



SF 159 – Charter Schools, Education Savings Grant Program (LSB1391SV.2)
Staff Contacts: Michael Guanci (515.725.1286) michael.guanci@legis.iowa.gov
Jeff Robinson (515.281.4614) jeff.robinson@legis.iowa.gov
Lora Vargason (515.725.2249) lora.vargason@legis.iowa.gov
Fiscal Note Version – As amended and passed by the Senate
(REVISED Fiscal Impact — Division I)

Bill Description

[Senate File 159](#) makes a variety of changes to the Iowa Code regarding education. A brief description by division is below, and the following pages include assumptions and fiscal impact where it can be estimated.

DIVISION I — Student First Scholarship Program: Establishes a Student First Scholarship Program under the direction of the Department of Education (DE) for eligible accredited nonpublic students, funded by a General Fund standing unlimited appropriation beginning in FY 2023. The Division further exempts these scholarship awards from Iowa individual income tax.

DIVISION II — Charter School Programs: Provides for two pathways to establish a charter school in the State. A charter school can be established through application by a founding group created by a local school board, thereby creating a new attendance center that would be part of a public school district. A charter school can also be established through application by a founding group not created by a local school board, thereby creating a charter school independent of a public school district and having no boundary lines within the State.

DIVISION III — Voluntary Diversity Plans: Repeals voluntary diversity plans under open enrollment for school districts.

DIVISION IV — Education Information, Program Standards, and Funding: Creates a new, statewide student information system (SIS) for electronic transmission of student and staff data, including the ability to transmit individual student records between attendance centers, school districts, nonpublic schools, area education agencies, postsecondary institutions, and the DE. This Division also creates a flexible student and school support program to be administered by the DE and allows for two categorical sources to be eligible for use within the school district flexibility account.

DIVISION V — Education Tax Credits and Deductions: Increases the annual amount of classroom expenditures that Iowa elementary and secondary school teachers may deduct from gross income for income tax purposes from the current \$250 to \$500 and expands the [Tuition and Textbook Tax Credit](#) by doubling the allowed expense amount to \$2,000 per qualified student, doubling the credit percentage to 50.0%, making the credit refundable, and extending the credit to students educated through private instruction.

DIVISION VI — School District Enrollment Working Group: Requires the DE to convene a working group to review the methodology and timings of certified enrollment. The Department is

required to present its findings and recommendations to the General Assembly by December 1, 2021.

DIVISION VII — Open Enrollment: Expands allowances for permissible open enrollment, addresses open enrollment busing agreements, allows immediate eligibility in athletics for open enrolled students, and makes Iowa Code correction changes. The Division also includes retroactive applicability provisions for students unable to participate in varsity interscholastic sports based on a decision by a school board or superintendent of the student's former school or school district.

DIVISION VIII — School Board Powers and Duties: Clarifies school board member responsibilities.

This Bill takes effect upon enactment with a retroactive provision in Division V and an applicability provision in Division VI.

Division I

Background

Student First Scholarship Program — The federal [Every Student Succeeds Act \(ESSA\)](#) requires public schools to be identified for Comprehensive Support and Improvement and Targeted Support and Improvement every three years. These identified schools are those that fall in the lowest 5.0% of all schools receiving Title I funds in the State when ranked on Iowa's approved ESSA accountability index. There are currently [34 public schools identified for Comprehensive Support](#) in 19 school districts in Iowa.

These schools have an estimated total enrollment of 10,240. The Student First Scholarship Program created in this Bill provides education savings accounts for students who attended or might attend Comprehensive Support schools in the State but instead enroll in a nonpublic school. The scholarships are funded by a standing unlimited appropriation from the State General Fund.

For the history of nonpublic school funding in the State, please read [Issue Review: Nonpublic School Funding History](#).

Assumptions

Student First Scholarship Program

- The DE may experience an increase in expenditures due to implementation of the scholarship program in relation to inclusion of the application to one of the current systems and reassignment of duties to current full-time equivalent (FTE) positions.
- Incoming first grade students may not be eligible for scholarships if the students did not attend kindergarten at a Comprehensive Support school.
- Incoming middle school or incoming high school students may not be eligible for grants if the school the students attended in the previous year was not under Comprehensive Support review.
- Under the provisions of the Bill, public schools may experience a decrease in enrollment.
- Of the 34 public school attendance centers under Comprehensive Support, 25 of those schools are located within its boundaries of a school district that also has one or more accredited nonpublic schools within the boundaries. The estimated enrollment of these 25

public school attendance centers is approximately 9,000 students. See **Appendix A** for a map of locations with an ESSA-identified Comprehensive Support school.

- For estimation purposes, it is assumed that 3.5% of the total number of eligible students will receive a scholarship in FY 2023, 5.0% will receive a scholarship in FY 2024, and 6.5% will receive a scholarship in FY 2025.
- There are an estimated 820 students entering kindergarten each year into the schools under Comprehensive Support. For estimation purposes, it is assumed that 3.5% in FY 2023 will receive a scholarship, 5.0% in FY 2024 will receive a scholarship, and 7.5% in FY 2025 will receive a scholarship. Students from the previous year will retain scholarships compounding these figures.
- Due to the timing of certified enrollment counts from the previous year, students approved for scholarships who attended a school under Comprehensive Support the previous year will generate both funding for a scholarship and funding for the school district through the school budget aid and levy for the first year. Funding through the aid and levy includes both State foundation aid and property tax levies. Any associated reductions in aid and levy funding will therefore be delayed by one year.
- Any decline in certified enrollment at a school under Comprehensive Support due to scholarships will reduce the school district’s allocation of Secure an Advanced Vision for Education (SAVE) funds. Associated reductions in SAVE funding will be delayed by one year.
- Section 3 of the Bill exempts the scholarship proceeds from the State individual income tax. For this estimate it is assumed that the average marginal income tax rate for scholarships will equal 5.3% for all years and that the impact will occur in the fiscal year of the award.

Table 1 displays the estimated number of scholarships by year.

Table 1

Estimated Number of Student First Scholarships — SF 159

Fiscal Year	Number of Scholarships from Public Schools	Number of Entering Kindergarten Scholarships	Total Number of Scholarships
FY 2023	315	30	345
FY 2024	450	70	520
FY 2025	585	150	735

Table 2 displays the estimated Student First Scholarship amount for FY 2023 and future years. District-specific costs per pupil, and any legislative changes to the State cost per pupil (SCPP), will alter these figures.

Table 2

Estimated Student First Scholarship — SF 159	
Base Scholarship	\$ 4,145
Teacher Salary Supplement	606
Professional Development Supplement	69
Early Intervention Supplement	75
AEA Teacher Salary Supplement	32
AEA Professional Development Supplement	4
Teacher Leadership Supplement	341
Estimated Student First Scholarship	\$ 5,270

Totals may not add due to rounding.

Fiscal Impact

Student First Scholarship Program:

Table 3 displays the estimated net fiscal impact to the State General Fund and to school districts from the Student First Scholarship Program from FY 2023 to FY 2025.

Table 3

Student First Scholarship Estimated Fiscal Impact — SF 159 (dollars in millions)

	FY 2023	FY 2024	FY 2025
General Fund Appropriation for Student First Scholarship	\$ 1.8	\$ 2.7	\$ 3.9
Reduction in State Foundation Aid	0.0	-1.7	-2.4
Net General Fund Fiscal Impact	\$ 1.8	\$ 1.1	\$ 1.5
Reductions in SAVE Allocations	\$ 0.0	\$ 0.4	\$ 0.6
Impact to School Districts (including property taxes)	\$ 0.0	\$ -1.9	\$ -2.6

Totals may not add due to rounding.

Other potential fiscal impacts to school districts due to a reduction in certified enrollment may include, but are not limited to, funding for: Instructional Support Program, At-Risk Formula supplementary weightings, property tax relief provisions in the school aid and levy formula, Transportation Equity Program funding, and School Board Review Committee (SBRC) modified supplemental amounts (MSAs).

The DE anticipates programming costs to administer the program to be between \$150,000 and \$300,000. The Department notes that these costs could be incorporated into the costs associated with Division IV of this Bill.

Under the provisions of this Bill, a student may be eligible for the Student First Scholarship Program and be the beneficiary of a [Student Tuition Organization](#) (STO) grant.

Exempting awards received through the Student First Scholarship Program from Iowa individual income tax is expected to reduce State General Fund revenue by \$96,000 in FY 2023, \$170,000 in FY 2024, and \$205,000 in FY 2025.

Division II

Background

Charter School Programs — For information on charter school programs in the State, please read the DE report [Legislative Report Charter and Innovation Zone Schools in Iowa](#).

Fiscal Impact

Charter School Programs — The LSA anticipates an increase in DE administration costs and the potential need for FTE positions to fulfill the oversight requirements in this Bill.

Although charter schools would be subject to audit requirements, it is unclear if a charter school approved as an independent entity would be subject to fiscal reporting required under Iowa Code section [291.10](#). Federal fiscal and nonfiscal reporting requires inclusion of data for public charter schools. If a charter school is independent from a school district, determinations will be needed regarding allocation methods used for federal funds.

There is a potential for double counting of students for State funding. For the initial year of funding for a charter school, State funding is based on an estimate of enrolled students. The potential students included in the charter school estimate may not actually attend the charter school and would in turn be funded at the school where the student is actually enrolled.

Division III

Background

Voluntary Diversity Plans — Voluntary diversity plans were enacted after changes made by the U.S. Supreme Court's ruling in *Parents Involved in Community Schools v. Seattle School District No. 1*, [551 U.S. 701](#) (2007). A voluntary diversity plan had to be adopted by the school district within a certain time frame, could only concern a limited number of factors, and could not use race as a factor.

Five Iowa school districts currently have voluntary diversity plans, with three districts using socioeconomic status (Davenport Community Schools, Des Moines Public Schools, and Waterloo Community School District) and two districts (West Liberty Community School District and Postville Community School District) using English language learner (ELL) status as their metrics for denying open enrollment. There are no districts in Iowa currently under a court-ordered desegregation plan.

Assumptions

Voluntary Diversity Plans:

- Affected school districts will allow open enrollment out of the district for students who previously had been denied open enrollment under voluntary diversity plans.
- Districts that previously adopted a voluntary diversity plan will have an increased amount of open enrollment out, equal to the number of the previous year's requests denied due to the diversity plan.
- Affected districts may have a number of open enrollment requests similar to the number they had during recent school years, as reported to the Urban Education Network of Iowa.
- The open enrollment window for pupils entering grades 1 through 12 for FY 2022 closes on March 1, 2021; the first year affecting school districts may either be FY 2022 or FY 2023 depending on the effective date of this Bill. The deadline for open enrollment for pupils

entering kindergarten is September 1, 2021, and the changes may impact FY 2022 program costs for the pupils' resident districts.

- Estimated fiscal impact of Division III will average FY 2018 and FY 2019 survey data.

Fiscal Impact

Voluntary Diversity Plans — Division III has no fiscal impact to the State. Districts that have denied previous open enrollment requests based on the districts' voluntary diversity programs may experience a decrease in per pupil funds equal to the cost of the previous year's SCPP and teacher leadership supplement, as well as a decrease resulting from any additional ELL weighting for the applicable pupils. The following table shows the possible fiscal impact by district based on survey information from previous school years' open enrollment survey data. The data has been averaged where applicable.

Table 4

Fiscal Impact to School Districts Due to Increased Open Enrollment — SF 159

	Est. Number of New Open Enrollment Out of Resident District	Open Enrollment Funds Per Student**	Estimate of Total Funds Leaving Resident District
Davenport	106	\$ 7,389.0	\$ 783,234
Des Moines	192	7,389.0	1,418,688
Postville	2	7,389.0	14,778
Waterloo	57	7,389.0	421,173
West Liberty*	0	7,389.0	0

* No voluntary diversity open enrollments denials for the years examined.

** Open enrollment funds included the previous year's SCPP and teacher leadership categorical.

It is unknown into which districts pupils may choose to open enroll; therefore, the fiscal impact to the receiving districts cannot be determined. This estimate does not include any additional enrollments due to previously denied open enrollments from prior fiscal years. Any additional pupils previously denied under the voluntary enrollment plans from previous fiscal years who choose to open enroll may increase the fiscal impact on the resident school districts.

Division IV

Background

Education Information, Program Standards, and Funding — The DE currently collects multiple data sets using multiple systems including the [Basic Educational Data Survey \(BEDS\)](#), [Student Reporting in Iowa \(SRI\)](#), and the [EdInsight – Education Data Warehouse](#). Any change in data collection systems would need to meet requirements within the federal [Family Educational Rights and Privacy Act \(FERPA\)](#).

All public and nonpublic schools currently use their own data reporting system, often with substantial customization to serve the needs of the school. These needed customizations are used in the areas of school food service programming, email, gradebooks, and data reporting tools.

2017 Iowa Acts, chapter [154](#), increased district flexibility in how unexpended and unobligated amounts from certain categorical funds can be used through the creation and utilization of a flexibility account within a school district's general fund. Use of this flexibility account requires formal action by the district's school board.

Statewide in FY 2020, 276 school districts carried forward \$45.0 million in teacher leadership funds, an average of \$163,000 per district. Statewide in FY 2020, 240 school districts carried \$9.7 million forward in teacher salary supplement funds, an average of approximately \$40,000 per district.

Assumptions

Education Information, Program Standards, and Funding:

- School districts will increase transfers to the flexibility account of unobligated or unexpended teacher leadership supplement funds and teacher salary supplement funds. In FY 2020, 40 school districts made expenditures from their flexibility account.
- Additional school districts may submit an adopted resolution authorizing expenditure from their flexibility account.

Fiscal Impact

Education Information, Program Standards, and Funding — Based on previous estimates, the DE anticipates a cost of \$4.0 million for initial establishment of the SIS. The State could use set-aside funding from the federal Elementary and Secondary School Emergency Relief ([ESSER II funds](#)).

After the first year of statewide implementation of the proposed SIS, the Bill provides that the cost of operating the system may be funded through the collection of a fee by the DE. This fee would be charged to each school district and accredited nonpublic school and is not to exceed \$7 per student for the first year of the fee. The fiscal impact to school districts would be an estimated \$3.5 million based on 2020-2021 [public school district enrollments](#) and an estimated \$260,000 based on 2019-2020 [nonpublic school enrollments](#). Additional school district and nonpublic school costs cannot be determined but would be anticipated for the following:

- Substantial data transition from existing systems to a new SIS.
- Statewide training for implementation of a new SIS.
- The Bill is unclear whether customizations would be allowed in the proposed SIS and whether the system could be used for functions beyond State reporting. Educational institutions may be required to customize the SIS to meet local needs or maintain a dual SIS.

Changes to districts' flexibility accounts under the provisions of this Bill will have no fiscal impact to the State. School districts may increase expenditures from their flexibility accounts; however, the extent cannot be determined.

Division V

Background

Education Tax Credits and Deductions — For information on the Tuition and Textbook Tax Credit, please read [Fiscal Topic: Tax Credit: Tuition and Textbook](#). Information on the Teacher Expense Deduction is available [here](#).

Assumptions

Teacher Expense Deduction:

- Current Iowa law allows teachers to deduct up to \$250 in qualified classroom expenses from their Iowa income. The deduction is per taxpayer, so married taxpayers are each allowed to deduct up to \$250 each. This deduction lowers Iowa taxable income and therefore the income tax paid by teachers utilizing the deduction. The Bill increases the deduction maximum to \$500 per taxpayer. The deduction increase is first effective beginning tax year (TY) 2021.

- The Iowa Department of Revenue (IDR) utilized a model of Iowa tax returns to develop the fiscal impact projection for this provision. The model is based on actual tax returns filed for TY 2019.
- For TY 2019, 33,628 households claimed a total of \$8.6 million in Teacher Expense Deductions (an average of \$256 per household).
- In determining the fiscal impact of the change, it is assumed that increasing the deduction will not increase the number of households utilizing the deduction and will not cause current claimants to increase their classroom expenses.
- Modeled tax returns in which the TY 2019 deduction was \$250 (the maximum for a single taxpayer) or higher (indicating two eligible taxpayers) were randomly assigned projected deductions between \$250 and \$1,000.
- Modeled tax returns in which the TY 2019 deduction was below \$250 were assumed to have deductions for future years equal to their TY 2019 deduction.
- The fiscal impact of teacher expense deduction was computed by comparing the model results under current law (maximum \$250 deduction) to the model results assuming a maximum \$500 deduction.
- The tax reduction associated with the enhanced deduction is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).

Tuition and Textbook Tax Credit:

- Current Iowa law allows taxpayers to claim a nonrefundable tax credit equal to 25.0% of up to \$1,000 in qualified elementary and secondary (K-12) school expenses paid by the taxpayer for each dependent attending an [accredited](#) K-12 public or nonpublic school. Qualified expenses include:
 - Tuition to an accredited school.
 - Textbooks.
 - Specialized play, concert, and sports clothing.
 - Driver's education fees paid to a K-12 school.
 - Certain dues, fees, and admission charges.
 - Materials for extracurricular activities.
 - Rental of musical instruments and other music expenses.
 - Required supplies for shop and other specialized classes.
 - Fees and charges for transportation if paid to the school.
 - Band and athletic uniforms.
- The Bill expands the Tuition and Textbook Tax Credit by:
 - Increasing the maximum basis of the credit from \$1,000 per student to \$2,000.
 - Increasing the credit percentage from 25.0% to 50.0%.
 - Changing the credit from nonrefundable to refundable.
 - Expanding eligibility to include private instruction students (home schooling and other nonaccredited education options).
- Projection Assumptions and Methods:
 - The changes to the tax credit are effective beginning TY 2021.
 - The IDR utilized a model of Iowa tax returns to develop the fiscal impact projection for this provision. The model is based on actual tax returns filed for TY 2019.
 - For TY 2019, 111,800 households claimed a total of \$14.9 million in Tuition and Textbook Tax Credits.

- The expansion of the credit is projected to increase the amount claimed by taxpayers and therefore reduce individual income tax revenue. The negative fiscal impact on State General Fund revenue is divided into three cumulative, direct impacts:
 - The annual benefit to the 111,800 current claimants is projected to increase by \$27.0 million due to the increase in the expense maximum to \$2,000, the increase in the credit percentage to 50.0%, and the switch to a refundable credit from a nonrefundable credit.
 - Usage of the current credit is low, at around 40.0% of eligible households. The proposed enhancements to the credit are substantial, and the enhancements are projected to expand the number of public and nonpublic school households that claim the credit for qualified expenses by 21.4% (24,000 households). The annual total credit claimed by those households is projected to be \$12.1 million.
 - The expansion of the credit to include private instruction households is expected to add an additional 22,050 private instruction students, and the total tax credits claimed is projected to be \$12.3 million.
- The tax reduction associated with the enhanced tax credit is assumed to occur when tax returns are filed (decreased final tax payments and increased tax refunds).
- Nonrefundable individual income tax credits lower the amount of State income tax used in the calculation of the income surtax for schools, while refundable credits do not. Switching the Tuition and Textbook Tax Credit from nonrefundable to refundable will increase the surtax amount calculated for any tax return that is subject to the surtax and also claims the Tuition and Textbook Tax Credit.
- The IDR reports that the switch from a nonrefundable to a refundable tax credit will require substantial revisions of existing tax forms and associated computer programs, as well as additional auditing expenses associated with the projected increase in the number of households claiming the Tuition and Textbook Tax Credit.

Fiscal Impact

Teacher Expense Deduction — Increasing the maximum classroom expense deduction from the current \$250 to \$500 per taxpayer is projected to reduce net General Fund revenue by \$410,000 each year, beginning FY 2022.

Tuition and Textbook Tax Credit — The expansion of the Tuition and Textbook Tax Credit is projected to reduce annual General Fund revenue by \$51.4 million beginning FY 2022. The change from a nonrefundable to a refundable credit is projected to increase the annual amount raised by the income surtax for schools by \$450,000 beginning FY 2022.

Additional Potential Fiscal Impact

Existing Iowa law provides for a significant change to Iowa's individual income tax system once two General Fund revenue triggers are met. The first year that the triggers may be met is at the conclusion of FY 2022. Once implemented, this contingent income tax system is projected to reduce Iowa individual income tax by roughly \$300.0 million per tax year. Since this Bill is projected to reduce General Fund revenue in FY 2022 and after, the Bill's changes will significantly reduce the probability of achieving both revenue triggers; as a consequence, the Bill could result in delayed implementation of the income tax reduction by one or more tax years.

Division VI

Background

School District Enrollment Working Group — Certified Enrollment is an annual report of enrolled resident students used for the Iowa school finance formula calculation. The certified enrollment

count is taken October 1 every year, or the following Monday if October 1 falls on a weekend, and is due no later than October 15. The certified enrollment count is used to calculate State aid and property tax levies for the next fiscal year following the fall count. For information on certified student enrollment, please see [here](#).

Fiscal Impact

This Division is expected to have no fiscal impact to the State or the DE.

Division VII

Background

Open Enrollment — Open enrollment is the process by which parents or guardians residing in a school district may enroll their children into another Iowa school district under the provisions set in the Iowa Code and Iowa Administrative Code. The deadline for parents to submit open enrollment applications for grades 1 through 12 is March 1. The deadline for students entering kindergarten is September 1. For information on open enrollment, please see [here](#).

Assumptions

Open Enrollment:

- School districts may experience an increase in open enrollment applications; however, the extent is unknown.
- Resident districts may experience a decline in revenue, while receiving districts may experience an increase in revenue.
- Revenue includes the previous year's SPPP amount and the resident district teacher leadership supplemental cost.

Fiscal Impact

Open Enrollment — Changes to open enrollment and athletic eligibility under the provisions of this Bill will have no fiscal impact to the State. Open enrollment applications are expected to increase; however, the extent to which each district may experience a fiscal impact cannot be determined.

Division VIII

Background

School Board Powers and Duties — The Iowa Code provides for [powers and duties](#) of school boards.

Fiscal Impact

School Board Powers and Duties — This Division clarifies school board member responsibilities and is expected to have no fiscal impact to the State.

Sources

Iowa Association of School Boards
Iowa Department of Education
Iowa Department of Revenue
Urban Education Network of Iowa
LSA calculations

/s/ Holly M. Lyons

February 11, 2021

Doc ID 1210993

The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

www.legis.iowa.gov

Appendix A: School Districts with an ESSA Identified Comprehensive Support School Building and Accredited Nonpublic Schools by Grade Offering

