COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0856-01
Bill No.: HB 808
Subject: Education; Economic Development Department
Type: Original
Date: February 14, 2007

Bill Summary: This proposal establishes the Betty L. Thompson Scholarship program, which shall grant scholarships to students from low-income families in urban areas for certain educational costs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	($75,918 to $40,075,918)	($84,874 to $41,284,874)	($87,083 to $8,126,083)
Total Estimated Net Effect on General Revenue Fund	**($75,918 to $40,075,918)**	**($84,874 to $41,284,874)**	**($87,083 to $8,126,083)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	**$0**	**$0 to Unknown**	**Unknown to ($34,461,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (BAP)** state this bill creates a tax credit for contributions to educational assistance charities. The cumulative amount of tax credits to be issued is capped at $40 million in the first year of existence. This capped is adjusted upward by the Midwest CPI in subsequent years. Because the proposal is effective July 1, 2007, BAP assumes that the first credits will be issued and likely claimed in FY '08. BAP has no estimate of the amount of donations that may be received. Therefore, assuming a 3% annual inflation rate, this proposal could lower general and total state revenues by an unknown amount up to $40 million in FY08, $41.2 million in FY09, and $42.4 million in FY10.

DED did not respond to our request for fiscal impact; however, in response to a similar proposal from 2006 (HB 1783), officials from the **Department of Economic Development (DED)** stated 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 stated it appears administrative and marketing costs of 10% may be kept by the scholarship granting organizations. 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. DED projected 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 assumed responsibility for administration of the credit and that one person plus associated expenses would be required to administer the program, initially. DED assumed the credits will go into effect in August and will be claimed on CY 2007 tax returns filed in 2008. The cost of the credits will be $40 million in FY 2008. DED assumed the one person would be needed in FY 2008 to set up the program. DED assumed 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 assumed General Revenue funding will be appropriated and used for program costs. DED assumed 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** state the changes outlined in section 135.715 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 **Department of Revenue (DOR)** assume the proposal would have the following administrative impact:

This legislation contains an add-back modification as well as an additional tax credit. This will create a new line on the MO-A and the MO-TC. Personal Tax will require 2 Temporary Tax Employees for key-entry, 1 Tax Processing Technician I per every 19,000 returns to be verified, and 1 Tax Processing Technician I for every 2,400 additional pieces of correspondence. Personal Tax will also require 1 Tax Processing Technician I per 6,000 credits claimed.

Due to the Statewide Information Technology Consolidation, DOR's response to a proposal will now also reflect the cost estimates prepared by OA-IT for impact to the various systems. As a result, the impact shown may not be the same as previous fiscal notes submitted. In addition, if the legislation is Truly Agreed to and Finally Passed, the OA-IT costs shown will be requested through appropriations by OA-IT. The Office of Administration Information Technology (ITSD DOR) estimates the IT portion of this request can be accomplished within existing resources, however; if priorities shift, additional FTE/overtime would be needed to implement. Office of Administration Information Technology (ITSD DOR) estimates that this legislation could be implemented utilizing 5 existing CIT III for 2 months and an additional 2 CIT III for 1 month at a rate of $50,232.

In summary, DOR estimates the cost for the three additional FTE plus the two temporary employees to total roughly $145,000 per year.

In response to a similar proposal from 2006 (HB 1783), DOR assumed the number of credits claimed would not be sufficient to necessitate any additional FTE. Therefore, **Oversight** will assume DOR will be able to administer the proposal with existing resources. Oversight assumes if the credit volume warrants, DOR could request FTE through the normal budgeting process.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State (SOS)** note that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than $2,500. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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 and signed bills.

Officials from the **Joint Committee on Legislative Research - Oversight Division (Oversight)** assumes the study required in Section 135.717 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 2010. 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 2008, $41.2 million in FY 2009 and $42.4 million in FY 2010.

The proposal states that taxpayer may claim a credit in the amount of 65 percent of the amount the taxpayer contributed during the tax year. Therefore, with the first annual limit of tax credits that can be issued of $40 million, this would equate to a potential of $61.5 million in contributions ($40 million / 65%). With the inflation factor discussed above, this would equate to $63.385 million of contributions could be accepted to generate the $41.2 million of credits available for FY 2009, and $65.23 million of contributions could be accepted to generate the $42.4 million of credits anticipated to be available for FY 2010.

The proposal also states that at least 80% of the eligible revenues (donations) shall be used for grants to eligible students to cover all or part of the tuition and fees at a qualified school. **Of this amount**, no more than 20% (of the 80%) shall be allocated for other approved educational expenses (such as tutors, books, technology or transportation). The proposal also states that no more than 20% of the eligible revenues be allocated for public school foundations to be used for the benefit of public schools. Therefore, Oversight will assume eighty percent of the donations, will be used for scholarships, or $49.23 million ($61.5 million of contributions x 80%). Oversight will assume the other twenty percent of the contributions will be spent on either administrative costs or other expenses for students such as tutoring or transportation.

ASSUMPTION (continued)

Oversight will also assume the average amount of each scholarship will be $5,000. Dividing 80 percent of the potential contributions by the program's average amount per student of $5,000, yields 9,846 ($49,230,000 / $5,000) students that may receive the scholarship in the first year. Since the average scholarship amount per student is adjusted to inflation as is the total number of credits allowable per year, Oversight would assume a relatively stable number of scholarships would be available each year.

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 sate of $34,461,000 ($3,500 x 9,846). Also, the state would not realize a savings until the 2009 - 2010 school year, which is the 2010 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. <u>The potential savings of $34,46100,000 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 (as assumed by the Department of Elementary and Secondary Education).</u>

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

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

1. 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.

2. 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, 2007, **Oversight** will assume that up to $40 million in tax credits may be claimed in Fiscal Year 2008.

ASSUMPTION (continued)

Oversight will also assume that the state may not realize a savings in school funding until the 2009 - 2010 school year. The effective date of this proposal would be August 28, 2007, which Oversight assumes would be too late to provide scholarships for students to attend other schools in the 2007 - 2008 school year. Therefore, Oversight assumes the first year students would be able to use the scholarships to attend other schools would be the 2008 - 2009 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 2009 - 2010 school year because the funding for the 2008 - 2009 school year would still be based on pupil count from 2007 - 2008.

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 and St. Louis 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 assumes there would be positive economic benefits from this proposal, but Oversight assumes those benefits to be indirect and have not reflected them in this fiscal note.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years

ASSUMPTION (continued)

prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Therefore, under this proposal, if $40,000,000 of credits are issued, Oversight would assume $33,200,000 (83%) of credits to be redeemed, reducing Total State Revenues.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
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	$0	$0	$0 to $34,461,000
Costs - DED			
Personal Service (1 FTE)	($38,017)	($46,761)	($47,930)
Fringe Benefits	($16,750)	($20,603)	($21,118)
Expense and Equipment	($21,151)	($17,510)	($18,035)
Total Costs - DED	($75,918)	($84,874)	($87,083)
Costs - Oversight Division			
Contract with qualified researcher to conduct study of the program	$0	$0	(Unknown - less than $100,000)
Loss - Betty L. Thompson Scholarship program tax credits	$0 to ($40,000,000)	$0 to ($41,200,000)	$0 to ($42,400,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($75,918 to $40,075,918)**	**($84,874 to $41,284,874)**	**($87,083 to $8,126,083)**

FISCAL IMPACT - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
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	$0 to ($34,461,000)
ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	**$0**	**$0 TO UNKNOWN**	**UNKNOWN TO ($34,461,000)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal establishes the Betty L. Thompson Scholarship Program which authorizes a 65% tax credit beginning with the 2007 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 nonrefundable 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 must average $5,000, indexed for inflation.

Eligibility standards for students receiving scholarships include residence in St. Louis City or is in the Kansas City 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; a family income of 135% of the level which qualifies the student for the reduced lunch program; and has a GPA of 2.5 or lower on a four-point scale.

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 certain requirements including employee background

FISCAL DESCRIPTION (continued)

checks and student assessments. The bill specifies how scholarship checks will be distributed.

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
Department of Revenue
Office of Administration - Budget and Planning
Office of the Secretary of State

Mickey Wilson

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