

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0399-06  
Bill No.: SCS for SB 32  
Subject: Education, Elementary and Secondary; Education, Higher; Tax Credits  
Type: Original  
Date: February 17, 2017

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Bill Summary: This proposal establishes the Missouri Empowerment Scholarship Accounts Program.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>          |                             |  |  |
|--|-----------------------------|--|--|
| FUND AFFECTED  | FY 2018                     | FY 2019                                | FY 2020                                |
| General Revenue  | (Up to \$25,131,040)        | (Could exceed<br>\$25,000,000)         | (Could exceed<br>\$25,000,000)         |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue</b> | <b>(Up to \$25,131,040)</b> | <b>(Could exceed<br/>\$25,000,000)</b> | <b>(Could exceed<br/>\$25,000,000)</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>                      |                    |                    |                    |
|---|--------------------|--------------------|--------------------|
| FUND AFFECTED   | FY 2018            | FY 2019            | FY 2020            |
| State Treasurer<br>Operating Fund                                     | (\$113,667)        | (\$125,690)        | (\$126,791)        |
| <b>Total Estimated<br/>Net Effect on <u>Other</u><br/>State Funds</b> | <b>(\$113,667)</b> | <b>(\$125,690)</b> | <b>(\$126,791)</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 2018</b> | <b>FY 2019</b> | <b>FY 2020</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 2018</b> | <b>FY 2019</b> | <b>FY 2020</b> |
| State Treasurer Operating Fund                            | 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 2018</b> | <b>FY 2019</b> | <b>FY 2020</b> |
| <b>Local Government</b>                    | <b>\$0</b>     | <b>\$0</b>     | <b>\$0</b>     |

## FISCAL ANALYSIS

### ASSUMPTION

#### §135.713 Educational Assistance Tax Credit

Officials at the **Office of Administration's Division of Budget and Planning** assume this proposal creates the Missouri Empowerment Scholarship Accounts Program, which grants scholarships to eligible students 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 100% of the amount of the contribution. This tax credit is capped at an aggregate of \$25 million per calendar year, but shall be increased by 20 percent when the annual tax credit amount for the prior calendar year is equal to or greater than 90 percent of the credit limitation amount. When the tax credit granted to a taxpayer is greater than that taxpayer's tax liability, the difference shall be refunded to the taxpayer. This proposal may reduce General and Total State Revenues up to \$25 million in the first year and an amount greater than \$25 million in subsequent tax years. This proposal may impact the calculation under Article X, Section 18(e).

In this proposal, the administering agency is changed to the State Treasurer's Office (STO). The STO is to receive up to two percent of qualifying contributions for marketing and administrative expenses of such program.

Officials at the **Office of the State Treasurer (STO)** assume they will need one Director FTE to administer this program. They estimate the costs for the Director for salary, benefits and training supplies at \$113,667 in FY 2018, \$125,690 in FY 2019 and \$126,791 in FY 2020. This will be paid for out of the State Treasurer Operating Fund.

Officials at the **Department of Revenue (DOR)** assume this proposal requires forms and programming support to implement the provisions of this legislation. The new integrated tax system will incur additional costs of \$131,040 to implement the provisions of this legislation. The Personal Tax Division will require two (2) Revenue Processing Technicians I for tax credit redemption and tax credit transfers. The Corporate Tax Division will require three (3) Revenue Processing Technicians I for tax credit redemptions, tax credit transfers, correspondence.

**Oversight** notes this proposal would implement a new state tax credit program. Oversight assumes this proposal would change a limited number of computations on individual income tax returns and assumes the proposal would not have a significant impact on the number of returns filed. Oversight also notes a high percentage of income tax returns are prepared online, electronically, or by paid preparers, and assumes there would not be a significant number of additional errors resulting from the changes in this proposal.

ASSUMPTION (continued)

Officials at the **Department of Elementary and Secondary Education (DESE)** assume tax subsidies reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

**Oversight** notes this proposal allows STO to receive up to 2% of the qualifying contributions for marketing and administration.

§135.712, §166.700, and §166.705 Empowerment Scholarship Account

**Oversight** notes this proposal in §135.712 creates educational assistance organizations that receive money from tax payers and allocate the money into empowerment scholarship accounts for qualified students. Money in the empowerment scholarship accounts can be used by qualified students to pay tuition and fees at a qualified school per §166.700.

**Oversight** notes in order to receive an empowerment scholarship account you must be a qualified student. A qualified student is one who attended a public school for one semester. Oversight is unable to determine how many potential qualified students would join the program. Currently there are 885,204 students in the public school system.

The educational assistance organization can not transfer more than the state adequacy target amount into any qualified student's empowerment scholarship account. The current state adequacy amount is \$6,241 per student. **Oversight** notes that with the maximum of \$25 million available and the payment maximum of \$6,241 per student, the number of students that could participate would be 4,006 students.

**Oversight** notes that this proposal would allow the qualified student to transfer after one semester, to a private school, virtual school or be home schooled. Oversight notes the transfer of these students from the public school to a private school or being home schooled would save the foundation formula the state adequacy amount per student transferred. The foundation formula is currently not fully funded and DESE and the Office of Administration's Division of Budget and Planning were not able to provide Oversight with a projection of when the foundation formula may be fully funded. Oversight assumes that any savings from these qualified students would be redistributed to all schools through the formula. Oversight will not show an impact from this provision.

Bill as a Whole

Officials at the **Office of the Attorney General (AGO)** assume that §166.720.4 of the proposal states that in "any legal proceeding challenging the application of §166.700 to 166.720 to a qualified school, the state shall bear of the burden of establishing that the law is necessary and

ASSUMPTION (continued)

does not impose any undue burden on qualified schools.” AGO assumes that any potential costs arising from this proposal can be absorbed with existing resources. AGO may seek additional appropriations if the proposal results in a significant increase in cases.

Officials at the **Department of Economic Development** and the **Joint Committee on Administrative Rules** each assume there is no fiscal impact from this proposal.

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.

| <u>FISCAL IMPACT - State Government</u>                               | FY 2018<br>(10 Mo.)                    | FY 2019                                       | FY 2020                                       |
|---|--|---|---|
| <b>GENERAL REVENUE</b>  |  |   |   |
| <u>Revenue</u> - STO - collection of 2% fee §135.716                  | Unknown                                | Unknown                                       | Unknown                                       |
| <u>Revenue Reduction</u> - educational assistance tax credit §135.713 | (Up to<br>\$25,000,000)                | (Could exceed<br>\$25,000,000)                | (Could exceed<br>\$25,000,000)                |
| <u>Cost</u> - DOR - Integrated Tax System updates §135.713            | <u>(\$131,040)</u>                     | <u>\$0</u>                                    | <u>\$0</u>                                    |
| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>                        | <b><u>(Up to<br/>\$25,131,040)</u></b> | <b><u>(Could exceed<br/>\$25,000,000)</u></b> | <b><u>(Could exceed<br/>\$25,000,000)</u></b> |
| <b>STATE TREASURER OPERATING FUND</b>                                 |  |   |   |
| <u>Cost</u> - STO   |  |   |   |
| Personal Service  | (\$69,985)                             | (\$84,822)                                    | (\$85,670)                                    |
| Fringe Benefits   | (\$29,432)                             | (\$35,568)                                    | (\$35,821)                                    |
| Equipment and Expenses  | <u>(\$14,250)</u>                      | <u>(\$5,300)</u>                              | <u>(\$5,300)</u>                              |
| <u>Total Cost</u> - STO   | <u>(\$113,667)</u>                     | <u>(\$125,690)</u>                            | <u>(\$126,791)</u>                            |
| FTE Change  | 1 FTE                                  | 1 FTE   | 1 FTE   |
| <b>ESTIMATED NET EFFECT ON THE STATE TREASURER OPERATING FUND</b>     | <b><u>(\$113,667)</u></b>              | <b><u>(\$125,690)</u></b>                     | <b><u>(\$126,791)</u></b>                     |
| Estimated Net FTE Change on the State Treasurer Operating Fund        | 1 FTE                                  | 1 FTE   | 1 FTE   |
| <u>FISCAL IMPACT - Local Government</u>                               | FY 2018<br>(10 Mo.)                    | FY 2019                                       | FY 2020                                       |
|   | <u>\$0</u>                             | <u>\$0</u>                                    | <u>\$0</u>                                    |

## FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit would be positively impacted.

## FISCAL DESCRIPTION

This act establishes the Missouri Empowerment Scholarship Accounts Program.

For all tax years beginning on or after January 1, 2017, 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 100% of the amount of the contribution. The tax credit may be carried forward for four years and may be transferred, sold, or assigned. Tax credits are also refundable. The annual cumulative amount of tax credits is limited at \$25 million, which will be adjusted based on the growth of the program, as described in the act. The State Treasurer shall establish a procedure to allocate on the amount of tax credits amongst all educational assistance organizations on a first-come, first-served basis. The Treasurer may reapportion those tax credits to educational assistance organizations that have used all, or a certain percentage, of their tax credits. (§135.713)

An educational assistance organization shall meet certain requirements, including notifying the Office of the State Treasurer of its intent to provide scholarship accounts; being a 501(c)(3) organization; providing a receipt to taxpayers for contributions; ensuring that funds are used as specified in the act; distributing scholarship payments four times per year in an amount not to exceed the state adequacy target; providing the Office of the State Treasurer, upon request, with criminal background checks on all employees and board members; and demonstrating financial accountability and viability, as described in the act.

Each educational assistance organization must publicly report to the Office of the State Treasurer, by June first annually, the name and address of the organization, the name and address of each student who opened a scholarship account, the total number and dollar amount of contributions during the previous calendar year, and the total number and dollar amount of scholarship accounts opened during the previous calendar year. (§135.714)

The Office of the State Treasurer shall provide standardized forms for program participants. It may conduct a financial review or audit of any educational assistance organization if it possesses evidence of fraud. In addition, the Office may bar an educational assistance organization from participating if it has failed to comply with program requirements. (§135.716)

The provisions of the Missouri Sunset Act shall not apply to the program.

FISCAL DESCRIPTION (continued)

A student is eligible to receive funds in a Missouri Empowerment Scholarship Account if he or she is an elementary or secondary student and has attended a public school under circumstances set forth in the act or is eligible to begin kindergarten or first grade.

The student's parent or guardian shall only use the money in the account for certain expenses related to the qualified student's education, as described in the act.

The parent of a qualified student must sign an agreement to enroll the qualified student in a qualified school to receive an education for the student in certain subjects; release the district of residence from the obligation of educating the student; use the Missouri Empowerment Scholarship Account money for only specified purposes; and not use the funds for consumable education supplies.

The scholarship accounts are renewable on an annual basis upon request of the parent of a qualified student. Qualified students shall remain eligible for renewal until the student completes high school. If a qualified student withdraws from the program by enrolling in a school other than a qualified school, or is disqualified from the program for violations specified in the act, the scholarship account shall be closed and any remaining funds shall be returned to the educational assistance organization for redistribution to other qualified students. When a student withdraws from the program, the responsibility for providing an education for that student transfers back to the student's district of residence.

The funds remaining in the scholarship account at the end of a school year shall remain in the account for the following school year. Any funds remaining in the account after graduation from a qualified high school shall be returned to the educational assistance organization for redistribution to other qualified students. (§166.705)

A qualified school that enrolls one or more qualified students shall comply with academic accountability provisions set forth in the act. (§166.710)

The Office of the State Treasurer shall conduct or contract for an annual audit of accounts to ensure compliance. A parent or guardian may be disqualified from program participation, if the State Treasurer finds the parent or guardian committed an intentional program violation. A parent may appeal the decision of the State Treasurer to the Administrative Hearing Commission (§166.715)

A person commits a Class A misdemeanor if they are found to have knowingly used moneys for any purposes other than those set forth in the act. (§166.720)

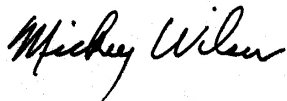


FISCAL DESCRIPTION (continued)

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  
Office of Administration  
    Division of Budget and Planning  
Office of the Attorney General  
Office of the Secretary of State  
Office of the State Treasurer



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