

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4227-03
Bill No.: SCS for SBs 993 & 770
Subject: Education, Elementary and Secondary; Economic Development Department; Tax Credits
Type: Original
Date: February 22, 2008

Bill Summary: This proposal creates the Missouri Special Needs Scholarship Tax Credit Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	(Unknown - expected to exceed \$100,000)	(Unknown - expected to exceed \$100,000)	(Unknown - expected to exceed \$100,000)
Total Estimated Net Effect on General Revenue Fund*	(Unknown - expected to exceed \$100,000)	(Unknown - expected to exceed \$100,000)	(Unknown - expected to exceed \$100,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>Other</u> 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 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

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

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	Unknown to (Unknown)	Unknown to (Unknown)

* 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 **Department of Economic Development (DED)** state they assume responsibility for administration of the credit, and an unknown number of people plus associated expenses would be required to administer the program. DED assumes the credits will go into effect in August 2008 and will be claimed on CY 2008 tax returns filed in 2009. The cost of the credits will be unknown. DED assumes the need for one person for each \$20 million in credits issued. DED assumes some computer programming will be needed to adjust existing systems to track the credits claimed and keep a list of scholarship organizations. For similar legislation, ITSD indicated 240 hours of programming time for a Computer Information Technologist III to do initial programming plus recurring costs to maintain the program. Costs are shown as unknown as there is no cap on the number of credits. The cost for the Economic Development Incentive Specialist IIIs, expense, and equipment will be needed in FY 2008. DED assumes some compliance/auditing functions will need to be added but the extent is unknown.

Officials from the **Department of Revenue (DOR)** state their Personal Tax section would require 1 Tax Processing Technician I for every 6,000 credits claimed. DOR assumed the cost of the one additional FTE would be roughly \$40,000 annually.

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.

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 existing CIT III for 1 month for modifications to the corporate income tax systems. The estimated cost is \$20,930.

Oversight assumes that tax returns utilizing the new credit would not be filed with the Department of Revenue until January, 2009; therefore, Oversight will estimate the cost of the additional FTE for DOR for only six months in FY 2009 and for a full year starting in FY 2010. Oversight is unsure if enough credits will be filed with tax returns to warrant the additional FTE for DOR; therefore, Oversight will range the cost of the DOR FTE from \$0 to the estimated cost.

ASSUMPTION (continued)

Officials from the **Department of Health and Senior Services** assume the proposal would not fiscally impact their agency.

Officials from the **Office of Administration - Administrative Hearing Commission** assume the proposal will not significantly alter its caseload. However, if other similar bills also pass, there will be fiscal impact. If there are more cases, or more complex cases, there could be a fiscal impact.

Officials from the **Office of Administration - Budget and Planning** state the proposal creates a tax credit for donations to qualifying special-needs-scholarship granting organizations. The tax credit is for 80% of the donation, up to 50% of state tax liability or \$800,000. These credits are transferable and sellable, and has a four-year carryforward. There is no cap on the program. This proposal will reduce general and total state revenues by an unknown amount.

Officials from the **Office of the 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 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.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. 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.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education (DESE)** state by federal law, the obligation to educate students with developmental disabilities or other special needs would remain with the public schools, although private schools would receive state funds to educate the students.

Tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

A public school accepting a student with a scholarship limits its revenue for that student to the value of the scholarship rather than the tuition the district charges non-resident students. There does not appear to be an incentive for a school to accept such a student.

The home district's loss of state aid for the student utilizing a scholarship may result in a reduced state cost of the foundation formula. The amount of such reduction cannot be estimated.

Oversight assumes this loss of state aid to home districts could result in a savings to the State's General Revenue Fund. Oversight assumes donations would be accepted in the '08-'09 school year and scholarships would be given to students for the '09-'10 school year. Since school funding is partially based on students count from the previous year, Oversight assumes the state would not realize a savings from until FY 2011. Oversight assumes the cost of the tax credits in FY 2011 will exceed the potential savings from reduced state aid payments; therefore, Oversight will reflect a net unknown cost from this proposal in FY 2011.

Oversight will range the fiscal impact of the new program from \$0 (no additional tax credits will be issued) to an unknown amount since the program has no annual limit.

Oversight assumes there would be some positive economic benefit to the state as a result of the changes in this proposal; however, Oversight considers these benefits to be indirect and therefore have not reflected them in the fiscal note.

This proposal could reduce Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
<u>Savings</u> - Department of Elementary and Secondary Education - potential savings of state foundation formula for students who participate in the program and are now enrolled at private schools.	\$0	\$0	Unknown
<u>Costs</u> - DED - to administer the program	(Unknown)	(Unknown)	(Unknown)
<u>Costs</u> - Department of Revenue			
Personal Service (1 FTE)	\$0 to (\$12,688)	\$0 to (\$26,136)	\$0 to (\$26,920)
Fringe Benefits	\$0 to (\$5,611)	\$0 to (\$11,557)	\$0 to (\$11,904)
Expense and Equipment	<u>\$0 to (\$6,229)</u>	<u>\$0 to (\$1,030)</u>	<u>\$0 to (\$1,060)</u>
<u>Total Costs</u> - DOR	\$0 to (\$24,528)	\$0 to (\$38,723)	\$0 to (\$39,884)
<u>Loss</u> - Tax credit for 80% of contribution to scholarship granting organization	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Estimated Net FTE Change for General Revenue Fund	Unknown FTEs	Unknown FTEs	Unknown FTEs

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.

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL SCHOOL DISTRICTS			
<u>Income</u> - scholarships for children attending new school districts	\$0	Unknown	Unknown
<u>Savings</u> - school districts that lose students would realize savings from not incurring education expenses specific to these students with developmental disabilities	\$0	Unknown	Unknown
<u>Loss</u> - districts that lose students would not receive as much state funding	\$0	\$0	(Unknown)
<u>Costs</u> - districts that receive students based upon this proposal would incur additional educational expenses higher than what the state would provide as a scholarship	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL SCHOOL DISTRICTS	<u>\$0</u>	Unknown to <u>(Unknown)</u>	Unknown to <u>(Unknown)</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This act creates the Missouri Special Needs Scholarship Tax Credit Program, to be administered by the Department of Economic Development. The program provides grants to elementary and secondary education students through scholarship granting organizations to cover all or part of tuition and fees at a qualified public or non-public school, including transportation to certain public schools. Scholarships are to be portable during the school year and may be prorated if a student changes schools. Students who may receive scholarships through the program include,

FISCAL DESCRIPTION (continued)

but are not limited to, students with an individualized education program who are mentally handicapped, speech and language impaired, deaf or hard of hearing, visually impaired, dual sensory impaired, physically impaired, emotionally handicapped, specific learning disabled, diagnosed with an autism spectrum disorder, or hospitalized or homebound due to illness or disability.

Beginning with tax year 2008, a taxpayer as described in the act may claim a tax credit against the taxpayer's state tax liability in an amount equal to eighty percent of the taxpayer's contribution to a scholarship granting organization. The amount of tax credits per taxpayer is limited to \$800,000 per year. The amount of tax credits claimed cannot exceed fifty percent of a taxpayer's state tax liability for the tax year in which it is claimed. An unclaimed tax credit may be carried over to the next four succeeding tax years until the full credit is claimed. Tax credits granted under the program are transferable as described in the act.

The director of the Department of Economic Development will determine which organizations may be classified as scholarship granting organizations. A scholarship granting organization that participates in the program must meet certain requirements and follow certain procedures as described in the act. An organization must spend at least 90% of its revenue from donations on educational scholarships and spend all revenue from interest or investments on educational scholarships. In addition, an organization must distribute scholarship payments as checks to parents and provide a Department of Economic Development-approved receipt to taxpayers who contribute. An organization must demonstrate financial accountability and viability as described in the act. An organization must also cooperate with the Department to conduct criminal background checks on its employees and board members and not employ individuals who could pose a risk to the use of contributed funds. The Department may hold a hearing before the director to bar a scholarship granting organization from participating in the program if it believes the organization has intentionally and substantially failed to comply with the requirements of the program. A scholarship granting organization may appeal to the Administrative Hearing Commission.

Participating schools must comply with health and safety laws that apply to non-public schools, hold a valid occupancy permit if required, certify they will not discriminate as described in the act, and regularly report on the students' progress to parents. Schools must also operate in Missouri and comply with state laws regarding criminal background checks for employees; they must not employ individuals prohibited by state law from working in a non-public school.

The Department of Economic Development must conduct a study of the program using non-state funds. The Department may contract with qualified researchers to conduct the study.

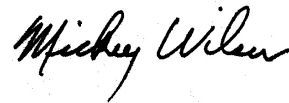
FISCAL DESCRIPTION (continued)

The provisions of this act expire in six years unless 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
Department of Revenue
Office of Administration
 Budget and Planning
 Administrative Hearing Commission
Department of Insurance, Financial Institutions and Professional Registration
Office of the Secretary of State



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Director
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