note

BILL # SB 1041

TITLE: STOs; aggregate cap increase

SPONSOR: Livingston

STATUS: As Introduced

PREPARED BY: David Hoffer

Description

The bill increases the credit cap for contributions by corporations and insurers to School Tuition Organizations for Disabled/Displaced student from \$5,000,000 to \$10,000,000 in FY 2022, \$15,000,000 in FY 2023, to \$20,000,000 in FY 2024, and for every year thereafter is increased by the greater of the Metropolitan Phoenix Consumer Price Index as published by the Department of Labor, Bureau of Labor Statistics or 2%.

Estimated Impact

We estimate that this bill will result in a net revenue reduction of \$(5,000,000) in FY 2022, \$(10,000,000) in FY 2023, and \$(15,000,000) in FY 2024 in comparison to current law as we assume that corporations and insurers will continue to fully utilize the available credit.

If the bill results in the diversion of students from public to private schools, it would reduce costs for Basic State Aid. That savings would range from \$7,200 to \$11,900 per student depending on whether the student was displaced or disabled.

Analysis

Certified School Tuition Organizations (STOs) are established to receive income tax credit contributions that fund scholarships for students to attend qualified private schools located in Arizona. A nonprofit organization in this state that is exempt or has applied for exemption from federal taxation under section 501(c)(3) may apply to the Arizona Department of Revenue for certification as an STO. Once certified, an STO may receive tax credit donations from individual and/or corporate taxpayers as well as insurance companies.

Under A.R.S. § 43-1183 and A.R.S. § 20-224.06, a corporation or insurer may claim a tax credit up to the full amount of a voluntary contribution to a School Tuition Organization. The tax credit for contributions to STOs for Disabled/Displaced students are for corporations, including S corporations, and insurance providers.

Contributions to STOs for Disabled/Displaced students for the years of FY 2015 to FY 2020 have met the \$5,000,000 cap. Additionally, corporations and insurers have met the cap for STO contributions for Low-Income students, which is now capped at \$135,355,000. As a result, we anticipate that corporations and insurers will continue to meet the cap proposed by the bill.

State Expenditures

State costs for Basic State Aid currently change by approximately \$7,200 for every student added or subtracted from statewide public school enrollments. For students with a disability, the Basic State Aid costs rises to an average of \$11,900 per student. In the long term, if the bill eventually reduced state revenues by \$(15.0) million, between 1,260 and 2,083 students would have to transfer from public schools to private schools depending on the relative mix of disabled versus displaced students in order for the bill to be cost neutral.

(Continued)

JLBC

The Department of Revenue data indicate that the average scholarship awarded by STOs in FY 2019 from displaced/disabled corporate scholarships was \$5,304. If donations increase by \$15 million, approximately 2,828 additional scholarships could be awarded under the bill if all additional monies were used for new scholarships rather than increasing scholarship amounts for current recipients. To achieve cost neutrality under the bill, between 45% ($1,260/2,828 = 45\%$) and 74% ($2,083/2,828 = 74\%$) of the scholarships would have to go to existing public school students depending on the relative mix of displaced versus disabled students.

Local Government Impact

Cities and towns receive 15% of the individual income tax and corporate income tax from the two years prior. Using the estimated impact above, we predict that there will be a decrease of funding to cities and towns by \$(750,000) in FY 2024, \$(1,500,000) in FY2025, and \$(2,250,000) in FY2026.

1/28/21