



[SF 94](#) – Education Savings Accounts (LSB1174SV)
Staff Contact: Ron Robinson (515.281.6256) ron.robinson@legis.iowa.gov
Fiscal Note Version – New

Description

[Senate File 94](#) provides a new standing unlimited General Fund appropriation for an Education Savings Account (ESA) Fund under the control of the Department of Education (DE) beginning with FY 2024 and modifies school district categorical funding supplements.

The Fund is required to be used to establish individual accounts for participating pupils and to make qualified education savings account payments on behalf of parents and guardians.

Effective for FY 2024, the following pupils who attend a nonpublic school are eligible to receive an ESA payment:

- All kindergarten pupils.
- Pupils who were enrolled in a public school the previous year.
- Pupils who were enrolled in a nonpublic school the previous year with an annual household income at or below 300.0% of the Federal Poverty Level (FPL) (\$83,250 for a family of four).

Year two (FY 2025) eligibility includes the following pupils:

- All kindergarten pupils.
- All pupils who were enrolled in a public school the previous year.
- Pupils who were enrolled in a nonpublic school the previous year with an annual household annual income at or below 400.0% of the FPL (\$111,000 for a family of four).

Year three (FY 2026) eligibility includes all K-12 pupils in Iowa who attend a nonpublic school.

The annual ESA amount per account is determined by the State cost per pupil (SCPP) for that fiscal year and changes each year based on the State percent of growth (SPG). Funds in an ESA must be used for defined qualified educational expenses. Enrollment and funding amounts are based on annual applications, which are due to the DE by June 30 each year, and verification of a pupil's plans to be enrolled in a nonpublic school.

Funds remaining in a pupil's account at the conclusion of a fiscal year will remain in the account for the payment of qualified educational expenses in future fiscal years if the pupil participates in the ESA Program until the pupil becomes ineligible or until the remaining amounts are transferred to the General Fund. Remaining amounts are required to be transferred to the General Fund when the pupil graduates from high school or reaches the age of 20, whichever occurs first.

The Director of the DE is granted the powers necessary to carry out the purposes, objectives, and provisions of this Bill pertaining to the Fund. The powers granted to the Director include but are not limited to the following:

- Make and enter into contracts with a third-party entity (TPE) necessary for the administration of the Program.

- Procure insurance against any loss in connection with the assets of the Fund or require a surety bond.
- Contract with a qualified firm including but not limited to a TPE that administers the Fund to allocate funds from each pupil's account for the payment of qualified educational expenses by the pupil's parent or guardian.
- Adopt administrative rules for the administration of the Fund and accounts within the Fund.

Division II of the Bill takes effect upon enactment. The Bill authorizes the Department of Education to adopt emergency administrative rules to implement the Program.

Payments received by a taxpayer from an ESA are not taxable income for purposes of State individual income taxation. This provision of the Bill applies retroactively to tax years beginning on or after January 1, 2023.

The DE is required to compile all assessment results reported by nonpublic schools to analyze student proficiency and academic progress among those pupils participating in the Program, including analysis of graduation rates, proficiency, and progress based on grade level, gender, race, and household income level. The results of the DE's analysis must be included in the Annual Condition of Education Report.

Funding is allocated from the following supplemental programs to the local public school for resident pupils in the public school district who receive ESAs:

- Teacher Salary Supplement District Cost
- Professional Development Supplement District Cost
- Early Intervention Supplement District Cost
- Teacher Leadership Supplement District Cost

Division III of the Bill takes effect upon enactment. Public school districts may use all or a portion of remaining funds from the following categorical funding at the end of any fiscal year, beginning with FY 2023, for teacher salary categorical supplement purposes under the salary system established under Iowa Code section [284.3A](#):

- Professional Development Categorical Supplement
- Teacher Leadership Categorical Supplement
- Gifted and Talented Program for Teacher Salary Categorical Supplement

Background

The Legislative Services Agency (LSA) has reviewed numerous reports and estimated fiscal impacts from other states. Each state has unique features for programs designed to provide support for students attending nonpublic schools. The LSA determined that programs from other states cannot be used to validate or create assumptions. Other states have stated that a fiscal impact could not be estimated.

Currently, 58 of Iowa's 99 counties have an accredited nonpublic school.

Public school funding is primarily based on enrollment weighting and the SCPP. Certified enrollment is established in October of each year. The General Assembly uses the October certified enrollment to establish funding for public schools during the following year's legislative session, usually in February, and the fiscal year budget is set for the next fiscal year. For example, the October 2022 certified enrollment is used during the 2023 Legislative Session to set the FY 2024 appropriations for public schools. Therefore, funding for FY 2024 for public schools will include pupils who are included in the October 2022 count who attend a nonpublic

school and receive an ESA. For FY 2025, those pupils will not be included in the October count and the pupils' former public schools will no longer receive State Foundation Aid for those students.

Public school districts currently are allowed, as provided in Iowa Code section [298A.2](#), to use a flexibility account (also called a flex account). Flex account funds can be used as specified in Iowa Code section 298A.2(2)(c), including for any school district general fund purpose. A public school is allowed to transfer all or any portion of the unexpended and unobligated funds from any of the following sources to the flex account following a determination that the statutory requirements for such funds are met:

- Statewide Preschool Program under Iowa Code chapter [256C](#).
- Professional development funds received under Iowa Code section [257.10](#)(10).
- The home school assistance program under Iowa Code section [299A.12](#).
- Teacher Leadership Supplement funds received under Iowa Code section [257.10](#)(12).

The Bill permits public school districts to use all or a portion of remaining funds from specified categorical funding at the end of any fiscal year, beginning with FY 2023, for teacher salary categorical supplement purposes under the salary system established under Iowa Code section [284.3A](#). Listed below are the specified categorical supplements and balances based on preliminary FY 2022 data:

- Professional Development Categorical Supplement (\$31.9 million)
- Teacher Leadership Categorical Supplement (\$40.4 million)
- Gifted and Talented Program for Teacher Salary Categorical Supplement (\$27.1 million)

Assumptions

The following assumptions are for estimation and comparison purposes only and are not legislative recommendations:

- The State percentage of growth (SPG) for State school aid funding will be 2.50% each fiscal year.
- The Teacher Salary Supplement Program will receive an additional 0.50% increase in addition to the SPG for FY 2024.
- Area Education Agencies (AEAs) will be reduced by \$17.1 million each year in addition to the statutory reduction of \$7.5 million.
- The Property Tax Replacement Payment (PTRP) will be renewed each year.
- Data is not available for the following:
 - The number of current public school pupils who will elect to participate in the Program.
 - The family incomes of the pupils who will elect to participate.
 - The local school districts in which the participants are currently enrolled.
 - How many participants will qualify for special services (e.g., special education).
 - The current and future capacity of the nonpublic schools to add pupils.
- Projected enrollment at 300.0% of the FPL for FY 2024 is based on 20.0% of the FY 2023 projected nonpublic certified enrollment for grades 1-12.
- Projected enrollment at 400.0% of the FPL for FY 2024 is based on 10.0% of the FY 2023 projected nonpublic certified enrollment for grades 1-12.
- The transfer rate for FY 2024 from public to nonpublic schools will be 1.0% of the FY 2023 projected public certified enrollment for grades K-12.
- The transfer rate for FY 2025, and each fiscal year thereafter, from public to nonpublic schools will be 0.02% of the FY 2023 projected public certified enrollment for grades K-12.

- The costs associated with the DE’s administration of the Program and the cost of the TPE with which the DE will contract for the administration of the ESAs will not be known until after a request for proposals (RFP) has been issued.

Fiscal Impact

Based on the currently available information, SF 94 may result in the following General Fund net increase in State public school aid and ESAs:

- FY 2024: \$106.9 million
- FY 2024: \$132.3 million
- FY 2025: \$294.7 million
- FY 2026: \$344.9 million

Tables 1-5 provide the detailed cost estimates and **Table 6** is the net fiscal impact of the Bill versus current law assumptions.

Table 1 displays the estimated annual ESA Program enrollment by fiscal year, along with the assumptions used to create the estimates.

Table 1 — Annual ESA Enrollment

Notes:	Enrollments	FY 2024	FY 2025	FY 2026	FY 2027
1	New Nonpublic Kindergarten	3,214	3,214	3,214	3,214
2	Nonpublic Poverty Level Eligible Year 1	6,013	0	0	0
3	Nonpublic Poverty Level Increase Year 2	0	2,684	0	0
4	Remaining Nonpublic Pupils	0	0	16,678	0
5	Public to Nonpublic Transfer 1.0%	4,841	0	0	0
6	New Public to Nonpublic	0	97	97	97
	New Pupils for Appropriation	14,068	5,995	19,989	3,311

Notes:

- 1 Projected Nonpublic Grade K Enrollment FY 2023.
- 2 Projected Enrollment at 300.0% FPL Based on 20.0% of FY 2023 Projected Nonpublic Certified Enrollment for Grades 1-12.
- 3 Projected Enrollment at 400.0% FPL Based on 10.0% of FY 2023 Projected Nonpublic Certified Enrollment for Grades 2-12.
- 4 Projected Nonpublic Certified Enrollment FY 2023 for Grades 3-12 Less Prior FPL ESAs.
- 5 Transfer Rate 1.0% Based on FY 2023 Projected Public Certified Enrollments for Grades K-12.
- 6 Transfer Rate 0.02% Based on FY 2023 Projected Public Certified Enrollments for Grades K-12.

Table 2 displays the estimated annual number of ESAs funded by eligibility category and whether the account relates to a current public or nonpublic pupil.

Table 2 — Annual ESAs Funded by Eligibility Category

Total ESAs Funded	FY 2024	FY 2025	FY 2026	FY 2027
New Nonpublic Kindergarten	3,214	3,214	3,214	3,214
Nonpublic Poverty Level Eligible	6,013	2,684	0	0
Remaining Nonpublic Pupils	0	0	16,678	0
ESAs for Current Nonpublic Schools	9,227	5,898	19,892	3,214
Public to Nonpublic Transfer	4,841	97	97	97
Prior Nonpublic Kindergarten	0	3,214	6,428	9,642
Prior Nonpublic Poverty Level Eligible	0	6,013	8,697	8,697
Prior Nonpublic Poverty Level Eligible Grads	0	0	0	-176
Prior Nonpublic Pupils	0	0	0	16,326
Nonpublic Pupil Graduates	0	0	-352	-374
Prior Public to Nonpublic Transfer	0	4,841	4,938	4,653
Prior Public to Nonpublic Transfer Graduates	0	0	-382	-392
Total ESAs in Formula	0	14,068	19,329	38,376
Total ESAs Funded	14,068	20,063	39,318	41,687
Public School Estimated Enrollment	486,476	480,894	479,152	475,207
Total Budgeted Enrollment	500,543	500,956	518,470	516,894

Table 3 displays the estimated SCPP by fiscal year including estimates by fiscal year of the total funding required from the General Fund based on the assumptions made in calculating the State school aid formula, and the resulting General Fund appropriation change under the State school aid formula with and without ESAs.

Table 3 — General Fund Formula State Aid

	FY 2024	FY 2025	FY 2026	FY 2027
State Percent of Growth (SPG) Assumption*	2.50%	2.50%	2.50%	2.50%
State Cost Per Pupil (SCPP) at 2.50%	\$ 7,598	\$ 7,788	\$ 7,983	\$ 8,183
State Aid from General Fund With ESAs	3,651,000,000	3,695,000,000	3,744,000,000	3,798,000,000
State Aid from General Fund Without ESAs	3,651,000,000	3,736,000,000	3,788,000,000	3,844,000,000
Difference	\$ 0	\$ -41,000,000	\$ -44,000,000	\$ -46,000,000

*The 2.50% SPG is only an assumption for comparison purposes and not a legislative recommendation.

Table 4 displays the estimated General Fund cost by fiscal year to fund ESAs.

Table 4 — General Fund ESA Appropriation Cost

	FY 2024	FY 2025	FY 2026	FY 2027
Yearly Additional Cost for New ESAs	\$ 106,900,000	\$ 46,700,000	\$ 159,600,000	\$ 27,100,000
Formula Cost for ESAs	0	109,600,000	154,300,000	314,000,000
General Fund ESA Appropriation Cost	\$ 106,900,000	\$ 156,300,000	\$ 313,900,000	\$ 341,100,000

Table 5 displays the estimated categorical State aid per pupil and the resulting amount retained by the public school for resident pupils who attend a nonpublic school.

Table 5 — Categorical State Aid to Public Schools for Pupils Attending Nonpublic Schools

	FY 2024	FY 2025	FY 2026	FY 2027
Categorical State Aid Per Pupil	\$ 1,176	\$ 1,205	\$ 1,235	\$ 1,266
Categorical State Aid Retained by Public Schools for Nonpublic Pupils	5,700,000	17,000,000	24,800,000	49,800,000

Senate File 94 provides a new standing unlimited General Fund appropriation for an ESA Fund under the control of the DE. **Table 6** displays the estimated net fiscal impact of SF 94.

Table 6 — Net Fiscal Impact of Bill vs. Current Law Assumptions

	FY 2024	FY 2025	FY 2026	FY 2027
State Aid from General Fund with ESAs	\$ 3,651,000,000	\$ 3,695,000,000	\$ 3,744,000,000	\$ 3,798,000,000
Categorical State Aid Retained by Public Schools for Nonpublic Pupils	5,700,000	17,000,000	24,800,000	49,800,000
Amount Included in State Aid	-5,700,000	0	0	0
General Fund ESA Appropriation Cost	106,900,000	156,300,000	313,900,000	341,100,000
Total Estimated Cost	\$ 3,757,900,000	\$ 3,868,300,000	\$ 4,082,700,000	\$ 4,188,900,000
State Aid from General Fund Without ESAs	\$ 3,651,000,000	\$ 3,736,000,000	\$ 3,788,000,000	\$ 3,844,000,000
Net Change	\$ 106,900,000	\$ 132,300,000	\$ 294,700,000	\$ 344,900,000

The Bill does not specify a source of funds to pay for the DE's administration of the Program or the cost of the TPE with which the DE will contract for the administration of the ESAs. The cost to administer the Program is unknown at this time since an RFP has not been completed.

Sources

- Department of Management
- Department of Education
- School Aid Data
- National Conference of State Legislatures (NCSL)
- LSA analysis and calculations

/s/ Jennifer Acton

January 23, 2023

Doc ID 1367628

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.