

**AN ACT RELATING TO EDUCATION FUNDING AND CHOICE BY ESTABLISHING THE IOWA SCHOOL CHOICE FUND PROGRAM, PROVIDING FOR THE REPEAL OF THE EDUCATION SAVINGS ACCOUNT PROGRAM, AMENDING SCHOOL FOUNDATION AID PROVISIONS TO INCLUDE TRANSITIONAL HOLD-HARMLESS AND EFFICIENCY INCENTIVES, CREATING A SEPARATE TRUST FUND, REQUIRING FEDERAL AND PRIVATE FUND LEVERAGE, EXPANDING ELIGIBILITY, PROVIDING APPROPRIATIONS, AND INCLUDING EFFECTIVE DATE AND APPLICABILITY PROVISIONS.**

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

**Section 1.** Section 257.11B, Code 2026, is repealed.

**Section 2.** NEW SECTION. 257.11B Iowa school choice fund program.

1. *Short title.* This section shall be known and may be cited as the “Iowa School Choice Fund Act”.
2. *Definitions.* As used in this section, unless the context otherwise requires: a. “Department” means the department of education. b. “Fund” means the Iowa school choice fund created in subsection 5. c. “Grant” means a school choice grant awarded under this section. d. “Nonpublic school” means the same as defined in section 285.16. e. “Qualified educational expenses” means the same as defined in former section 257.11B, subsection 1, paragraph “a”, subparagraph (2), as in effect prior to the effective date of this Act, with such additional expenses as the department may approve by rule, including but not limited to homeschool curricula, co-op fees, and supplemental public school enrichment. f. “Resident” means the same as defined in section 282.1, subsection 2. g. “Scholarship granting organization” or “SGO” means a nonprofit organization certified by the department to receive and distribute federal tax-credit scholarship donations and other private funds into the fund. h. “State cost per pupil” means the regular program state cost per pupil for the applicable school budget year as defined in section 257.9.
3. *Eligibility and program expansion.* a. All Iowa-resident pupils eligible to enroll in prekindergarten through grade twelve shall be eligible for a school choice grant under this section. b. Grants may be used by parents or guardians for qualified educational expenses at nonpublic schools, for homeschool programs, or for supplemental enrichment by public school students. c. A rural access bonus shall be available for grants or district credits in counties with no accredited nonpublic schools or in districts with population density below a threshold established by department rule.
4. *Public school district protections and incentives.* a. *Transitional hold-harmless.* For the first three school budget years after a pupil switches from public to a choice option funded by the fund, the pupil’s resident school district shall receive foundation aid calculated as if the pupil remained enrolled, phased down as follows: one hundred percent in year one, sixty-seven percent in year two, and thirty-

three percent in year three. Thereafter, aid shall be based on actual enrollment. b. *Efficiency incentive tiers.* A resident school district may voluntarily participate in efficiency incentive tiers and receive per-pupil credits from the fund for each net-new choice participant beyond the district's three-year average enrollment baseline. Credits shall be capped at sixty percent of the grant amount and shall be awarded according to the following tiers: (1) Tier 1: Per-pupil spending growth does not exceed inflation plus enrollment-adjusted decline. (2) Tier 2: Per-pupil spending held flat while maintaining or improving proficiency, graduation rates, and student-teacher ratios. (3) Tier 3: At least two percent real per-pupil reduction achieved while protecting classroom instruction (no reduction in teacher salaries or core spending). c. Certification shall use existing department of education data and annual audits. Plans shall be posted publicly.

5. *Fund creation and funding sources.* a. The Iowa school choice fund is created in the state treasury under the control of the department. The fund shall consist of appropriations, federal tax-credit scholarship donations, private grants, and other revenues. Moneys in the fund shall not revert and shall be used exclusively for grants, district credits, administration, and rural bonuses. b. At least seventy percent of all disbursements from the fund in any fiscal year shall derive from federal and private sources through SGOs. The department shall prioritize SGO certification and FTCS participation. If the leverage ratio falls below seventy percent, new grant approvals shall be phased or prioritized by rule. c. Any state appropriation shall be a backstop only and shall not exceed the amount necessary to maintain net impact on direct state foundation aid below five percent of the prior-year baseline, as certified annually by the legislative services agency.
6. *Administration.* The department shall administer the program through an expanded existing third-party portal. Grants shall equal the state cost per pupil. Applications shall be submitted annually. The department shall adopt rules pursuant to chapter 17A.
7. *Transparency and accountability.* The department shall maintain a public dashboard with real-time data on grants, credits, spending, and outcomes. Annual independent audits shall be conducted. All participants shall provide minimal outcome reporting. Misuse shall result in clawback.
8. *Sunset.* This section is repealed effective July 1, 2032, unless reenacted by the general assembly following a legislative services agency review of costs, outcomes, leverage, and public school impacts.

**Section 3.** Section 257.1, Code 2026, is amended by adding the following new subsection:  
New subsection. *Transitional adjustments for school choice fund participants.* Foundation aid calculations shall incorporate the transitional hold-harmless and efficiency incentive provisions of section 257.11B.

**Section 4.** Section 256.9, Code 2026, is amended by adding the following new subsection:  
New subsection. Adopt rules relating to the administration of the Iowa school choice fund program pursuant to section 257.11B.

**Section 5.** Appropriations. For the fiscal year beginning July 1, 2028, and each succeeding fiscal year, there is appropriated from the general fund of the state to the department of education the amount necessary to administer the program and provide any state backstop required under section 257.11B, subject to the five percent impact cap.

**Section 6.** Effective date and applicability. This Act takes effect July 1, 2028, and applies to school budget years beginning on or after that date. Pupils receiving education savings account payments under former section 257.11B for the 2026-2027 school year shall be grandfathered into the new program.

## **Legislative Summary**

This is an act relating to education funding and choice by establishing the Iowa School Choice Fund program, renaming education savings accounts as school choice grants, creating a separate ring-fenced trust fund decoupled from the school foundation aid formula, providing transitional hold-harmless protection and efficiency incentive credits for public school districts, expanding universal eligibility to include public school students, homeschool families, and rural access bonuses, mandating heavy reliance on federal and private grant funds through scholarship granting organizations, requiring transparency and accountability measures, establishing a five-year sunset and review, and including effective date and applicability provisions.

The bill repeals the existing Students First Education Savings Account program under Iowa Code §257.11B and enacts the Iowa School Choice Fund Act in its place. It protects public school districts from enrollment-related aid losses through a three-year phased hold-harmless mechanism while providing additional per-pupil credits from the Fund for districts that voluntarily participate in an Efficiency Incentive Tier system (tied to per-pupil spending controls and classroom protection).

At least 70% of Fund disbursements must come from federal tax-credit scholarship donations and private sources. The program maintains strong transparency, independent audits, and outcome reporting while minimizing net impact on direct state foundation aid to less than 5%. Effective for school years beginning on or after July 1, 2028, with grandfathering for current ESA participants.

## Side-by-Side Analysis: Student First ESA vs. Iowa School Choice Fund

	<b>Students First ESA</b>	<b>Iowa School Choice Fund</b>
<b>Structure</b>	Education Savings Accounts (tied directly to state general fund appropriation and SCPP formula)	Separate ring-fenced state trust fund (decoupled from foundation aid); renamed “School Choice Grants”
<b>Eligibility</b>	Universal for K-12 attending accredited nonpublic schools (phased in by 2025-26); homeschoolers ineligible; public students ineligible for supplemental	Universal for all Iowa-resident pre-K-12 students/families: private/nonpublic, homeschool, and public supplemental grants; includes rural access bonus for low-option areas
<b>Hold-Harmless for Public Districts</b>	None – districts lose per-pupil foundation aid on enrollment shifts	Transitional 3-year phased hold-harmless (100%/67%/33%) for public-to-choice switchers; then standard enrollment formula
<b>Public School Incentives</b>	Limited categorical adjustments only	Voluntary Efficiency Incentive Tiers (1-3) with scaled per-pupil credits from ISCF for net-new switchers (capped at 60% of grant amount); credits require per-pupil spending controls + classroom protection
<b>Funding Sources</b>	100% state general fund appropriation (~\$315M+ annually, tied to SCPP × participants)	Minimum 70% federal/private (FTCS tax credits + STO credits + philanthropy via SGOs); capped state backstop only; automatic phase-in if leverage <70%
<b>Per-Grant Amount</b>	Equal to regular program state cost per pupil (~\$8,148 for 2026-27)	Same base amount, but broader qualified uses; credits to districts are additional and leveraged
<b>Administration &amp; Uses</b>	Odyssey portal; qualified expenses limited to nonpublic tuition/fees/therapies/etc.; no public/homeschool	Same portal expanded; broader uses; public supplemental + homeschool direct grants + rural bonuses
<b>Transparency/Accountability</b>	Audits, parent reporting, limited public dashboard	Enhanced: real-time public dashboard, independent annual audits, minimal outcome metrics for all participants, clawbacks, efficiency plan posting
<b>Rural/Equity Provisions</b>	None specific	Rural Access Bonus (extra credits/grants for no-private-school counties or low-density areas; supports transport/virtual/co-ops)
<b>Fiscal Guardrails</b>	No explicit cap on public aid impact	Statutory <5% net impact cap on direct state foundation aid; annual LSA fiscal note; 5-year sunset/review
<b>Effective Date</b>	Phased 2023-2025; ongoing	School years beginning on/after July 1, 2028; grandfather current ESA participants