COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4670-02
Bill No.: HB 2207
Subject: Higher Education; General Assembly; Economic Development Department
Type: Original
Date: March 31, 2008

Bill Summary: This proposal establishes the HCH Scholarship Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	($67,952) to $0	($75,463 to $20,000,000)	($77,728) to $1,800,000
Total Estimated Net Effect on General Revenue Fund	**($67,952) to $0**	**($75,463 to $20,000,000)**	**($77,728) to $1,800,000**

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**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 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	1	1
Total Estimated Net Effect on FTE	**1**	**1**	**1**

☐ 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 to Unknown**	**Unknown to ($22,400,000)**

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 $20 million in the first year of existence. This capped is adjusted upward by the Midwest CPI in subsequent years. BAP assumes that the first credits will be issued and likely claimed in FY'09. 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 $20 million in FY'09, $20.6 million in FY'10, and $21.2 million in FY'11.

This proposal also allows the Department of Economic Development to collect up to two percent of the qualifying contributions for administrative costs. BAP assumes these funds will be deposited into the state treasury, which would be an increase to general and total state revenues.

Officials from the **Department of Economic Development (DED)** assume responsibility for administration of the credit and assume that two people plus associated expenses would be required to administer the program, initially. DED assumes the credits will go into effect in August 2008 and will be claimed on CY 2008 tax returns filed in 2009. Education Organizations will take in $40 million and issue $20 million in credits in FY 2009. DED assumes 2 people would be needed in FY 2009 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. ITSD indicates 240 hours of programing time for a Computer Information Technologist III to do programing. The cost for two Economic Development Incentive Specialist IIIs, expense, and equipment will be needed in FY 2009. DED assumes the full $20 million in credits will be issued and claimed each year. DED assumes General Revenue funding will be appropriated and used for program costs the first year and each year thereafter funding would come from contributions.

DED assumes some compliance/auditing functions will need to be added but the extent is unknown. DED assumes the 2% administrative costs will be appropriated out of General Revenue and funds will be reimbursed to GR by the Administering Organizations (AO) as funds are paid from contributions/donations to the AOs.

In response to a similar proposal from 2006 (HB 1783), officials for DED assumed the need for one additional FTE. Therefore, **Oversight** has reduced DED's fiscal impact to the one additional FTE plus necessary expenses.

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 Revenue (DOR)** assume the need for one Tax Processing Technician I for every 6,000 credits claimed and one Tax Processing Technician I for every 5,200 returns to verify and 2,080 pieces of correspondence generated.

DOR states that due to the Statewide Information Technology Consolidation, their response 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.

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 1 existing CIT III for 2 months for modifications to MINITS and 3 additional CIT III for 1 month for modifications to the corporate tax systems. The estimated cost is $20,930.

In response to a similar bill from 2007 (SB 698), DOR assumed they could absorb the additional duties from the program with existing resources. Therefore, Oversight will not show a fiscal impact to the Department of Revenue.

Officials from the **Office of the 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 for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 bills signed by the governor.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** state the Department of Revenue will likely experience an administrative burden. No impact to DESE. Tax credits will reduce income tax receipts flowing to the General Revenue fund. Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

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.

The credit is for donations starting within the calendar year 2009; therefore, **Oversight** assumes the first credits could be claimed on tax returns filed in January 2010, or FY 2010. 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 $20 million in FY 2010 and $20.6 million in FY 2011.

The proposal states that taxpayers may claim a credit in the amount of 50 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 $20 million, this would equate to a potential of $40 million in contributions ($20 million / 50%). With the inflation factor discussed above, this would equate to $41.2 million of contributions could be accepted to generate the $20.6 million of credits available for FY 2011.

The proposal also states that at least 80% of the qualifying contributions (donations) shall be used for educational scholarships. Therefore, Oversight will assume eighty percent of the donations, will be used for scholarships, or $32 million ($40 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.

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 6,400 ($32,000,000 / $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.

ASSUMPTION (continued)

The average amount of state aid per eligible pupil from the St. Louis and Kansas City school districts is roughly $3,500. Multiplying the average state aid to St. Louis or Kansas City and the number of students that may get a scholarship, results in a potential savings to the sate of $22,400,000 ($3,500 x 6,400). Also, the state would not realize a potential savings until the 2010 - 2011 school year, which is the 2011 fiscal year. Unlike similar proposals from 2007 (HB 808 and SB 698), this proposal does not contain language stating that the St. Louis or Kansas City school districts would no longer be able to include the student receiving the scholarship in the weighted average daily attendance count for receiving state aid. Oversight assumes this exclusion will not change the fiscal impact of the bill. Oversight assumes the St. Louis and Kansas City school districts will still lose the funding for these students in the year after they attend other schools. If students from the St. Louis or Kansas City 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 St. Louis and Kansas City School District would still receive funding for the first year for those students that attend other schools with this scholarship.

Oversight will range the fiscal impact of the tax credits and the potential savings from reduced payments of state aid to the 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.

Since the tax credits can be utilized for tax years on or after January 1, 2009, **Oversight** will assume that up to $20 million in tax credits may be claimed in Fiscal Year 2010.

Section 135.717 states that DESE shall contract with one or more qualified researchers to evaluate the program. This research shall be conducted with funds donated to the educational assistance organizations and shall begin within a year of commencement of the program. Oversight assumes the educational assistance organizations will pay for this study from the 20 percent of donations that do not have to be used for scholarships, and will not be a direct cost to the state.

Oversight will also assume that the state may not realize a savings in school funding until the 2010 - 2011 school year. The tax credits are for contributions made starting with calendar year 2009. Therefore, Oversight assumes the first donations would be made in the first quarters of 2009 and be available for granting scholarships in school year 2009 - 2010. Therefore, Oversight assumes the state would not realize any savings from reduced payments to the school districts until the 2010 - 2011 school year because the funding for the 2009 - 2010 school year

ASSUMPTION (continued)

would still be based on pupil count from 2008 - 2009.

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 St. Louis or Kansas City 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 school districts 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.

Subsection 135.716.5 states that DED may receive up to 2 percent of contributions for administrative expenses - up to the actual costs incurred in administering the program (whichever is less). **Oversight** will range this from $0 to Oversight's estimated cost to be incurred by DED.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous four 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. Therefore, under this proposal, if $20,000,000 of credits are issued, Oversight would assume $16,600,000 (83%) of credits to be

ASSUMPTION (continued)

redeemed, reducing Total State Revenues.

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

This proposal could reduce Total State Revenues.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
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 $22,400,000
Income - DED may receive up to two percent of the qualifying contributions for marketing and administrative expenses - or cost incurred in administering the program - whichever is less	$0 to $67,952	$0 to $75,463	$0 to $77,728
Costs - DED			
Personal Service (1 FTE)	($34,763)	($42,966)	($44,255)
Fringe Benefits	($15,372)	($19,000)	($19,570)
Expense and Equipment	($17,817)	($13,497)	($13,903)
Total Costs - DED	($67,952)	($75,463)	($77,728)
FTE Change - DED	1 FTE	1 FTE	1 FTE
Loss - DED			
Tax credit for contributions to educational assistance organizations	$0	$0 to ($20,000,000)	$0 to ($20,600,000)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**($67,952) to $0**	**($75,463 to $20,000,000)**	**($77,728) to $1,800,000**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
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 ($22,400,000)
ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	**$0**	**$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.

FISCAL DESCRIPTION

This proposal establishes the HCH Scholarship Program within the Department of Economic Development which authorizes a tax credit beginning January 1, 2009, for taxpayers who contribute to an educational assistance organization if the donations are not claimed on the taxpayer's federal income tax return. The credit will be 50% of the amount of the contribution and is nonrefundable but may be carried forward for three years. The cumulative amount of tax credits cannot exceed $20 million annually, indexed for inflation; and scholarships may not exceed an average of $5,000, indexed for inflation. Eighty percent of the scholarships must go to students from households that have an income no higher than 135% of the level needed to qualify for a reduced price lunch, while the remaining 20% will be divided equally between students in the St. Louis City and Kansas City school districts without regard to parental income.

Eligibility criteria for students receiving scholarships include enrollment in any grade from kindergarten to grade six; residence in the St. Louis or Kansas City school district; and eligibility to attend a public school for the semester before a scholarship is granted or starting school in the state for the first time. Home schooled children are also eligible for a scholarship up to

FISCAL DESCRIPTION (continued)

the amount of educational expenses, which will not include any payment for the parent's instructional services.

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

The Department of Elementary and Secondary Education will contract for 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 December 31 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

NOT RESPONDING:
St. Louis Public Schools
Kansas City Public Schools
Springfield School District

Mickey Wilson

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Director
March 31, 2008