LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
iga.in.gov

FISCAL IMPACT STATEMENT

LS 7434
BILL NUMBER: HB 1005

NOTE PREPARED: Feb 5, 2021
BILL AMENDED: Feb 4, 2021

SUBJECT: School Choice Matters.

FIRST AUTHOR: Rep. Behning
FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) The bill establishes the Indiana Education Scholarship Account Program (program). It provides that, after June 30, 2022, a parent of an eligible student or an emancipated eligible student may establish an account in the program. The bill defines an eligible student as:

(1) a student with a disability who requires special education;
(2) a student with a parent who is on active duty service in the armed forces of the United States or national guard; or
(3) a student placed in foster care or otherwise under care and supervision of the Department of Child Services.

The bill provides that an eligible student who has an account and attends a qualified school is eligible to receive an annual grant amount that may be used to pay for tuition at an accredited nonpublic school or education related expenses. It also provides that the Treasurer of State shall administer the program.

The bill provides a deduction from Indiana adjusted gross income for a grant amount that is distributed to a taxpayer's Indiana Education Scholarship account and used for a qualified expense, to the extent the distribution is included in the taxpayer's federal adjusted gross income.

The bill changes the eligibility requirements to receive Choice scholarships. It makes changes to the amount of tuition an eligible choice scholarship student is entitled to receive to attend a Choice scholarship school.

The bill establishes the Indiana Education Scholarship Account Program Advisory Council to provide guidance on the implementation of the program as well as to provide recommendation for program improvements to the Treasurer of State and to the General Assembly.

The bill repeals provisions that provide eligibility to certain students if the student's household income increases.

The bill provides that the Department of Education shall provide services that offer objective advise upon request to parents of an eligible student or an emancipated eligible student relating to services that can help meet the eligible student's or emancipated eligible student's particular needs.

The bill makes conforming amendments. The bill makes an appropriation.

Effective Date: July 1, 2021.

Explanation of State Expenditures: (Revised) *Summary-* The bill would increase state expenditures by an estimated $33 M in each year of the FY 2022 and FY 2023 biennium, assuming FY 2021 state tuition support funding levels. This includes a $5 M appropriation to the Treasurer of State in FY 2022 to implement the Indiana Education Scholarship Account (ESA) Program. Annual state expenditures may decrease over time if students continue to transition away from public schools. The largest sources of the expenditure increase are the bill's creation of the ESA Program, the expansion of the Choice scholarship program, and the cost of creating an online portal related to the ESA Program. Additionally, the bill requires the Treasurer of State to:

1. Manage the accounts in the ESA Program or contract with an entity to do so; and
2. Contract with a public accounting firm to conduct an annual audit.

Both of those requirements would also increase state expenditures.

Additionally, the Treasurer of State would experience a substantial workload increase that may require additional staff and resources. The Department of Education (DOE) would experience a smaller workload increase, but may require additional staff and/or resources as well. Finally, the Department of State Revenue (DOR) would also experience a workload increase, but could meet the bill's requirements with existing staff and resources.

Additional Information -

(Revised) *Indiana Education Scholarship Account Program:* The bill establishes the Indiana ESA Program, which allows certain eligible students who are not on a Choice scholarship to receive a grant to attend an accredited private school and pay for other eligible education expenses. It is estimated that about 187,000 students would be eligible for the program beginning in FY 2023, although only a small portion of those students would participate in the program.

The analysis assumes that the money deposited in the accounts of participating students is not reverted back to the State Tuition Reserve Account. However, many students would not utilize the full amount. The bill specifies that a maximum of $2,000 may be carried over from one year to the next [plus any amount rolled over in a previous year]. If an account is terminated, for a reason other than the student attending a public school, the money in the account would also revert to the State Tuition Reserve Account.

(Revised) *Choice Scholarship Program Expansion:* The bill expands the Choice scholarship program by:

1. Increasing the income eligibility requirement for the Choice scholarship to 225% (in FY 2022) and 300% (in FY 2023 and all years thereafter) of the maximum amount to still receive free or reduced lunches (FRL).
2. Changing the Choice award structure so that students receive the lesser of 90% of the student's

home school corporation's per student state tuition support, excluding the special education and CTE grants, or the cost of tuition and fees at the Choice school the student attends.

The fiscal impact of students switching from one school to a private school participating in the Choice scholarship or the ESA Program is dependent upon the type of schools students would have attended under current law. Since both programs decrease state expenditures relative to attending a public school, students switching from a public school to participate in the ESA Program or to receive a Choice scholarship and attend a Choice-eligible school decrease state expenditures. On the other hand, students homeschooled or attending a private school without a Choice scholarship who receive a Choice scholarship or participate in the ESA program under the bill would increase state expenditures.

LSA estimates the full impact of the Choice expansion and the ESA Program may take four to five years. Students attending a Choice school but not on a Choice scholarship are expected to enroll in the programs quickly, while students who would have attended a public school may take more time to switch to one of the programs. LSA calculated the following to arrive at an estimated impact.

1. The population of students who would be eligible for the Indiana ESA Program.
2. The population of students who would be newly eligible for a Choice scholarship under the bill.
3. The percentage of students who would use their eligibility to switch from each school type to either the ESA Program or a Choice scholarship.
4. The fiscal impact of students leaving each school type to participate in the ESA Program or the Choice scholarship program.

Table 1 provides LSA's estimated impact from students switching to the ESA Program (beginning in FY 2023) or a Choice scholarship (beginning in FY 2022) under the bill.

Table 1 - Students Switching from Current School Type to the Indiana Education Scholarship Account Program or a Choice Scholarship and the Associated Expenditure Change				
	FY 2022		FY 2023	
School Type	Students	Change in Expenditures	Students	Change in Expenditures
Traditional	1,482	-$2.3 M	8,507	-$12.6 M
Charter	56	-$0.1 M	322	-$0.5 M
Non-Choice Private Schools	11	$0.1 M	67	$0.4 M
Non-Choice Scholarship Students Attending A Choice School	2,876	$14.9 M	5,390	$29.5 M
Homeschool	12	$0.1 M	71	$0.4 M
Total	4,437	$12.6 M	14,357	$17.5 M
Source: LSA estimates using DOE and Census Data, totals may not sum due to rounding.				

(Revised) *Change in Choice Award Structure:* Removing the 50% and 70% awards would increase state expenditures by an estimated $15 M in FY 2022, and $14.5 M in FY 2023 and years thereafter, assuming grant amounts remain the same compared to FY 2021. Under current law, LSA estimates there will be 10,898 students who will qualify for either the 50% or 70% Choice scholarship award in FY 2022. Some of these students will receive a lower scholarship amount equal to the tuition and fees charged to attend their school, but 6,212 students will receive the full 50% Choice scholarship award, and 2,275 students will receive the full 70% award. This results in a total of 8,487 students (those receiving either the full 50% or 70% scholarship amount) who would be impacted in FY 2022. Of the impacted students, LSA estimates that approximately 2,882 would qualify for the tuition and fees award, and 5,605 students would qualify for the 90% award.

Additionally, some potential Choice scholarship recipients who were eligible for a 50% or 70% award, but ultimately did not participate in the program due to the out-of-pocket costs they would incur, might have their out-of-pocket costs reduced enough for them to now participate in the program.

(Revised) *Online Portal*: The bill provides that the Treasurer of State must provide online services related to the ESA Program. The bill makes a $5 M appropriation to fund the initial implementation of the online portal related to the ESA Program. If portal development costs are greater, expenditures will increase. There could also be ongoing costs related to website maintenance. The cost of this project would depend on the specific business requirements the Treasurer of State would require. Required services include: 1) The ability for parents to send, and participating entities to receive, payments from an eligible students' account. 2) A way for parents and entities to apply to the program. 3) The ability for parents to identify, select, and rate participating entities. 4) The ability for parents of eligible students to see the ratings of participating entities.

(Revised) *Annual Audit:* The Treasurer of State may contract with an independent public accounting firm to conduct an annual audit of the ESA Program. While the cost of the contract(s) is unknown, the expenditure increase could be significant.

(Revised) *Contract with Financial Institutions*: The Treasurer of State may contract with one or more financial institutions to maintain and manage the accounts under the bill's ESA Program. While the cost of the contract(s) is unknown, the expenditure increase could be significant.

(Revised) *Indiana Education Scholarship Account Program Advisory Council*: The 13 member council is established to provide guidance and recommendations on the implementation of the ESA Program. The Treasurer of State shall provide staffing for the council.

(Revised) *DOE:* The bill's requirement that the DOE provide services that offer advice to parents of students eligible for the ESA is an additional workload increase that may require additional staff or resources. The bill allows the DOE to contract with a third party provider to provide the services. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend on legislative and administrative actions. The bill has other requirements that are workload increases that would be implemented with existing staff and resources.

DOR: The DOR will incur additional expenses to revise forms, update instructions, and modify the existing tax processing system to implement this bill. The DOR's current level of funding and resources should be sufficient to administer this tax deduction.

Explanation of State Revenues: (Revised) *Administrative Fees:* The bill allows the Treasurer of State to charge an administrative fee of no more than 1.5% of the distributions made to the accounts in the ESA Program, up to a maximum of $250,000. The Treasurer of State is estimated to receive approximately $250,000 in FY 2023.

Taxability of the Grant: The bill provides a tax deduction for the grants received and used towards qualified expenses. The tax deduction provided in the bill will result in a revenue loss only to the extent that any portion of grant would be included in the taxpayer's federal adjusted gross income. Any revenue loss will occur to the individual income tax deposited in the state General Fund.

Under current law, all or part of the amounts received as a scholarship, a fellowship grant, or other grants, can be deducted from federal, state and local taxes. It requires that the taxpayer be a candidate for a degree at an educational institution that maintains a regular faculty and curriculum and normally has a regularly enrolled body of students in attendance at the place where it carries on its educational activities. The exemption applies to the amounts received and used to pay for qualified expenses including tuition and fees required for enrollment or attendance at the educational institution, or for fees, books, supplies, and equipment required for courses at the educational institution. If and to the extent the grant or a portion of it does not meet the requirements, it is taxable and must be included in gross income. This bill provides the tax deduction to a broader range of expenses from the grant than allowed under current federal and state laws.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) *Public School Revenue:* Public school revenue from state tuition support is driven largely by the average daily membership (ADM) which is a measure of the number of students enrolled and expected to attend a given school on a given date. To the extent that the bill encourages some students to attend a private school rather than public school, public school revenue from state tuition support will decrease. The full impact of the bill could phase in over approximately five years. LSA's estimated ADM and revenue loss for traditional school corporations and charter schools are provided in Table 2. The estimates do not account for the bill's requirement that, in the event a student terminates his or her account in the ESA Program to attend a public school, the balance in the account shall be transferred to the public school in which the eligible student enrolls. The impact of that provision would not occur until FY 2023 and would be minimal.

Table 2		
Total Traditional School Corp ADM and Revenue Loss Compared to Current Law by Year		
	FY 2022	FY 2023
ADM Decrease	1,482	8,507
Revenue Loss	$10 M	$57.6 M
Total Charter School ADM and Revenue Loss Compared to Current Law by Year		
ADM Decrease	56	322
Revenue Loss	$0.4 M	$2.2 M

Local Income Tax (LIT): Since the tax deduction could decrease the state adjusted gross income of certain recipients of the grant, it could decrease taxable income for LIT purposes. Counties imposing a LIT could potentially experience a decrease in revenue from this tax.

State Agencies Affected: Department of Education; Treasurer of State; Department of State Revenue.

Local Agencies Affected: Public schools, Counties.

Information Sources: Choice Scholarship Program Annual Report, Indiana Department of Education, June 2020, United States Census Bureau, National Center for Education Statistics, LSA education database, Indiana Department of Education, Department of Child Services, LSA's Office of Technology Services,

https://download.militaryonesource.mil/12038/MOS/Reports/2018-demographics-report.pdf

Fiscal Analyst: Austin Spears, 317-234-9454; Randhir Jha, 317-232-9556.