

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2454-02
Bill No.: SB 698
Subject: Education, Elementary and Secondary; Kansas City; St. Louis; Economic Development Department
Type: Original
Date: March 13, 2007

Bill Summary: This proposal establishes the Betty L. Thompson Scholarship program.

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 <u>Other</u> 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 <u>All</u> 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.

Officials from the **Department of Economic Development (DED)** assume responsibility for administration of the credit and that two people plus associated expenses would be required to administer the program, initially. DED assumes the credits will go into effect in August 2007 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 assumes 2 people would be needed in FY 2008 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 programming time for a Computer Information Technologist III to do programming. The cost for two Economic Development Incentive Specialist III, expense, and equipment will be needed in FY 2008. DED assumes the full \$40 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.

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 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

ASSUMPTION (continued)

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.

DESE states there could be a cost to a local school district receiving a scholarship student because the scholarship may not be sufficient to pay the cost of education in that district.

Officials from the **Department of Revenue (DOR)** assume they could absorb the additional duties from the program with existing resources.

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)** assume 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.

ASSUMPTION (continued)

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.

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 proposal states the 'eligible student' must reside within a boundary of a school district that is classified as unaccredited by the state board of education. Oversight assumes the proposal will primarily concern the St. Louis school district. The average amount of state aid per eligible pupil from the St. Louis School Districts is roughly \$3,500. Multiplying the average state aid to St. Louis and the number of students that may get a scholarship, results in a potential savings to the state 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 St. Louis School Districts from \$0 to the maximum amounts. The potential savings of \$34,461,000 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).

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

ASSUMPTION (continued)

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 St. Louis School District 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 School District would still receive funding for the first year for those students that attend other schools with this scholarship.
2. For students from the St. Louis School District 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.

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.

ASSUMPTION (continued)

Oversight assumes St. Louis school district 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 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 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.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
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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 \$34,461,000
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<u>Costs - DED</u>			
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 - DED</u>	<u>(\$75,918)</u>	<u>(\$84,874)</u>	<u>(\$87,083)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT - State Government</u> (continued)	FY 2008 (10 Mo.)	FY 2009	FY 2010
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Costs - Oversight Division

Contract with qualified researcher to conduct study of the program	\$0	\$0	(Unknown - less than \$100,000)
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<u>Loss</u> - Betty L. Thompson Scholarship program tax credits	\$0 to <u>(\$40,000,000)</u>	\$0 to <u>(\$41,200,000)</u>	\$0 to <u>(\$42,400,000)</u>
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ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(\$75,918 to \$40,075,918)</u>	<u>(\$84,874 to \$41,284,874)</u>	<u>(\$87,083 to \$8,126,083)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
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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
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<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>(\$34,461,000)</u>
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ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	<u>\$0</u>	<u>\$0 TO UNKNOWN</u>	<u>UNKNOWN TO (\$34,461,000)</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal creates the Betty L. Thompson Scholarship Program. Beginning with the 2007 tax year, the act authorizes a tax credit for taxpayers who donate to an educational assistance

organization if the donations are not claimed on the taxpayer's federal income tax return. The tax credit is for 65% of the amount of the contribution and is nonrefundable but may be carried forward for three years or transferred. The cumulative amount of tax credits cannot exceed \$40 million annually, and scholarships may not exceed \$5,000. Both amounts shall be increased or decreased based on the consumer price index for the Midwest.

Eligibility standards for students receiving scholarships include a grade point average of 2.5 or less; residence within the boundaries of an unaccredited 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 no more than 135% of the level for the reduced school lunch program. Educational assistance 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 administering state student assessments, among others. The act delineates how scholarship checks will be distributed.

Scholarships may also be used at public schools outside the eligible school districts and they will have the right of first acceptance of scholarship students. If the scholarship student attends another public school, the accepting school must take the educational scholarship funds instead of state funds owed to the accepting district. The weighted average daily attendance count for state aid purposes of a school district whose resident students receive scholarships under this act shall be adjusted so that the district does not receive aid for a student no longer enrolled as a result of receiving a scholarship under this act.

The Joint Committee on Legislative Research shall enter into a contract with one or more researcher to study the program, including measurements of student achievement, satisfaction with the program, and its impact on public and private schools.

The provisions of this act shall expire six years from the effective date.

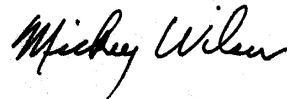
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Department of Elementary and Secondary Education
Department of Revenue

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Office of Administration - Budget and Planning
Office of the Secretary of State
Oversight Division

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large, prominent 'M' and 'W'.

Mickey Wilson, CPA
Director
March 13, 2007