COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4501-02
Bill No.: HB 2404
Subject: Education, Elementary and Secondary: Elementary and Secondary Education Department
Type: Original
Date: April 21, 2008

Bill Summary: Establishes the "Missouri 4 For More Program" and creates a tax credit for employers or employees who participate in the program

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($746,935)	($836,295 to $10,836,295)	($914,246 to $10,914,246)
Total Estimated Net Effect on General Revenue Fund	**($746,935)**	**($836,295 to $10,836,295)**	**($914,246 to $10,914,246)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on Other State Funds*	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	1 FTE	4 FTE	4 FTE
Total Estimated Net Effect on FTE	**1 FTE**	**4 FTE**	**4 FTE**

☐ 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 2009	FY 2010	FY 2011
Local Government	**$0**	**$0**	**$0**

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Secretary of State (SOS)** assume 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 activity resulting from each year's legislative session. The fiscal impact to the SOS office for Administrative Rules for this proposal is less than $2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

Officials from the **Office of Administration - Administrative Hearing Commission** state this proposal has no fiscal impact on their division.

Officials from the **Office of Administration - Division Budget and Planning (BAP)** reviewed this proposal and determined that the proposed legislation should not result in additional costs or savings to BAP.

This bill creates a tax credit for 50% of the hourly wage paid by an employer to each employee participating in the Missouri 4 more program. The Missouri 4 more program allows any parent, step-parent or legal guardian of school children from kindergarten through twelfth grade to receive four hours of paid leave per month to work with their children in the children's school, up to 48 hours annually.

Tax credits may not exceed a taxpayer's tax liability but may be carried forward for four subsequent years. Taxpayer's credit may not exceed $50,000 per taxable year. The cumulative amount of tax credits may not exceed $10 million per fiscal year. This proposal will reduce general and total state revenues by up to $10 million annually.

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 prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Assuming $10 million in annual issuance from this program, Oversight would assume roughly $8.3 million would be redeemed annually.

ASSUMPTION (continued)

Oversight will range the fiscal impact of the new program and the expansion of the existing programs from $0 (no additional tax credits will be issued) to the annual limit of $10,000,000. This tax credit is for tax years beginning on or after January 1, 2009; therefore, there could be a reduction in revenue collections in FY 2010. Oversight has shown the full cost of the tax credits in the General Revenue Fund, although the tax credits could be used by insurance companies and result in fiscal impact to other state and local funds.

Officials from the **Office of Administration - Personnel Division** provided the following assumptions regarding the fiscal impact of this proposal on state agencies:

1. The number of full time state employees is estimated to be 54,000.
2. The number of employees that work at a 24/7 facilities is estimated to be 25%, or 13,500. Of those employees, 33% or 4455, are estimated to work during school hours. The absence of an employee at a 24/7 facility would likely generate overtime for someone to fill in for the missing employee.
3. The number of full time employees who work during school hours and have children in school from kindergarten to 12th grade is estimated at 15%, or 6743.
4. An average state employee salary of $31,332 per year, or $15.06 per hour was used.
5. Based on this, an estimated cost of lost productivity was calculated at $4,874,561 (6743 employees x 48 eligible hours per year x $15.06 per hour).
6. Cost of overtime was estimated based on lost hours needing coverage at 24/7 facilities for a total of $724,597 (668 x 48 = number of hours or 32,076, multiplied by $15.06 x 1.5).
7. The cost of fringe benefits at 27.05% of salary was estimated at $196,003.
8. Although there is a productivity cost, state agencies would be budgeted to absorb the time off. That is, unlike overtime, productivity would not cost the state additional dollars. Therefore, the fiscal estimate worksheet does not include the costs associated with lost productivity.

If adopted, the Personnel Advisory Board would need to develop regulations authorizing state employees to use paid leave for their children's education. The SAMII HR/Payroll system would need to be set up to accommodate the leave. The policies and procedures of individual state agencies would need to provide for this type of leave with pay.

Oversight assumes employee participation would be for a nine month school year and has adjusted the total for overtime salary and benefits accordingly.

Officials from the **Department of Revenue (DOR)** state that §135.1155 creates a new tax credit that taxpayers can apply to Chapter 143, 147 and 148. The credit can be carried forward 4 years.

ASSUMPTION (continued)

DOR states that Form MO-TC changes will be required. COINS and CAFÉ changes will be required. DOR assumes the following staff would be needed:

Corporate Tax

One Revenue Processing Tech I will be needed for every 5,200 of additional errors
One Revenue Processing Tech I for every 2,080 pieces of additional correspondence

Personal Tax

One Revenue Processing Tech I will be needed for every 6,000 claims received.

The **Office of Administration Information Technology (ITSD DOR)** estimates that this legislation could be implemented utilizing 1 existing CIT for 2 months for modifications to MINITS and 3 existing CIT III's for 1 month for modifications to the corporate tax systems at an estimated cost of $20,930. 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. Funding would be requested through the budget process.

Oversight assumes that tax returns utilizing the new credit would not be filed with the Department of Revenue until January, 2010; therefore, Oversight will estimate the cost of the additional FTE for DOR for only six months in FY 2010 and for a full year in FY 2011.

Officials from the **Department of Transportation (MoDOT)** assume the fiscal impact of this proposal on the Road Fund would depend upon the number of employees who decided to participate in the program.

Oversight assumes over-time expense for MoDOT would be minimal and will not be reflected in the fiscal note.

Officials from the **Department of Conservation (MDC)** state this proposed legislation would have significant impact on MDC funds since they assume it gives an additional benefit of four paid hours per month for employees to work with their children at school. The exact amount of impact is unknown, but is expected to exceed $100,000 annually.

Oversight assumes over-time expense for MDC would be minimal and will not be reflected in the fiscal note.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE**) assume DESE is responsible for establishing a procedure for tracking employees for which employers receive tax credits; therefore, it is assumed that the department must track, monitor, and apply the tax credit on an on-going basis. If DESE is required to provide this tax credit monitoring function, a minimum of 1.5 new FTE would be required (i.e. 1.0 FTE supervisor and .5 FTE administrative assistant). Costs to establish a procedure for tracking employees for which employers receive tax credits are unknown.

Oversight assumes the duties associated with this proposal could be accomplished with 1 FTE administrative position. **Oversight** has, for fiscal note purposes only, adjusted the salary and benefits of the administrative assistant to correspond with the range for the starting salary posted by DESE for a similar position.

DESE assumes there will be an administrative impact on local school districts to track each person and the corresponding hours each person spends in the school working with children, then to subsequently issue a written statement to each person supporting those hours.

Oversight assumes the administrative impact on local school districts will be absorbed with existing resources.

Officials from the **Department of Insurance, Finance, and Professional Regulation (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credit. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

DIPF will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the DIPF may need to request more expense and equipment appropriation through the budget process

According to county officials, **St. Louis County** has approximately 4,200 employees. Based on enrollments in the medical insurance plan, it is estimated that as much as a third of the population has parental responsibility of school age children. Given an average of combined

ASSUMPTION (continued)

wages and benefits of $24 per hour, the annual cost if all employees took advantage of this opportunity would be $134,400 (1400 employees x $24/hr x 4 hrs). St Louis County officials predict that 25% or less would actually take advantage of the opportunity so the cost would be approximately $33,600 in leave time payments.

Officials from the **University of Missouri System (UM)** provided the following assumptions regarding this proposal:

1. Each employee (benefit and non-benefit eligible) with children is allowed 4 hours per month (collectively). UN estimate 7,149 of total benefit eligible populations have children and the cost would be estimated at $541,894.20; or

2. Each employee with children (benefit and non-benefit eligible) is allowed 4 hours per month per child. UM estimates that there is approximately 13,291 total children population for an estimated cost of $1,007,457.80.

These calculations are presented only as estimates because UM does not have the information regarding non-enrolled children of benefit eligible and non-benefit eligible employees.

UM does provide four personal days per year in addition to vacation to be used for the purposes outlined in this proposed legislation.

Officials from **Clinton County** assumed a loss of revenue for the state in addition to some loss of local taxes.

Officials from the **Kansas City Metropolitan Community College, Lincoln University,** and **Linn State Technical College** state there would be no fiscal impact to their respective colleges.

Officials from the **Parkway School District** state they already have an allowance for paid "personal days" which can be used for things like volunteering at a child's school.

Officials from the **City of Columbia** estimate it would cost $7,000 for every 100 employees who participate (Average hourly rate is $19.50 x 4 hours/month x 9 months (school calendar) = $700/participating employee/year.)

Officials from the **City of Centralia** estimate a cost of $18,768 for full time employees; more if the proposal is applicable to part-time employees.

Officials from the **University of Central Missouri** estimate a cost of as much as $517,996 annually, assuming half of their employees took advantage of the four hours of paid leave mandated by this proposed legislation.

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
Cost - All State Agencies - Overtime and benefits	($711,164)	($732,499)	($754,474)
Cost - Department of Elementary and Secondary Education - Administrative costs for tracking tax credits			
Personal Service (1 FTE)	($22,392)	($27,677)	($28,507)
Benefits	($9,902)	($12,239)	($12,606)
Equipment and Expense	($3,477)	($1,195)	($1,230)
Total Cost - DESE	($35,771)	($41,111)	($42,343)
FTE Change - DESE	1 FTE	1 FTE	1 FTE
Cost - Department of Revenue - Costs to process tax returns			
Personal Service (3 FTE)	$0	($38,603)	($80,761)
Benefits	$0	($16,831)	($35,713)
Equipment and Expense	$0	($7,791)	($955)
Total Cost -DOR	$0	($62,685)	($117,429)
FTE Change - DOR	0 FTE	3 FTE	3 FTE
Loss - Tax Credit for employers of employees who participate in "Missouri 4 for More" program	$0	$0 to ($10,000,000)	$0 to ($10,000,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE	**($746,935)**	**($836,295 to $10,836,295)**	**($914,246 to $10,914,246)**

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
Estimated Net FTE Change for General Revenue	1 FTE	4 FTE	4 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses would be impacted to the extent additional costs are incurred to replace lost labor totaling 48 hours per year per employee. The proposal offers a tax credit in an amount equal to 50% of the hourly wage paid to each employee, multiplied by the number of eligible hours worked under the Missouri 4 For More program. These tax credits may help offset costs for small businesses; however, the cumulative amount of tax credits which may be claimed shall not exceed $10 million in any one fiscal year.

FISCAL DESCRIPTION

This proposed legislation establishes the Missouri 4 For More Program to allow parents, guardians, and stepparents of school children from kindergarten through twelfth grade to receive four hours of paid leave each month to work with their children in their children's school. The school district will provide a written statement that indicates the person has spent four hours in the school working with his or her child or children. The program is optional and will be administered by the Department of Elementary and Secondary Education.

Beginning January 1, 2009, the employer of any person who participates in the program will be eligible for a tax credit of 50% of the hourly wage paid to a participant up to 48 hours per year. The employer cannot claim more than $50,000 a year, but the credit may be carried over for four years. The cumulative amount of tax credits is limited to $10 million a year.

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

LMD:LR:OD (12/02)

FISCAL DESCRIPTION (continued)

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

Office of Administration
- Division of Budget and Planning
- Division of Personnel
- Administrative Hearing Commission

Department of Elementary and Secondary Education
Department of Transportation
Department of Insurance, Finance, and Professional Regulation
Department of Revenue
Department of Conservation
Office of Secretary of State
- Administrative Rules Division

Counties
- St Louis
- Clinton

Cities
- Columbia
- Centralia

Colleges and Universities
- University of Missouri
- Kansas City Metropolitan Community College
- Linn State Technical College
- Lincoln University
- University of Central Missouri

School Districts
- Parkway

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