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[HF 847](#) – Education Programs, Tax Credits, and Information (LSB2474HZ.1)  
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Fiscal Note Version – As amended and passed by the House

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**Description**

[House File 847](#) 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 — Education Program Standards and Funding: Creates a flexible student and school support program to be administered by the Department of Education (DE), allows for an additional categorical source to be eligible for use within the school district flexibility account, and directs school districts and area education agencies (AEAs) to expend unobligated funds from the teacher salary supplement in FY 2022.

DIVISION II — 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. Also expands the [Tuition and Textbook Tax Credit](#) by doubling the allowed expense amount to \$2,000 per qualified student and extending the credit to students educated through private instruction.

DIVISION III — Open Enrollment: Modifies several provisions relating to open enrollment and athletic eligibility including:

- Amending rules for participation in extracurricular activities.
- Designating a deadline for prekindergarten students enrolled in special education programs and adding additional good cause provisions to open enrollment for such students after the deadline.
- Expanding the good cause definition to include students who attend attendance centers identified as in significant need of improvement and defining such attendance centers.
- Providing an opportunity for an additional appeal to the State Board of Education for a late open enrollment application that does not meet the definition of good cause for a student whose resident district consistently failed to respond reasonably to a student's academic failure to meet basic academic standards.
- Clarifying language regarding the resident district responsibility for paying open enrollment tuition.
- Establishing minimum standards of economic eligibility requirements for transportation assistance of open enrolled students.
- Adding to the list of circumstances in which an open enrolled student may participate in varsity athletics and providing additional ineligibility clauses.

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

DIVISION V — Shared Operational Functions: Adds a work-based learning (WBL) coordinator and special education director to the list of eligible operational functions and positions eligible for supplementary weighting funding from FY 2023 through FY 2025. Additional provisions of the Bill reduce the weighting for all positions generating a weighting of five to four, and reduce the weighting for all positions generating a weighting of three to two.

EFFECTIVE DATES — The Bill takes effect upon enactment with retroactive provisions in Division II and Division III and an applicability provision in Division V.

### **Division I**

#### **Background**

Education Program Standards and Funding — School districts and nonpublic schools are currently allowed to waive high school offer and teach requirements by applying for and receiving an innovative waiver available in Iowa Code section [256.11](#). The Flexible Student and School Support Program (FS3) would allow the waiver of offer and teach requirements for grades 1 through 12 to create programs that focus on a certain area of academics or on student well-being. Potential high school FS3 programs could include a focus on the following:

- Advanced science, technology, engineering, and math (STEM) courses.
- Advanced science, technology, engineering, art, and math (STEAM) courses.
- Student voice, well-being, and mental health.
- Work-based learning.

The FS3 program would also allow for a waiver of the minimum school calendar requirements in Iowa Code section [279.10](#).

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.

In FY 2020, school districts and AEAs carried forward an estimated \$10.5 million in teacher salary supplement funds.

#### **Assumptions**

Education Program Standards and Funding:

- School districts will increase transfers to the flexibility account of unobligated or unexpended teacher salary supplement funds. In FY 2020, 40 school districts made expenditures from their flexibility accounts.
- Additional school districts may submit an adopted resolution authorizing expenditure from their flexibility accounts.
- It is not known how much of the carry forward funds for the teacher salary supplement will be unobligated in FY 2022. Using FY 2020 data for estimation purposes, it is assumed the FY 2022 carry forward will be similar, and all carry forward funds are unobligated.
- Under current law, 5.0% of the estimated FY 2022 teacher salary supplement funds equals \$15.9 million.
- 119 school districts and three AEAs will have an estimated unobligated carry forward of more than 5.0% of the FY 2022 teacher salary supplement funds received.
- Any teacher salary supplement funds not carried forward from FY 2022 may reduce a school district's spending authority in FY 2023.

### **Fiscal Impact**

The allowance for FS3 programs will have no fiscal impact to the State; however, additional DE administration and oversight may be required.

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.

School districts and AEAs will expend an additional estimated \$4.7 million from unobligated teacher salary supplement funds in FY 2022. These additional expenditures will have no fiscal impact to the State.

## **Division II**

### **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 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 and by extending 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 number of taxpayers benefiting from the credit and the amount claimed by taxpayers. The tax reduction and the resulting projected State General Fund revenue reduction is the summation of three separate impacts:
    - The annual benefit to a portion of the 111,800 current claimants is projected to increase due to the increase in the expense cap to \$2,000.
    - Usage of the current credit is low, at around 40.0% of eligible households. Enhancing the tax credit is projected to encourage additional taxpayers who are currently eligible but do not claim the credit to change behavior and claim the credit in the future.
    - The expansion of the credit to include private instruction households is projected by the LSA to add an additional 22,050 private instruction students.
    - 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 tax credits reduce the income raised by the local option income surtax for schools by an amount that is assumed to equal 3.0% of the reduction in State individual income tax liability.

### **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 \$11.1 million beginning FY 2022. The change is also projected to reduce the statewide amount of income raised by the local option income surtax for schools by \$300,000 per year.

### **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 III**

#### **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:

- The DE does not collect data on denied or approved open enrollment applications.
- School districts may experience an increase in open enrollment applications; however, the extent is unknown.
- Resident districts may experience a decline in net revenue, while receiving districts may experience an increase in net revenue.
- Revenue includes the previous year's State cost per pupil amount and the resident district teacher leadership supplemental cost. Additional revenue may include funding for additional weighting applicable to the pupil.
- The number of open enrolled students in contiguous districts that qualify for transportation assistance may increase. The resident school district will continue to be responsible for payment of transportation assistance to the parent or guardian if the resident district chooses this option. The cost of transportation reimbursements incurred by the resident district will continue to be deducted from the tuition sent to the receiving district.

#### **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 and transportation reimbursements are expected to increase; however, the extent to which each district may experience a fiscal impact cannot be determined.

### **Division IV**

#### **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.

### **Division V**

#### **Background**

Shared Operational Functions — School districts that share certain job positions with one or more districts, with an Area Education Agency (AEA), or with another authorized authority under

an Iowa Code chapter [28E](#) agreement may be eligible to receive supplementary weighting. To be eligible, the function's sharing must be for at least 20.0% of the contract time during the fiscal year for the district and at least 20.0% for one sharing partner. For more information on operational function sharing, see [Operational Function Sharing Guidance](#).

**Assumptions**

Shared Operational Functions:

- Under current law, the State cost per pupil for FY 2023 and all future years is \$7,227.
- Based on supplementary weighting data for FY 2022, reducing the weighting generated for all positions, except superintendent, will reduce supplementary weightings for shared operational functions by 589 weightings beginning in FY 2023.
- A total of 247 school districts will see a reduction in funding ranging from \$7,227 to \$36,820.
- A total of 80 school districts will remain revenue neutral under the provisions of this Division.
- Of the 80 school districts, 63 districts do not currently generate weighting for shared operational functions. The remaining 16 school districts will continue to submit operational sharing weighting data to the DE that exceed a weighting of 21.0. These districts' weightings will then continue to be adjusted down by the DE to 21.0.
- Funding for WBL coordinators and special education directors will begin in FY 2023 based on school year 2021-2022 data.
- School districts not currently generating an operational function weighting will likely not generate weightings in the future.
- It is assumed 20.0% of the eligible districts will generate operational function weightings by sharing a WBL coordinator and/or a special education director with another district, with an AEA, or with a local authority under an Iowa Code chapter [28E](#) agreement up to the allowable cap of funding allowed.

**Fiscal Impact**

Beginning in FY 2023, the reduction to weightings for select operational sharing positions and the inclusion of two new positions will reduce State aid from the General Fund by an estimated \$2.5 million each year. Property taxes will also be reduced by an estimated \$300,000 each year.

Division V Fiscal Impact Summary (in millions)				
<b>State Aid</b>	FY 2023	FY 2024	FY 2025	
Weightings Reduction	\$ -3.8	\$ -3.8	\$ -3.8	
Additional Allowable Positions	1.3	1.3	1.3	
	\$ -2.5	\$ -2.5	\$ -2.5	
<b>Property Taxes</b>				
Weightings Reduction	\$ -0.4	\$ -0.4	\$ -0.4	
Additional Allowable Positions	0.1	0.1	0.1	
	\$ -0.3	\$ -0.3	\$ -0.3	
<b>Total</b>	<b>\$ -2.8</b>	<b>\$ -2.8</b>	<b>\$ -2.8</b>	

## **Summary Table of Fiscal Impacts of HF 847**

Division	Fiscal Impact	Description	Amount	Source
I	No	FS3 Program		May require additional DE administrative costs
	Yes, to school districts	Teacher Salary Categorical	\$-4.7 million in FY 2022	Local school district categorical carryforward
II	Yes	Teacher Expense Deduction	\$-410,000 beginning in FY 2022	General Fund
		Tuition and Textbook Tax Credit	\$-11.1 million beginning in FY 2022	General Fund
			\$-300,000 beginning in FY 2022	Local option income surtax for schools
III	Yes, to school districts	Increased open enrollment	Undetermined	Local school districts
IV	No	School board powers		
V	Yes	Operational Sharing	\$-2.5 million beginning in FY 2023	State aid from the General Fund
			\$-293,000 beginning in FY 2023	Local property taxes

### **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.

### **Sources**

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

/s/ Holly M. Lyons

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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.