

Fiscal Note

BILL # HB 2095

TITLE: scholarships; requirements; foster care students

SPONSOR: Parker B

STATUS: Senate Engrossed

PREPARED BY: Gordon Robertson

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 that would not otherwise qualify for the STO program and for whom a governmental school is not an appropriate placement.

Estimated Impact

We estimate that the bill would reduce General Fund revenues by \$(400,000) annually. 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.

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) 2024, the switcher credit allows a maximum additional credit equal to \$728 for single filers and \$1,451 for married couples filing jointly. Including the original individual credit, the total maximum credits available in TY 2024 are \$1,459 for single filers and \$2,910 for married couples filing jointly. The Department of Revenue (DOR) reports that donations qualifying for the Switcher Credit totaled \$46.7 million in FY 2023.

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) who meet all of the following criteria:

- The student is unable to attend a governmental school as a full-time student and has not attended such a school student for at least 90 days during the previous fiscal year or one semester before enrolling in a qualified school.
- A governmental school cannot meet the student's unique needs.
- The student is unable to receive other scholarships or tuition grants in an amount that is equal to the cost of tuition to attend the qualified school.

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 10,897 children in out-of-home care in FY 2023.
- Children previously in out-of-home care who exited DCS custody via adoption. DCS reports that there was a monthly average of 33,332 enrollees in the adoption subsidy program in FY 2023 for children who exited out-of-home care for a permanent adoptive family.
- Children previously in out-of-home care who exited DCS custody via permanent guardianship. DCS reports that there were a monthly average of 2,840 children enrolled in the permanent guardianship subsidy program in FY 2023.

(Continued)



Based on the above data, at least 47,069 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 may not meet all of the additional criteria to qualify for a switcher STO as a foster student, or would already be eligible for the program if they enrolled in a government school for 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 \$7,100 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 \$(400,000) or less than 1% annually.

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 \$158.5 million as of FY 2024. 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.

In the 2023 Regular Session, we previously estimated in our HB 2504 Fiscal Note that expanding the switcher STO to pupils who were ever in foster care would reduce GF revenues by \$(500,000). HB 2095 would limit the expansion only to foster care pupils who choose a private school based on specialized programming and who cannot cover the full cost of tuition with other scholarships. The bill may therefore limit the number of foster care pupils who would become newly eligible for switcher scholarships and thereby reduce the General Fund impact from increased switcher STO donations compared with our previous analysis.

Local Government Impact

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 \$(72,000) annually beginning in FY 2027.