

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4671-01  
Bill No.: SB 962  
Subject: Economic Development Department; Education, Elementary and Secondary;  
 Taxation and Revenue  
Type: Original  
Date: February 20, 2006

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
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)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$75,918 to \$40,075,918)</b>	<b>(\$84,874 to \$41,284,874)</b>	<b>(\$87,083 to \$20,087,083)</b>

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

Numbers within parentheses: ( ) indicate costs or losses.  
 This fiscal note contains 9 pages.

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

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

**FISCAL ANALYSIS**

ASSUMPTION

Officials from the **Department of Revenue** assume no fiscal impact from the proposal.

Officials from the **Office of Administration - Budget and Planning** assume 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 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.

ASSUMPTION (continued)

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.

**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. The tax credits may be first claimed in the next calendar year.

ASSUMPTION (continued)

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 135.983 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 twelve year study required in Section 135.994 of the proposal would not utilize state funds. Oversight is not aware of an outside funding source for the study outlined in the proposal. Oversight assumes any revenues received or costs incurred as a result of this proposal is beyond the scope of the fiscal note.

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

**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.

ASSUMPTION (continued)

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, and since the Missouri student success scholarship tax credits may be first claimed in the next calendar year (Section 135.997), **Oversight** will assume that up to \$40 million in tax credits may be claimed in calendar year 2007 for tax years ending December 31, 2006.

**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%). 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.

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 ( $\$3,500 \times 6,400$ ). 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.

ASSUMPTION (continued)

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.

**This proposal could reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>GENERAL REVENUE</b>			
<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 - DED</u>			
Personal Service	(\$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 - DED</u>	(\$75,918)	(\$84,874)	(\$87,083)
<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>
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(\$75,918 to \$40,075,918)</u></b>	<b><u>(\$84,874 to \$41,284,874)</u></b>	<b><u>(\$87,083 to \$20,087,083)</u></b>

<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
<b>LOCAL SCHOOL DISTRICTS</b>			
<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>
<b>ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS</b>	<b><u>\$0</u></b>	<b><u>\$0 TO UNKNOWN</u></b>	<b><u>UNKNOWN TO (\$22,400,000)</u></b>

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal provides a tax credit for individual and corporate contributions to organizations that provide educational scholarships to eligible students residing in St. Louis City, Kansas City, or the Wellston School District so they can attend qualified public and non-public schools of their parent's choice. The tax credit is equal to one hundred percent of the contribution. The credit is non-refundable but may be carried forward three years. No more than forty million dollars of tax credits may be allocated statewide for any one fiscal year.

If a student uses the scholarship to attend another public school such scholarship shall replace the state funding that would be owed for that student.

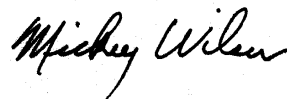
The Committee on Legislative Research will conduct a study on this program. The provisions of this act will sunset six years from the effective date if not reauthorized.

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**





L.R. No. 4671-01  
Bill No. SB 962  
Page 9 of 9  
February 20, 2006

Mickey Wilson, CPA  
Director  
February 20, 2006