

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4402-01
Bill No.: HB 1783
Subject: Education, Elementary and Secondary; Taxation and Revenue
Type: Original
Date: March 13, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue	(\$75,918 to \$40,075,918)	(\$84,874 to \$41,284,874)	(\$87,083 to \$20,087,083)
Total Estimated Net Effect on General Revenue Fund	(\$75,918 to \$40,075,918)	(\$84,874 to \$41,284,874)	(\$87,083 to \$20,187,083)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> 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 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0 to Unknown	Unknown to (\$22,400,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state their Personal Tax division would require 1 Tax Processing Technician I for every 6,000 credits claimed. As written, an additional line would need to be added to the MO-A, requiring 1 Temporary Tax Employee for key-entry, 1 Tax Processing Technician I for every additional 19,000 errors, and 1 Tax Processing Technician I for every 2,400 pieces of correspondence.

DOR does not expect the number of credits claimed to reach these limits and therefore is not requesting any additional FTE at this time. In the event the credits claimed are higher than expected, additional FTE will be requested through the regular budget process.

In response to a similar bill from this year (HB 1783), officials from the **Office of Administration - Budget and Planning** assumed the proposal could decrease general revenue from \$0 to \$40 million annually, based upon contribution amounts. The cap amount could change in succeeding years as it is to be adjusted based on the consumer price index.

Officials from the **Office of Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain

amount of normal

ASSUMPTION (continued)

activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Economic Development (DED)** state they would be required to administer the program or work with a designated administrator to review documentation and approve charities. DED or the administrator would allocate \$40 million in credits to authorized charities. DED or the administrator would also answer questions as well as promote and oversee the program. Tax credits claimed would need to be tracked by DED. DOR would have to track when \$40 million in credits had been claimed in any one year. \$40 million in credits issued plus carry forward of unused credits may mean that more than \$40 million is requested each year when tax returns are filed. This might mean that some taxpayers may be denied use of the credit in any given year.

DED states it appears administrative and marketing costs of 10% may be kept by the scholarship granting organizations. DED assumes that donations of \$40 million would equate to \$40 million in credits. The educational assistance organizations would be allowed to keep their marketing cost fee and the rest would be used as designated. The DED or designated administrator would have to insure compliance with the rest of the provisions of the bill, including designation of educational assistance organizations, reporting, coordination with DOR, etc. At this point, DED projects one FTE would be needed to administer and oversee the program. Other costs may be incurred as the bill is implemented. Costs projected for the additional FTE are not definitive.

DED assumes responsibility for administration of the credit and that one person plus associated expenses would be required to administer the program, initially. DED assumes the credits will go into effect in August 2006 and will be claimed on CY 2006 tax returns filed in 2007. The cost of the credits will be \$40 million in FY 2007. DED assumes the one person would be needed in FY 2007 to set up the program. DED assumes some computer programming will be needed to adjust existing systems to track the credits claimed and keep a list of scholarship organizations. This is an unknown amount. DED assumes General Revenue funding will be appropriated and used for program costs. DED assumes some compliance/auditing functions

will need to be added but the extent is unknown.

ASSUMPTION (continued)

Oversight will assume DED will not incur additional lease space charges for the one FTE. Oversight will also assume DED will be able to absorb the potential programming charges within existing budgetary appropriations.

Officials from the **Department of Elementary and Secondary Education (DESE)** state the proposal authorizes a state income tax credit for contributions to nonprofit scholarship granting organizations. The cumulative amount of tax credits which may be allocated to all taxpayers contributing to a nonprofit scholarship granting organization in any one fiscal year shall not exceed \$40 million.

DESE assumes the Department of Revenue will likely experience an administrative burden. However, there will be 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.

The changes outlined in section 135.653 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.

Officials from the **Joint Committee on Legislative Research - Oversight Division (Oversight)** assumes the study required in Section 135.655 of the proposal would begin the year after children are able to utilize other schools under the program. Therefore, Oversight assumes they will incur a fiscal impact for the study of under \$100,000, starting in FY 2009. Oversight is not aware of an outside funding source for the study outlined in the proposal.

Oversight will assume an adjustment for inflation of 3% regarding the annual cap of the tax credits. Therefore, Oversight will assume tax credits up to \$40 million in FY 2007, \$41.2 million in FY 2008 and \$42.4 million in FY 2009.

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

ASSUMPTION (continued)

Oversight assumes there are several scenarios regarding the potential savings to the state that may occur with this proposal;

1. If students from Wellston School District receive scholarships to attend other schools, the Wellston school district will not receive a reduced state aid payment since they are a hold harmless district. Therefore, there will be no savings to the state.
2. If students from the Kansas City of St. Louis School Districts receive scholarships, the amount of state funding to these school districts would be reduced in the following year. State funding is partly based on eligible pupils from the previous school year, therefore, the Kansas City and St. Louis School Districts would still receive funding for the first year for those students that attend other schools with this scholarship.
3. For students from the Kansas City and St. Louis School Districts that attend other public schools with this scholarship, the new public schools would have to accept the scholarship proceeds instead of state aid for these students.

Since the tax credits can be utilized for tax years on or after January 1, 2006, **Oversight** will assume that up to \$40 million in tax credits may be claimed in Fiscal Year 2007.

Oversight will also assume that the state may not realize a savings in school funding until the 2008 - 2009 school year. The effective date of this proposal would be August 28, 2006, which Oversight assumes would be too late to provide scholarships for students to attend other schools in the 2006 - 2007 school year. Therefore, Oversight assumes the first year students would be able to use the scholarships to attend other schools would be the 2007 - 2008 school year. Therefore, Oversight assumes the state would not realize any savings from reduced payments to the Kansas City and St. Louis School Districts until the 2008 - 2009 school year because the funding for the 2007 - 2008 school year would still be based on pupil count from 2006 - 2007.

The proposal also states that up to twenty percent of the eligible revenues (donations) that the scholarship granting organization receives may be used for things other than 'grants to students to cover all or part of the tuition and fees at either a qualified nonpublic school or a qualified public school'. Things included in the twenty percent include tutors, books, transportation, and Oversight assumes, administration expense of running the program. Therefore, Oversight will assume eighty percent of the donations, will be used for scholarships, or \$32 million (\$40 million x 80%). Oversight will also assume the average amount of each scholarship will be \$5,000. Dividing this amount by the program's average amount per student of \$5,000, yields

6,400 (\$32,000,000 / \$5,000) students that may receive the scholarship.

ASSUMPTION (continued)

The average amount of state aid per eligible pupil from the Kansas City and St. Louis School Districts is roughly \$3,500. Multiplying the average state aid to KC and St. Louis and the number of students that may get a scholarship, results in a potential savings to the state of \$22,400,000 (\$3,500 x 6,400). Again, the state would not realize any savings for Wellston School District students since they are a hold-harmless district. Also, the state would not realize a savings until the 2008 - 2009 school year, which is the 2009 fiscal year.

Oversight will range the fiscal impact of the tax credits and the potential savings from reduced payments of state aid to the Kansas City and St. Louis School Districts from \$0 to the maximum amounts. The potential savings of \$22,400,000 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 same amount of funds.

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 not attending any schools. The state had not paid \$3,500 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.

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 Kansas City, St. Louis and the Wellston 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 \$10,952 per student in 2004 - 2005, while St. Louis City School District spent nearly \$10,888 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.

Oversight has not calculated the indirect fiscal impact that may result from this proposal.

ASSUMPTION (continued)

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE			
<u>Savings</u> - Education costs the state would not pay to the local school districts for students receiving the scholarship set up through this proposal	\$0	\$0	\$0 to \$22,400,000
<u>Costs</u> - DED			
Personal Service (1 FTE)	(\$38,017)	(\$46,761)	(\$47,930)
Fringe Benefits	(\$16,750)	(\$20,603)	(\$21,118)
Expense and Equipment	<u>(\$21,151)</u>	<u>(\$17,510)</u>	<u>(\$18,035)</u>
<u>Total Costs</u> - DED	(\$75,918)	(\$84,874)	(\$87,083)
<u>Costs</u> - Oversight Division			
Contract with qualified researcher to conduct study of the program	\$0	\$0	(Unknown - less than \$100,000)
<u>Loss</u> - Missouri Student Success Scholarship tax credit program	\$0 to <u>(\$40,000,000)</u>	\$0 to <u>(\$41,200,000)</u>	\$0 to <u>(\$42,400,000)</u>
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	(\$75,918 to <u>\$40,075,918</u>)	(\$84,874 to <u>\$41,284,874</u>)	(\$87,083 to <u>\$20,187,083</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
LOCAL SCHOOL DISTRICTS			
<u>Savings</u> - of educational expenses of not educating students who receive scholarships to attend other schools	\$0	\$0 to Unknown	\$0 to Unknown
<u>Loss</u> - of state funding for students who receive scholarships from program to attend other schools	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$22,400,000)</u>
ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	<u>\$0</u>	\$0 TO UNKNOWN	UNKNOWN TO (\$22,400,000)

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill establishes the Missouri Student Success Scholarships Tax Credit Program which authorizes a 100% tax credit beginning with the 2006 tax year for taxpayers who donate to a scholarship-granting organization if the donations are not claimed on the taxpayer's federal income tax return. The credit is non-refundable but may be carried forward for three years or transferred. The cumulative amount of tax credits cannot exceed \$40 million annually, indexed for inflation. Scholarships may not exceed \$5,000, indexed for inflation.

Eligibility standards for students receiving scholarships include a grade point average of 2.5 or less; residence in the St. Louis, Kansas City, or Wellston school district; attendance at a public school for the semester before a scholarship is granted or starting school in the state for the first time; and a family income which qualifies the student for the reduced lunch program.

Scholarship-granting organizations must meet requirements for fiscal soundness, percentage of revenues devoted to educational scholarships, and public reporting. Private schools qualify to accept scholarship students by meeting requirements which include employee background checks and student assessments, among others. The bill specifies how scholarship checks will be distributed.

DESCRIPTION (continued)

Scholarships may also be used at public schools outside the eligible school districts. If the scholarship student attends another public school, the accepting school must take the educational scholarship funds in lieu of state funds owed to the accepting district. Public schools losing students to qualifying schools retain the state funding for that student for one school year.

The Joint Committee on Legislative Research will contract a study to measure student achievement, satisfaction with the program, and its impact on public and private schools.

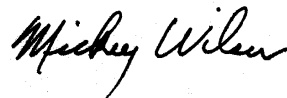
The provisions of the bill will expire six years from the effective date.

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
Office of the Secretary of State
Office of Administration - Budget and Planning
Department of Revenue
Joint Committee on Legislative Research

Not Responding: St. Louis Public Schools; Kansas City Public Schools; Wellston School District



Mickey Wilson, CPA
Director
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