

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0095-01  
Bill No.: SB 65  
Subject: Education, Elementary and Secondary; Economic Development Department; Tax Credits  
Type: Original  
Date: January 26, 2015

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Bill Summary: This proposal creates the Equal Opportunity Scholarship Program to grant scholarships to students from unaccredited school districts for certain educational costs.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	(\$50,134,146)	(More than \$50,062,529)	(More than \$50,063,211)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(\$50,134,146)</b>	<b>(More than \$50,062,529)</b>	<b>(More than \$50,063,211)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
<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 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</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 FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §§135.712 - 135.719 Equal Opportunity Scholarship Program

This proposal creates the Equal Opportunity Scholarship Program, which grants scholarships to eligible students in unaccredited districts to cover all or part of tuition and fees at a qualified school. This proposal also provides a tax credit to a taxpayer who makes a qualifying contribution to an educational assistance organization of up to 75% of the amount of the contribution. This tax credit is capped at \$50 million per fiscal year, but shall be annually adjusted by Department of Economic Development for inflation. The Department of Economic Development is to receive up to two percent of qualifying contributions for marketing and administrative expenses of such program.

Officials at the **Office of Administration's Division of Budget & Planning** assume this proposal may reduce General and Total State Revenues up to \$50 million annually starting in calendar year 2015. The tax credit may be carried forward for four subsequent tax years. The proposal also directs that this maximum be adjusted for inflation based on the CPI for all urban consumers in the Midwest region; therefore, this proposal may reduce General and Total State Revenues up to an amount greater than \$50 million in subsequent tax years.

Officials at the **Department of Economic Development (DED)** assume the program would allow educational assistance organizations to receive donations from taxpayers and for consideration of those donations DED would provide the taxpayer with 75% of his or her donation in the form of a tax credit. The tax credit is non-refundable and has a 4 year carry-forward. The total amount of tax credits that can be issued under this program annually is \$50,000,000. The annual cap can be increased by DED to take into account inflation.

The tax credits must also be equally proportioned among educational assistance organizations. It should be noted that collectively the educational assistance organizations will have the ability to raise over \$66,000,000 in qualifying donations (if the maximum amount of tax credits are used). DED will designate qualified non-profits as educational assistance organizations (EAO).

For the administration of this program, DED will require 5 FTE. The FTE will be responsible for developing the application criteria, application, designating the tax credits to donors, compliance guidelines for EAOs, and additional administrative duties. The 5 FTE will be comprised of a broadband program manager, an Economic Development Incentive Specialist II, two accountants, and one administrative assistant. The estimated impact for FTE, fringe benefits and equipment and expenses is \$346,441 in FY 2016, \$377,747 in FY 2017 and \$381,813 in FY 2018.

ASSUMPTION (continued)

§135.715.5 states that the department shall receive no more than two percent of the qualifying contributions for marketing and administrative expenses of the costs incurred in the administering the program, whichever is less. It is unclear how DED is to receive those funds either through appropriation or from the educational assistance organizations.

DED assumes it will hold \$50,000,000 in tax credits and will release them to the EAOs as they become eligible and certify they have eligible donors. The EAOs will then receive the entire donation from the donor and DED will issue 75% of that donation to the donor in the form of a tax credit. There does not appear to be any transference of funds (other than tax credits) between DED and the donor. Therefore, DED is uncertain how it will collect the required 2% administration/marketing fee. This may be attributed back to General Revenue which assuming all \$50,000,000 tax credits are exhausted 2% of the qualifying donations would result in \$1.3 million being returned to General Revenue or DED for marketing and administrative fees. However, it should be noted that any unused amount must be returned to the EAOs.

**Oversight** assumes it is unclear how many educational assistance organizations would be created per this proposal. Additionally, since there is no limit on the amount a single individual can receive of the tax credit it is not possible to determine how many taxpayers may be involved in the program. Oversight will show the need for one FTE an Economic Development Specialist II for DED. Should DED experience the number of additional taxpayers to justify another FTE, they could seek that FTE through the appropriation process.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the Economic Development Specialist II to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

**Oversight** assumes this proposal initially caps the tax credit at \$50 million. Oversight will show the impact as Up to \$50 million. Oversight notes this proposal allows the cap to be increased by the rate of inflation each year. Oversight assumes the average rate of inflation over the last 20 years has been 2.5%. Oversight will show for fiscal note purposes the impact Up to the inflated amount.

**Oversight** notes that the money raised by the educational assistance organizations is to be used to fund scholarships for students, in unaccredited districts, to go to nonpublic schools. This may save the unaccredited school districts money they may have paid to transfer students to an accredited district.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume the Personal Tax Division would need two Revenue Processing Technicians I for tax credit redemption and tax credit transfers. Additionally, the Corporate Tax Division would need three Revenue Processing Technicians I for tax credit redemptions, tax credit transfers, correspondence.

DOR also assumes the Corporation Income Tax System as well as the Individual Tax System will need to be updated at a total cost of \$75,600.

DOR estimates this proposal would cost \$278,104 in FY 2016, \$208,157 in FY 2017 and \$210,324 in FY 2018.

**Oversight** assumes DOR's Personal Tax and Corporate Tax Division could absorb the responsibilities of this tax credit with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Officials at the **Department of Elementary and Secondary Education** assume that tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students. This proposal would enact a tax subsidy not to exceed \$50 million.

Officials at the **Kansas City Public Schools** and the **Malta Bends School** each assume there is no fiscal impact to their respective schools from this proposal.

Officials at the **Special School District of St. Louis** assume at a potential reduction of revenue of \$50 million a year to State Revenue, this proposal could reduce State funding received by the District by about 1-1.5%, which equates to \$500,000.

Officials at the **Riverview Gardens School District** assume a loss of \$1.6 million to \$12.8 million if this proposal is enacted.

Officials at the **Kirbyville R-VI Schools** assume they are unable to determine the impact at this time.

Officials at the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

ASSUMPTION (continued)

**Oversight** assumes this proposal allows the Joint Committee on Education to conduct a study on whether this program is achieving its goals. Oversight notes this study is subject to appropriation and would only be performed when money is appropriated. Oversight contacted the House of Representatives and the Senate to determine cost of the report but did not receive a response. Oversight notes this proposal requires the report to be conducted during the first five years of the program. Oversight assumes that if the legislature chose to fund this study they would do so in either the four or fifth year for maximum results (which are both outside the fiscal note period). Oversight will not show a fiscal impact for the study.

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 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, 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.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the following schools: Blue Springs Public Schools, Branson Public Schools, Caruthersville School District, Charleston R-I Schools, Cole R-I Schools, Columbia Public Schools, Fair Grove Schools, Francis Howell Public Schools, Fulton Public School, Harrisonville School District, Independence Public Schools, Jefferson City Public Schools, Kansas City Public Schools, Kirksville Public Schools, Lee Summit Public Schools, Macon School, Mexico Public Schools, Monroe City R-I Schools, Nixa Public Schools, Parkway Public Schools, Pattonville Schools, Raymore-Peculiar R-III Schools, Raytown School District, Sedalia School District, Sikeston Public Schools, Silex Public Schools, Spickard School District, Springfield School District, St Joseph School District, St Louis Public Schools, St. Charles Public Schools, Sullivan Public Schools, Warren County R-III School District and Waynesville Public School did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2016	FY 2017	FY 2018
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - equal opportunity scholarship program tax credit	(Up to \$50,000,000)	(Up to \$51,250,000)	(Up to \$52,531,250)
<u>Costs</u> - DOR - one-time computer upgrades	(\$75,600)	\$0	\$0
<u>Costs</u> - DED			
Personal Service	(\$31,860)	(\$38,614)	(\$39,000)
Fringe Benefits	(\$16,569)	(\$20,081)	(\$20,282)
Equipment and Expenses	<u>(\$10,117)</u>	<u>(\$3,834)</u>	<u>(\$3,929)</u>
<u>Total Costs</u> - DED	<u>(\$58,546)</u>	<u>(\$62,529)</u>	<u>(\$63,211)</u>
FTE Change - DED	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(\$50,134,146)</u></b>	<b><u>(More than \$50,062,529)</u></b>	<b><u>(More than \$50,063,211)</u></b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2016	FY 2017	FY 2018
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that claim the tax credit may be positively impacted.

FISCAL DESCRIPTION

This act creates the Equal Opportunity Scholarship Program to grant scholarships to students from unaccredited school districts for certain educational costs.

Beginning in tax year 2015, a taxpayer may make a qualifying contribution to an educational assistance organization and claim a tax credit, as described in the act. The tax credit is for seventy-five percent of the amount of the contribution. The tax credit may be carried forward for

ASSUMPTION (continued)

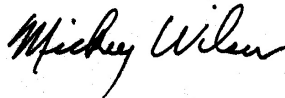
four years and may be transferred, sold, or assigned. The annual cumulative amount of tax credits is limited at \$50 million, which will be adjusted for inflation by the Department of Economic Development based on the Consumer Price Index for all Urban Consumers for the Midwest region. The director of the Department of Economic Development must establish a procedure to apportion the amount of tax credits amongst all educational assistance organizations. The Director may reapportion those tax credits to educational assistance organizations that have used all, or a certain percentage, of their tax credits.

The provisions of this act will sunset 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  
Joint Committee on Administrative Rules  
Kansas City Public Schools  
Kirbyville R-VI Schools  
Malta Bend Schools  
Office of Administration's Division of Budget & Planning  
Office of the Secretary of State  
Riverview Gardens School District  
Special School District



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January 26, 2015

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