COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4997-01
Bill No.: HB 1702
Subject: Economic Development Department; Education, Elementary and Secondary; Revenue Department; Taxation and Revenue - Income.
Type: Original
Date: April 12, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($130,950 to $10,069,255)	($10,000,000) to $8,946,800	($10,000,000) to $8,946,800
Total Estimated Net Effect on General Revenue Fund	**($130,950 to $10,069,255)**	**($10,000,000) to $8,946,800**	**($10,000,000) to $8,946,800**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	**$0**	**Unknown to ($18,946,800)**	**Unknown to ($18,946,800)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** assume there would be costs due to additional publishing duties related to the Department of Economic Development and the Department of Elementary and Secondary Education's authority to promulgate rules, regulations, and forms. SOS estimates the departments could require approximately 20 new pages of regulations in the Code of State Regulations at a cost of $27.00 per page, and 30 new pages in the Missouri Register at a cost of $23.00 per page. Costs due to this proposal are estimated to be $1,230, however, the actual fiscal impact would be dependent upon the actual rule-making authority and may be more or less. Financial impact in subsequent fiscal years would depend entirely on the number, length, and frequency of the rules filed, amended, rescinded, or withdrawn. SOS does not anticipate the need for additional staff as a result of this proposal, however, the enactment of more than one similar proposal may, in the aggregate, necessitate additional staff.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** state the legislation authorizes a tax credit equal to 50% of contributions made to a nonprofit educational assistance organization . Any amount subtracted from Federal Adjusted Gross Income or Federal Taxable income will be added back to determine the Missouri Adjusted Gross Income or the Missouri Taxable income.

The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year the credit is claimed. The credit may be carried forward to any of the taxpayer's four subsequent taxable years, and the cumulative amount of credits allocated in one fiscal year shall not exceed $10 million.

DOR states MINITS and COINS programming will be needed to handle the implementation of the credit. MINITS will need 1,384 hours at a cost of $46,170 and COINS will need 692 hours at a cost of 23,085.

One Tax Processing Tech will be needed for every 3,000 additional credits claimed, assuming DED will certify.

If the credit is not certified to DOR and to the Taxpayers by DED, Customer Assistance will need additional FTE to handle the incoming inquiries.

DOR assumes a cost of $103,943 in FY 2005, $34,516 in FY 2006 and $35,390 in FY 2007.

Oversight assumes DOR would incur the programming expenses as estimated; however, Oversight assumes DOR could administer the provisions of this proposal with existing resources or request additional staff through the budget process if the volume of tax credits warrant.

Officials from the **Department of Economic Development (DED)** assume they would be responsible for administering this new tax credit program. There appears to be an option to contract out for administration of the program, but for the purposes of this fiscal note, DED assumes in-house administration.

DED assumes that one person plus associated expenses would be required to administer the program. DED assumes the credits will go into effect in FY 2005 and that $10 million will be claimed that year. The cost for personnel, expense, and equipment will be needed in FY 2005. The bill provides for reimbursement for administrative costs, up to 2% of the funds raised, to be paid to DED. If $10 million in tax credits are issued, it would generate $20 million in contributions. Two percent of $20 million is $400,000. If lower amounts are contributed, the 2% would correspondingly decrease. At least $4 million in contributions would have to be

ASSUMPTION (continued)

raised in order for DED to break even (being reimbursed for expenses); otherwise, the costs would be assumed to come out of General Revenue. DED provides the costs herein as a cost to General Revenue as it is unknown how much in contributions might actually be leveraged in any year.

DED assumes a cost to General Revenue of $10 million each year (starting in FY 2005) for the tax credits, plus cost of roughly $80,000 per year for the additional 1 FTE Economic Development Incentive Coordinator (at $43,308 per year).

Oversight has, for fiscal note purposes only, changed the starting salary for the Economic Development Incentive Coordinator to correspond to other such positions within DED. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight also assumes DED would not incur additional costs for office space for the additional FTE.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the proposal authorizes a 50% state income tax credit for contributions to nonprofit educational assistance organizations. The cumulative amount of tax credits which may be claimed by all taxpayers contributing to a nonprofit educational assistance organization in any one fiscal year shall not exceed $10 million. The cumulative amount of tax credits shall be apportioned equally among all qualified nonprofit educational assistance organizations.

DESE assumes the Department of Revenue will likely experience an administrative burden, while the proposal has no impact to DESE. Tax credits will reduce income tax receipts flowing to the General Revenue fund. More tax credits mean less General Revenue available statewide for state use including education and fully funding the foundation formula.

DESE states the changes outlined in section 163.036 will not impact the state's burden in terms of school funding. A district's loss of state aid for a pupil who is no longer enrolled in the school district, does not equate to an equal savings in state funding. It merely makes such funding available to distribute to school districts statewide. In addition, costs to educate students differ from district to district. Therefore, there can be no assumption that the transfer of students between districts will have an equal impact on both districts' education costs.

DESE estimates a $10 million reduction in General Revenue receipts as a result of the proposal.

Oversight assumes on of the intentions of the proposal is to realize an offsetting savings to the

ASSUMPTION (continued)

GR fund for monies the state would otherwise have paid to local school districts for the pupils that are now receiving scholarships to attend other schools. With this assumption, Oversight will show a possible savings to the General Revenue Fund for this reduction in payments to local school districts.

Officials from the **Kansas City School District** and the **St. Louis School District** did not respond to our request for fiscal impact.

In response to a related proposal from last year, officials from the **School District of Kansas City, Missouri** stated the proposed changes to RSMo, 163.036 would result in a loss to revenue to them. The district stated that if they could not receive pay based on the highest eligible pupil count over the prior two years or the current year, it losses revenue.

In response to a related proposal from last year, officials from the **St. Louis Public Schools** assume the proposal would not fiscally impact their agency.

Oversight assumes that since the effective date of the program is for tax years beginning on or after January 1, 2004, that taxpayers would begin utilizing the credits against their returns filed in early calendar year 2005, or FY 2005. This would result in a possible loss to general revenue of up to $10 million in FY 2005. Oversight further assumes that scholarship charities would not utilize the contributions by issuing scholarships until the school year 2005 - 2006. Therefore, there would not be a potential resulting savings to the General Revenue Fund for retained educational costs until FY 2006. Oversight assumes the tax credit and the matching scholarship award would occur together after FY 2005.

Assuming that the $20 million in contributions ($10 million in tax credits / 50% credit rate) is divided by the maximum scholarship available ($3,800) to a qualified student, an estimated 5,263 students would be able to receive the scholarship. According to information on the Department of Elementary and Secondary's web page, the state estimates spending roughly $3,600 per student in the 2002 - 2003 school year for basic state aid, free and reduced lunch and for transportation costs for students in the Kansas City and the St. Louis City school districts. If these same 5,263 students were to result in a savings to the state for not paying the Kansas City and St. Louis City school districts these amounts, the state could realize a savings of up to $18,946,800 ($3,600 x 5,263 students). **Oversight's** calculations are based upon the anticipated state funding level for basic state aid, free and reduced lunch and for transportation costs in the 2002 - 2003 school year per student in Kansas City and St. Louis school districts. <u>The maximum potential savings of $18,946,800 assumes that the proposal would actually result in a reduced payment from the state to the local school districts and not just a change in the distribution of the</u>

ASSUMPTION (continued)

same amount of funds. It also assumes that all of the students who receive a scholarship through this program had been enrolled in the Kansas City and St. Louis public school system, and now will be attending a private institution.

The state, however, would not realize a possible savings or would realize a reduced savings in certain circumstances, such as children who are home-schooled, or children who are currently attending private schools and now, through this program, are able to attend other private institutions. The state had not paid $3,600 for these children in the previous fiscal year, therefore the savings would be reduced. There is not information available to determine how many of the scholarships would be utilized by the children who are receiving more or less than the average amount spent per pupil by the state.

The state would also not realize a savings if the nonprofit education assistance organization allocated some of the contributions to directly assist income eligible students who attend public school in defraying costs of supplies, private instructional assistance, or other programs (as allowed in 135.610.5 (c), while remaining in the same public schools.

Oversight has ranged the fiscal impact of the scholarship (both the tax credit and the savings to the state) from $0 to the maximum amount calculated per year.

Oversight notes that this fiscal note does not include shifting between school districts from Proposition C funds, Fair Share funds and Free Textbook funds which would result in a zero net effect to the local school districts.

Oversight assumes the Kansas City and St. Louis public school districts may realize some potential cost savings as a result of the reduction in students that are now attending their schools, but would attend other schools as a result of this proposal. According to DESE reports, the Kansas City School District spent roughly $8,750 per student in 2003, while St. Louis City School District spent nearly $10,450 per student. Oversight couldn't determine the fixed versus the variable costs associated with these amounts. Therefore, Oversight has reflected a $0 to Unknown potential savings resulting from reduced variable expenses to the two local school districts.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE			
Savings - Education costs the state would not pay to the local school districts for students receiving the scholarship set up through this proposal (Section 163.036) *	$0	$0 to $18,946,800	$0 to $18,946,800
Savings - up to 2% of contributions may be used to offset expenses incurred by DED or the designated nonprofit oversight organization (Section 135.610.9(g) **	$0 to $61,695	$0 to $65,550	$0 to $67,248
Costs - Department of Economic Development (DED)			
Personal Service (1 FTE)	($30,760)	($37,835)	($38,781)
Fringe Benefits	($12,735)	($15,664)	($16,055)
Expense and Equipment	($18,200)	($12,051)	($12,412)
Total Costs - DED	($61,695)	($65,550)	($67,248)
Costs - Department of Revenue			
Programming	($69,255)	$0	$0
Loss - Tax Credits for Contributions to educational assistance organizations *	$0 to ($10,000,000)	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($130,950) to ($10,069,255)**	**($10,000,000) to $8,946,800**	**($10,000,000) to $8,946,800**

*** The net effect to the General Revenue Fund from the Scholarship Charity Tax Credit Program assumes the maximum amount of tax credits are being utilized by taxpayers and that the average anticipated savings per pupil are being realized by the state.**

**** Administrative costs for DED (or possible designated nonprofit oversight organization) shall be no more than 2% of contributions.**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
KANSAS CITY AND ST. LOUIS LOCAL SCHOOL DISTRICTS			
Savings - of educational expenses of not educating students who receive scholarships to attend other schools	$0	$0 to Unknown	$0 to Unknown
Loss - of state funding for students who receive scholarships from program to attend other schools	$0	$0 to ($18,946,800)	$0 to ($18,946,800)
ESTIMATED NET EFFECT TO KANSAS CITY AND ST. LOUIS LOCAL SCHOOL DISTRICTS	**$0**	**UNKNOWN TO ($18,946,800)**	**UNKNOWN TO ($18,946,800)**

FISCAL IMPACT - Small Business

Small businesses may choose to participate in this tax credit program.

DESCRIPTION

This proposal authorizes an individual income tax credit for contributions of $200 or more made to a Missouri nonprofit educational assistance organization. Contributions for the educational expenses of a taxpayer's dependent do not qualify. The amount of the tax credit will be equal to 50% of the contribution.

The amount of the tax credit cannot exceed the tax liability of the taxpayer in any one year. Any unused credit can be carried forward for four years.

The cumulative amount of tax credits cannot exceed $10 million per fiscal year. The Director of the Department of Economic Development will establish a procedure to apportion the tax credits among all nonprofit educational assistance organizations.

The director will annually determine which organizations may be classified as nonprofit educational assistance organizations. The proposal lists the conditions for qualification.

DESCRIPTION (continued)

The proposal allows the director to contract with a nonprofit educational assistance organization to be a designated nonprofit oversight organization to administer the program. Contributions are to be distributed to the educational assistance organization for student scholarships less up to 2% for administrative costs.

School boards of certain school districts may opt to participate in this program by adopting a resolution and submitting it to the Department of Elementary and Secondary Education.

The proposal requires the eligible pupil count to be adjusted if a pupil no longer is enrolled or transfers to another school because of using the proceeds of an educational scholarship.

The tax credit will apply to all tax years beginning on or after January 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Elementary and Secondary Education
Department of Revenue
Office of the Secretary of State

NOT RESPONDING: Kansas City School District, St. Louis School District

Mickey Wilson

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Director
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