FIRST REGULAR SESSION

HOUSE BILL NO. 639

93RD GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVES CUNNINGHAM (86), HOSKINS, HUBBARD, JETTON, VILLA, BEARDEN, KRATKY, DEMPSEY, DOUGHERTY, DIXON, NIEVES, HUGHES, COOPER (120), HARRIS (110), BYRD, BOWMAN, HUNTER, MEINERS, ICET, SWINGER, LEMBKE, SPRENG, JACKSON, KUESSNER, MUSCHANY, ROBB, ST. ONGE, SCHAD, VOGT, BEHNEN, MARSH, FAITH, DENISON, RUESTMAN, COOPER (158), BLACK, BRUNS, YATES, DAVIS, KELLY, PORTWOOD, WRIGHT (159), SELF, MOORE, BIVINS, PARKER, BROWN (30), ROARK, McGHEE, CHINN, DUSENBERG, LIPKE, MUNZLINGER, THRELKELD, SCHNEIDER, COOPER (155), KRAUS, WRIGHT (137), WETER, SMITH (118), SANDER, MYERS, KINGERY, DETHROW, JONES, RICHARD, WELLS, TILLEY, PHILLIPS, DEEKEN, MAY, SUTHERLAND, SCHLOTTACH, DAY, RECTOR, ERVIN, HOBBS, STEVENSON, SMITH (14), RUPP, EMERY, QUINN, FLOOK, SCHAAF, PRATT, FISHER, SATER AND FRANZ (Co-sponsors).

Read 1st time February 24, 2005 and copies ordered printed.

STEPHEN S. DAVIS, Chief Clerk

0341L.03I

AN ACT

To repeal section 163.036, RSMo, and to enact in lieu thereof nine new sections relating to educational tax credits, with an emergency clause.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Section 163.036, RSMo, is repealed and nine new sections enacted in lieu

- 2 thereof, to be known as sections 135.610, 135.612, 135.614, 135.616, 135.618, 135.620,
- 3 135.622, 135.624, and 163.036, to read as follows:

135.610. Sections 135.610 to 135.624 shall be known and cited as the "Betty L.

2 Thompson Scholarship Program".

135.612. As used in sections 135.610 to 135.624, the following terms mean:

- 2 (1) "Administrator", the administrator of the oversight organization;
- 3 (2) "Director", the director of the department of economic development or any
- 4 designated oversight organization if an organization is chosen;
- 5 (3) "Educational assistance organization", a charitable organization registered in
- 6 this state that is exempt from federal taxation under the Internal Revenue Code, as

EXPLANATION — Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted from the law. Matter in **bold-face** type in the above bill is proposed language.

amended, is certified by the director, and that allocates all of its annual revenue with the exception of marketing and administrative expenses in subsection 5 of section 135.616 derived from contributions for which a credit is claimed under this section for educational assistance and which does not provide scholarships to students of only one particular school:

- (4) "Income eligible student", any elementary or secondary school-aged student whose parents' or guardians' income is no more than one hundred seventy-five percent of the level that would make the student eligible for a free or reduced price school lunch under the Natural School Lunch Act, 42 U.S.C. 1751 et seq., and who attends a school located in a metropolitan district or an urban school district containing the greater part of the population of any home rule city with more than four hundred thousand inhabitants and located in more than one county or any district which is designated as unaccredited or provisionally accredited under the Missouri school improvement program or successor program, or a student of school age who resides in such a district but who is not currently attending any school and who does not hold a high school diploma or a GED, and children age three or older with disabilities regardless of the parent's income if the disabled child's parents or guardians have unreimbursed medical expenses in excess of seven and one-half percent of federal adjusted gross income;
- (5) "Oversight organization", a charitable organization in this state that is exempt from federal taxation under the Internal Revenue Code, as amended, designated to certify nonprofit educational assistance organizations, approve applications for the tax credit allowed by this section, and coordinate with the director in administering the tax credit allowed by this section;
- (6) "Qualified school", any elementary or secondary school situated in this state which a child may attend to satisfy the requirements of section 167.031, RSMo, and does not discriminate on the basis of race, color, or national origin, and which complies with the requirements of this section;
- (7) "Qualified student", an income eligible student who during the previous school year was enrolled in a state-funded public school or who had received a scholarship as a qualified student and is not enrolled in a state-funded public school in the year in which the educational assistance organization is providing a scholarship to that student. The term qualified student shall include all income eligible kindergarten and first-grade students, and all income eligible school-aged students moving from outside the state;
- (8) "Qualifying contribution", a donation of cash, stock, bonds, or other marketable securities for purposes of claiming a tax credit under this section;
 - (9) "State tax liability", any liability incurred by a taxpayer under chapters 143,

43 147, and 153, RSMo, excluding withholding taxes under sections 143.191 to 143.265, RSMo,
44 and related provisions;

(10) "Taxpayer", an individual subject to the state income tax imposed in chapter 143, RSMo, an individual, a firm, a partner in a firm, corporation, or a shareholder in an S corporation doing business in this state and subject to the state income tax imposed by chapter 143, RSMo, or a corporation subject to the annual corporation franchise tax imposed by chapter 147, RSMo, or an express company which pays an annual tax on its gross receipts in this state under chapter 153, RSMo.

135.614. 1. For all tax years beginning on or after January 1, 2005, any taxpayer who makes contributions to a nonprofit educational assistance organization may claim a credit against the tax otherwise due under chapter 143, RSMo, other than taxes withheld under sections 143.191 to 143.265, RSMo, and chapters 147 and 153, RSMo, in an amount equal to ninety percent of the amount the taxpayer contributed during the tax year for which the credit is claimed; except that, no taxpayer shall claim a credit under sections 135.610 to 135.624 for any contribution made by the taxpayer, or an agent of the taxpayer, on behalf of the taxpayer's dependent, or in the case of a business taxpayer, on behalf of the business's agent's dependent. Any amount of contribution subtracted from federal adjusted gross income or federal taxable income shall be added back in the determination of Missouri adjusted gross income or Missouri taxable income before the credit can be claimed.

- 2. The amount of the tax credit claimed shall not exceed the amount of the taxpayer's state tax liability for the tax year that the credit is claimed. Any amount of credit that the taxpayer is prohibited by sections 135.610 to 135.624 from claiming in a tax year may be carried forward to any of the taxpayer's four subsequent taxable years. The tax credit authorized in sections 135.610 to 135.624 shall be limited to those claims related to actual tax liabilities that are excluded from the definition of total state revenues in article X, section 17, Constitution of Missouri, which require no appropriation by the general assembly from the state treasury, and which serve the public purpose of providing educational opportunities for students under section 135.616.
- 3. The cumulative amount of tax credits which may be allocated to all taxpayers contributing to an educational assistance organization in any one fiscal year shall not exceed forty million dollars, which amount shall annually be adjusted for inflation based on the consumer price index. The director shall establish a procedure by which, from the beginning of the fiscal year until some point in time later in the fiscal year to be determined by the director, the cumulative amount of tax credits is apportioned among all nonprofit

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educational assistance organizations. To the maximum extent possible, the director shall establish the procedure described in this subsection in such a manner as to ensure that taxpayers can claim all the tax credits possible up to the cumulative amount of tax credits available for the fiscal year. The director shall certify to the organizations the amount of eligible tax credits that can be taken by the organizations.

135.616. 1. The director shall classify an organization as an educational assistance organization if the organization qualifies as defined in this section and if the organization meets the following conditions:

(1) At least eighty percent of all qualifying contributions it receives during any given state fiscal year are allocated for the purpose of providing scholarships to any qualified student who attends a qualified school, and the organization gives priority in awarding scholarships to those students who demonstrate the greatest need for such scholarships. These needs may include but are not limited to: children of inmates; any student who has been suspended at least two times for a total of at least twelve days or who has been expelled; any student scoring at the two lowest levels of proficiency on the statewide assessments administered under section 160.518, RSMo; any student with a grade point average of 1.9 or lower; any child of school age in foster care; any child with a disability or any child assigned to a priority school or low performing district as described in subsection (4) of section 135.610. It shall be the responsibility of the school district to notify the parents or guardians of any student who has been suspended at least two times for a total of at least twelve days or who has been expelled; any student scoring at the two lowest levels of proficiency on the statewide assessments administered under section 160.518, RSMo; and any student with a grade point average of 1.9 or lower, that the student may be eligible for a scholarship. Scholarship moneys may be used to cover applicable tuition, transportation, textbooks, supplies, and other related educational or extracurricular expenses. Any qualifying contributions not required to be allocated in accordance with this paragraph may be used to provide scholarships for income eligible students who attend qualified schools or may be used for the purposes set forth in subdivision (3) of this subsection;

(2) The organization does not provide scholarships to the qualified student that exceed an average of three thousand eight hundred dollars, which amount shall annually be adjusted for inflation based on the Consumer Price Index rounded to the nearest fifty dollar increment, except that the educational assistance organization may award scholarships to children with disabilities who are age three or older in any amount that is substantially comparable to the amount that would have been paid for comparable services

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for the education of such child except that scholarships may be awarded in amounts in excess of the limitation up to six thousand five hundred dollars, which amount shall annually be adjusted for inflation based on the consumer price index if the increased amount of any such scholarships is offset by a reduction in the funding described in subdivision (3) of this subsection;

- (3) An educational assistance organization may allocate up to twenty percent of any qualifying contributions it receives during any given state fiscal year that are not required to be allocated under subdivisions (1) and (2) of this subsection to directly assist any income eligible student who attends a public school in defraying the costs of private instructional assistance, including any related private educational supplies; for transportation to any public school to the extent that such transportation is not paid for by a school district or the state; for offsetting fees for out-of-school programs; for apprenticeship programs; for scholarship assistance for dropouts to pursue a GED or its equivalent; for grants for public school academic or extracurricular programs or for income eligible or qualified students to attend a qualified school and for students participating in a voluntary desegregation transfer plan to supplement the tuition payment supplied by the desegregation transfer plan;
 - (4) All interest accruing from contributions shall be used for educational assistance;
- (5) All marketing and administrative expenses for the educational assistance organization shall be no more than ten percent for the first one hundred thousand dollars; eight percent for the next four hundred thousand dollars; six percent for the next five hundred thousand dollars; and three percent thereafter of the qualifying contributions it raises; and
- (6) Before educational assistance organizations may raise qualified contributions, they must have received or demonstrated ability to receive qualified applicants and have identified potential vacancies in qualified schools as determined by the director.
- 2. An educational assistance organization shall report annually to the director the names of the participating qualified schools and scholarship recipients. Classification as an educational assistance organization shall continue from year to year upon submission of required information under sections 135.610 to 135.624, in the absence of credible evidence of fraud or abuse. The director shall establish procedures to prevent the issuance of duplicate scholarships.
- 135.618. 1. The director shall establish a procedure by which a taxpayer can determine if an organization has been classified as an educational assistance organization, and by which taxpayers can claim the tax credit under this section.

4 2. The director shall provide a consistent format for profiles of qualified schools, 5 to be posted on the department's web site, containing the following information:

- (1) Link to the qualified school's web site, if applicable;
- 7 (2) Mission statement, years of operation, academic program, and types of students 8 served;
- 9 (3) Education, credentials, qualifications, and experience of teaching and 10 administrative staff;
 - (4) The most recent year's scores from an assessment administered under subsection 3 of this section and the results of the most recent year's parental satisfaction survey administered under this section; and
- 14 (5) Names of educational assistance organizations supplying scholarships to the school.
- 3. The director shall ensure the qualified schools excluding home schools, meet the following accountability requirements before receiving scholarship funds:
 - (1) Filing of a statement of intent to participate that includes the information listed in subdivisions (1), (2), and (3) of subsection 2 of this section;
 - (2) Annual reporting of the information required under subsection 2 of this section. No public reporting of information required under sections 135.610 to 135.624 shall be personally identifiable to an individual student;
 - (3) Fiscal soundness as evidenced by three years in existence, a surety bond, or letter of credit covering the amount of funds received on behalf of scholarship recipients under sections 135.610 to 135.624 or accreditation;
 - (4) Accreditation by a regional or national accrediting agency or for a school that is not currently accredited, provisional approval pending the achievement of accreditation no later than the fourth school year of participation;
 - (5) Criminal background check for the owner or operator and all personnel with direct student contact;
 - (6) Administration of the statewide assessments under section 160.518, RSMo, a nationally recognized norm-referenced assessment, or an assessment of educational functioning level for adult basic education that meets the guidelines for the national reporting system for adult education and literacy, such as, but not limited to the test for adult basic education, for all scholarship students except those whose individualized education plan specifies such assessment would not be appropriate, provided that such assessments or tests shall not be required to be given more frequently in a grade than the statewide assessments are given;

- 39 (7) Annual administration of a parental satisfaction survey; and
- **(8)** Evidence of the annual transmittal of the information required by subsection 2 of this section and this subsection to parents and evidence of its availability to applicants.
 - 4. Notwithstanding the accountability requirements of subsection 3 of this section, pupils who are home schooled under section 167.031, RSMo, may receive a scholarship under sections 135.610 to 135.624 up to the amount of money spent on educational expenses, excluding any payment to the pupil's parent or guardian for instructional services.
 - 5. The results of the assessments administered in subdivision (6) of subsection 3 of this section shall be compiled annually by the director, and reported to the governor and general assembly.
 - 135.620. Qualified schools shall have on record a form signed by the parent or guardian of the scholarship recipients agreeing to the release of the following information to the director:
 - (1) The student's participation as a scholarship recipient under sections 135.610 to 135.624:
 - (2) Testing results under section 160.518, RSMo; and
 - (3) The parental satisfaction survey.

As a condition of participation, the parents, guardians, and scholarship recipients under sections 135.610 and 135.624 shall agree to abide by the code of conduct and any parental involvement requirements unless the qualifying school agrees to a waiver of any requirements.

135.622. The funding authorized in sections 135.610 to 135.624 shall be considered private, voluntary, nongovernmental funding. The providing of assistance by an educational assistance organization shall not be construed to be a public appropriation or the providing of public assistance to any school.

- 135.624. 1. The director may certify and enter into a contract with an oversight organization for the purpose of administering sections 135.610 to 135.624. An oversight organization shall be subject to an audit by the director. To qualify for designation, an oversight organization shall:
- (1) Have the administrative capability to promote the success of the tax credit allowed by this section by recruiting and coordinating activities with all interested educational assistance organizations in this state and certifying those educational assistance organizations that meet the certification criteria set forth in subsection 2 of this section;

9 (2) Demonstrate the ability to handle large volumes of and amounts of financial 10 transactions, have not filed for bankruptcy and is able to resolve Internal Revenue Service 11 compliance issues;

- (3) Review the staff qualifications, evaluate fund-raising capabilities, and confirm exempt status of the educational assistance organizations;
- **(4)** Create a standardized application for use by nonprofit educational assistance organizations;
 - (5) Produce an annual report for the general assembly; and
 - (6) Complete other duties as required by the director.
 - 2. The oversight organization or the department of economic development if an oversight organization is not selected shall receive no more than two percent of the qualifying contributions for marketing and administrative expenses or the costs incurred in administering the program, whichever is less. The director shall establish procedures to ensure the percentage of funds for administration of the program is directed to the oversight organization or the department of economic development in a timely manner with the necessary information to verify the correct amount has been transmitted. The remaining funds shall be distributed to the educational assistance organizations for student scholarships.
 - 3. This section is subject to the provisions of section 1.140, RSMo. The department of revenue and the department of economic development may promulgate rules and regulations for the administration of this section. Any rule or portion of a rule, as that term is defined in section 536.010, RSMo, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536, RSMo, and, if applicable, section 536.028, RSMo. This section and chapter 536, RSMo, are nonseverable and if any of the powers vested with the general assembly pursuant to chapter 536, RSMo, to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2005, shall be invalid and void.
 - 4. Any school district that is not explicitly made eligible for the program through the definitions in section 135.612 may opt to participate in the program authorized in sections 135.610 to 135.624 upon the adoption of a resolution by a majority of the school board members present and the submission of the resolution to the department of elementary and secondary education.
 - 5. Pursuant to section 23.253, RSMo, of the Missouri Sunset Act:

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44 (1) The provisions of the new program authorized under sections 135.610 to 135.624 45 shall automatically sunset six years after the effective date of these sections, unless reauthorized 46 by an act of the general assembly; and

- (2) If such program is reauthorized, the program authorized under sections 135.610 to 135.624 shall automatically sunset twelve years after the effective date of the reauthorization of these sections; and
- 50 (3) Sections 135.610 to 135.624 shall terminate on September first of the calendar year immediately following the calendar year in which the program authorized under these sections is sunset.
- 163.036. 1. In computing the amount of state aid a school district is entitled to receive for the minimum school term only under section 163.031, a school district may use an estimate of the number of eligible pupils for the current year, the number of eligible pupils for the immediately preceding year or the number of eligible pupils for the second preceding school year, whichever is greater, except that the eligible pupil count shall be adjusted such that no school district shall receive state aid for any pupil who is no longer enrolled in the school district as the result of using the proceeds of an educational scholarship to transfer to 7 another qualified school under section 135.610, RSMo. Beginning with the 2005-2006 school 8 year, the summer school add-on for eligible pupils as defined in subdivision (8) of section 10 163.011 shall include only those eligible pupils that attend summer school in the current year. Beginning with the 2004-2005 school year, when a district's official calendar for the current year 11 contributes to a more than ten percent reduction in the average daily attendance for kindergarten 13 compared to the immediately preceding year, the eligible pupil payment attributable to kindergarten shall include only the current year kindergarten average daily attendance. Except 14 as otherwise provided in subsection 3 of this section, any error made in the apportionment of 15 16 state aid because of a difference between the actual number of eligible pupils and the estimated number of eligible pupils shall be corrected as provided in section 163.091, except that if the 17 18 amount paid to a district estimating eligible pupils exceeds the amount to which the district was 19 actually entitled by more than five percent, interest at the rate of six percent shall be charged on 20 the excess and shall be added to the amount to be deducted from the district's apportionment the next succeeding year.
 - 2. Notwithstanding the provisions of subsection 1 of this section or any other provision of law, the state board of education shall make an adjustment for the immediately preceding year for any increase in the actual number of eligible pupils above the number on which the state aid in section 163.031 was calculated. Said adjustment shall be made in the manner providing for correction of errors under subsection 1 of this section.

- 3. (1) For any district which has, for at least five years immediately preceding the year in which the error is discovered, adopted a calendar for the school term in which elementary schools are in session for twelve months of each calendar year, any error made in the apportionment of state aid to such district because of a difference between the actual number of eligible pupils and the estimated number of eligible pupils shall be corrected as provided in section 163.091 and subsection 1 of this section, except that if the amount paid exceeds the amount to which the district was actually entitled by more than five percent and the district provides written application to the state board requesting that the deductions be made pursuant to subdivision (2) of this subsection, then the amounts shall be deducted pursuant to subdivision (2) of this subsection.
- (2) For deductions made pursuant to this subdivision, interest at the rate of six percent shall be charged on the excess and shall be included in the amount deducted and the total amount of such excess plus accrued interest shall be deducted from the district's apportionment in equal monthly amounts beginning with the succeeding school year and extending for a period of months specified by the district in its written request and no longer than sixty months.
- 4. For the purposes of distribution of state school aid pursuant to section 163.031, a school district may elect to use the district's equalized assessed valuation for the preceding year, or an estimate of the current year's assessed valuation if the current year's equalized assessed valuation is estimated to be more than ten percent less than the district's equalized assessed valuation for the preceding year. A district shall give prior notice to the department of its intention to use the current year's assessed valuation pursuant to this subsection. Any error made in the apportionment of state aid because of a difference between the actual equalized assessed valuation for the current year and the estimated equalized assessed valuation for the current year shall be corrected as provided in section 163.091, except that if the amount paid to a district estimating current equalized assessed valuation exceeds the amount to which the district was actually entitled, interest at the rate of six percent shall be charged on the excess and shall be added to the amount to be deducted from the district's apportionment the next succeeding year.
- 5. For the purposes of distribution of state school aid pursuant to section 163.031, a school district with ten percent or more of its assessed valuation that is owned by one person or corporation as commercial or personal property who is delinquent in a property tax payment may elect, after receiving notice from the county clerk on or before March fifteenth, except in the year enacted, that more than ten percent of its current taxes due the preceding December thirty-first by a single property owner are delinquent, to use on line 2 of the state aid formula the district's equalized assessed valuation for the preceding year or the actual assessed valuation of the year for which the taxes are delinquent less the assessed valuation of property for which the current

year's property tax is delinquent. To qualify for use of the actual assessed valuation of the year for which the taxes are delinquent less the assessed valuation of property for which the current year's property tax is delinquent, a district must notify the department of elementary and secondary education on or before April first, except in the year enacted, of the current year amount of delinquent taxes, the assessed valuation of such property for which delinquent taxes are owed and the total assessed valuation of the district for the year in which the taxes were due but not paid. Any district giving such notice to the department of elementary and secondary education shall present verification of the accuracy of such notice obtained from the clerk of the county levying delinquent taxes. When any of the delinquent taxes identified by such notice are paid during a four-year period following the due date, the county clerk shall give notice to the district and the department of elementary and secondary education, and state aid paid to the district shall be reduced by an amount equal to the delinquent taxes received plus interest. The reduction in state aid shall occur over a period not to exceed five years and the interest rate on excess state aid not refunded shall be six percent annually.

6. If a district receives state aid based on equalized assessed valuation as determined by subsection 5 of this section and if prior to such notice the district was paid state aid pursuant to subdivision (2) of subsection 5 of section 163.031, the amount of state aid paid during the year of such notice and the first year following shall equal the sum of state aid paid pursuant to line 1 minus line 10 as defined in subsections 1, 2, 3 and 6 of section 163.031 plus the difference between the state aid amount being paid after such notice minus the amount of state aid the district would have received pursuant to line 1 minus line 10 as defined in subsections 1, 2, 3 and 6 of section 163.031 before such notice. To be eligible to receive state aid based on this provision the district must levy during the first year following such notice at least the maximum levy permitted school districts by article X, section 11(b) of the Missouri Constitution and have a voluntary rollback of its tax rate which is no greater than one cent per one hundred dollars assessed valuation.

Section B. Because of the immediate need to assist students in certain school districts, the enactment of section A of this act is deemed necessary for the immediate preservation of the public health, welfare, peace and safety, and is hereby declared to be an emergency act within the meaning of the constitution, and the enactment of section A of this act shall be in full force and effect upon its passage and approval.