

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0870-05
Bill No.: SCS for SB 160
Subject: Education, Elementary and Secondary; Department of Higher Education;
 Department of Elementary and Secondary Education; Department of Revenue;
 Taxation and Revenue
Type: Original
Date: February 8, 2019

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
General Revenue	(\$302,678)	(\$25,479,412)	(\$26,041,681)	\$0 to (\$8,641,486) or \$44,927,825
Total Estimated Net Effect on General Revenue	(\$302,678)	(\$25,479,412)	(\$26,041,681)	\$0 to (\$8,641,486) or \$44,927,825

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
State School Moneys	\$0	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 23 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
General Revenue	4 FTE	7 FTE	8 FTE	8 FTE
Total Estimated Net Effect on FTE	4 FTE	7 FTE	8 FTE	8 FTE

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

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Local Government	\$0	\$0	Unknown	Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

TAX CREDIT

§135.712 and §135.713 ESA Tax Credit

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal creates the Missouri Empowerment Scholarship Accounts Program, which grants scholarships to qualified students. Any elementary or secondary student who is a resident of this state and resides in any county with a charter form of government or any municipality with a population greater than thirty thousand is a qualified student. This proposal provides, to a taxpayer who makes a qualifying contribution to an educational assistance organization, a tax credit not to exceed 50 percent of the taxpayer's state tax liability. This credit may be carried forward for four subsequent tax years. This tax credit is capped at \$25 million per calendar year, but this cap is to be annually adjusted by the Office of the State Treasurer (STO) for inflation, based on the CPI for all urban consumers in the Midwest region. This is assumed to be two percent for the purposes of this fiscal note. This proposal may reduce General and Total State Revenues up to a minimum of \$25 million annually starting on or after July 1, 2020 (FY 2021).

This proposal may impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume this section creates a tax credit for taxes due under Chapters 143 and 153 in an amount equal to one hundred percent of contributions made to an educational assistance organization. The amount of tax credit claimed shall not exceed fifty percent of the taxpayer's state tax liability and is to be certified by the Department of Revenue, to the taxpayer, the tax credit amount. The tax credits allocated may not exceed \$25 million per calendar year but the legislation adjusts the cap for inflation.

Officials at **DOR** assume the Personal Tax Section will require 1 Revenue Processing Technician I (\$24,3612) for every 6,000 credits redeemed and 1 Revenue Processing Technician I per 7,600 error/correspondence generated. The Corporate Tax Section will require 1 Revenue Processing Technician I per 4,000 tax credits redeemed.

Oversight will show the DOR FTE in the fiscal note. The DOR staff will not start processing the returns until FY 2021. Oversight notes this proposal does not specify a funding source for the DOR expenses. Oversight will show the impact to General Revenue.

Oversight notes this proposal allows for the \$25 million annual cap to be adjusted annually based on the consumer price index for all urban consumers for the Midwest region. For the simplicity of the fiscal note, Oversight will adjust the cap based on the target inflation rate of 2% per year as set by the Federal Open Market Committee (FOMC).

ASSUMPTION (continued)

Oversight reviewed the Florida Tax Credit Scholarship Program and the Iowa's School Tuition Organization Tax Credit which are similar programs to this proposal. Florida's tax credit cap was \$229 million in 2012-2013 and has grown to \$873 million this year. Iowa's tax credit cap was \$2.5 million in 2006 and has grown to \$12 million this year. These programs can raise their caps based on usage of the tax credit. Given, this proposal creates a credit equal to 100% of a person's contribution and the usage in similar programs; Oversight assumes the full amount of the tax credit will be issued annually.

Officials at the **Office of the State Treasurer (STO)** assume this proposal requires the STO to operate a tax credit program related to donations to scholarship-granting organizations. STO does not operate tax credit programs and does not currently have the resources to absorb these duties. STO anticipates a minimum of 4 FTE being required to perform the functions of this proposal. The FTE would be 1 Executive Director (\$84,925), 2 Analyst (\$39,708) and 1 Clerk (\$24,744).

STO has assigned these costs to the General Revenue Fund as these duties are beyond the scope of permitted expenditures from the State Treasurer's General Operations Fund pursuant to §30.605, which authorizes the Treasurer to retain interest to fund the office functions pertaining to the management of state funds. The basis point cap included within this section cannot absorb additional functions without being raised above 15 basis points.

Oversight will show the need for the STO FTE in the fiscal note. Oversight notes the STO is usually funded by the State Treasurer's General Operating Fund (0164); however, as stated, that Fund can not absorb these costs. Oversight will show any costs as General Revenue. Oversight recalculated the equipment and expense costs of the STO to match those allowed by the Office of Administration's Division of Budget and Planning.

PROGRAM ADMINISTRATION EXPENSES

§135.716.2 Reporting and Auditing Requirements

Officials at the **STO** assume that beginning in FY 2022, the STO is required to conduct random, quarterly and annual audits of the empowerment scholarship accounts. The STO assumes the need for 1 Analyst (\$39,708) beginning in FY 2022.

In response to the previous version, officials at the **Office of the State Auditor** assumed there was no fiscal impact from this proposal.

ASSUMPTION (continued)

Oversight notes this proposal requires the STO to audit the empowerment scholarship accounts annually starting in the 2021-2022 school year. Oversight will show the FTE in the fiscal note starting in FY 2022.

§135.719 Rule Making Authority

Officials at the **Joint Committee on Administrative Rules (JCAR)** assume this proposal is not anticipated to cause a fiscal impact beyond current appropriations.

Oversight assumes JCAR will be able to administer any rules resulting from this proposal with existing resources.

Officials from the **Office of the Secretary of State (SOS)** assume 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 \$5,000. 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 require additional resources.

§166.710 - §166.715

Officials at the **Office of the Attorney General (AGO)** and the **Office of the State Public Defenders (SPD)** each assume there is no fiscal impact from this proposal.

Oversight notes that STO is to conduct audits of the scholarship accounts and they may refer any violations to the AGO for prosecution. Oversight notes that the AGO and SPD have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for the AGO and SPD.

ASSUMPTION (continued)

PROGRAM IMPLEMENTATION

Oversight notes this proposal in §135.712 creates educational assistance organizations that receive money from taxpayers 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 (a home school, a public or private school) per §166.700. Per §135.714.1(5) the maximum amount of the scholarship can not exceed the state adequacy target amount, currently \$6,308 per student.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume the following cost estimate range of \$6,569,947 (low estimate) to \$25,000,000 (cap). DESE notes the low estimate is highly unlikely to occur.

Basic Data

\$25,000,000 cap
 - 2,500,000 10% for administration by the education assistance organization
 = \$22,500,000
 ÷ \$6,308 state adequacy target at full funding (SAT)
 = 3,566.899176 maximum number of scholarships

2017-2018 State Funding	\$4,256,226,143
Total 2017-2018 Regular Term ADA	823,709
Total State Revenue per pupil by Regular Term ADA	\$5,167

POSSIBLE SCENARIOS

1. Public School to Public School

Oversight notes the first possible scenario is that all the students transfer from their current public school to another public school. Under this scenario, there would be no savings to the foundation formula as the ADA payment would transfer from one district to another with the student. Oversight notes that nothing in this legislation prohibits a public school from reporting the scholarship student for ADA **and** collecting the full scholarship amount in tuition. (\$6,308 x 3,567 scholarships and administration).

ASSUMPTION (continued)

2. Non-public school to non-public school

DESE assumes if all scholarship recipients go from non-public schools to non-public schools (or are incoming kindergartners who would be going to non-public schools), the cost to the state is the cap, \$25 million. All of these students would be new inclusions in state support. This scenario assumes that any non-public students using the scholarship meet the requirement of previously being enrolled in public school or are incoming kindergartners who would choose to attend non-public school (\$6,308 x 3,567 scholarships and administration).

Oversight notes that under the non-public school to non-public school scenario, there would be no savings to the foundation formula since the qualified student would not have been included in the public schools' ADA calculation.

3. Proportionate distribution of students from public (85.7%) and non-public (14.3%) all going to non-public schools.

Student Population and enrollment

2017 Population estimate ages 5-17		1,008,492
2017-18 K-12 enrollment in public schools	85.70%	864,741
2017-18 estimated non-public and homeschool enrollment	14.30%	144,214

DESE assumes the following:

Total scholarships available - 3,567
 Public - 3,057 (85.7%)
 Non-Public - 510 (14.3%)

DESE assumes the public per pupil new cost to the state is \$1,141 (the difference between the scholarship amount (\$6,308) and current average state aid per pupil (\$5,167). DESE assumes the non-public per pupil new cost to the state is \$6,308.

Public New Cost to State (3,057 x \$1,141)	\$3,488,037
Non-Public New Cost to State (510 x \$6,308)	\$3,217,080
10% for administration	\$2,500,000
Total new cost to State under proportionate distribution scenario	\$9,205,117

ASSUMPTION (continued)

DESE notes this scenario assumes that any non-public students using the scholarships meet the requirements in the proposal of having previous enrollment in public school or are incoming kindergartners.

Oversight assumes that under the proportionate distribution scenario, there would be a potential savings to the foundation formula of \$15,795,519 from the number of students (3,057) transferring from public schools to private schools. The savings is calculated using the total the number of students transferring times the State Revenue paid per ADA ($3,057 * \$5,167 = \$15,795,519$). There would be no savings to the foundation formula resulting from the 510 scholarship students transferring to private school since these scholarship students would not have been included in the public schools' ADA calculation.

4. Public School to Private School

DESE assumes the following if the scholarship recipients are public students who use the scholarship at a non-public school, the cost to the state would be \$6,569,947. DESE assumes the total scholarships available is 3,567 and the public per pupil new cost to state is \$1,141 (difference between scholarship amount and current average state aid per pupil).

Public New Cost to State (3,567 x \$1,141)	\$4,069,947
10% for administration	\$2,500,000
Total new cost to State under all public to private scenario	\$6,569,947

Oversight notes that under the public school to private school scenario, there would be a potential savings to the foundation formula of \$18,430,689 if all scholarship students (3,567) would transfer from public schools to private schools. The savings is calculated using the total the number of qualified students transferring times the State Revenue paid per ADA ($3,567 * \$5,167 = \$18,430,689$).

Per DESE's response, the decreased call to the foundation formula ranges from \$0 (all public to public or all private to private or no scholarships are awarded) to \$18,430,689 (all public to private). Oversight notes DESE assumed a scholarship amount equal to the maximum allowed by the proposed legislation. However, Oversight assumes the scholarship amounts could range in value from greater than zero to \$6,308. Assuming the amounts of some of the scholarships are less than \$6,308, the number of scholarship participants could be greater than 3,567. Oversight will show the cost avoidance to General Revenue as could exceed \$18,430,689.

ASSUMPTION (continued)

Officials at the **Springfield Public School District** assume a loss of revenue of \$481,800.

Officials at the **Wellsville-Middletown R-I School District** assume that taking \$25 million from General Revenue will have a negative impact on all school districts.

Oversight notes in order to receive an empowerment scholarship account you must be a qualified student. This proposal in §166.700(7) defines a qualified student as one who resides in a county with a charter form of government or any municipality with a population greater than 30,000. The following list is the school districts located in those areas and whose students could participate in this program:

School District	Qualifying County or City	Student Population	Formula WADA	Adjusted Formula WADA (2.85% reduction)
Blue Springs R-IV	Jackson	14,576	13990.91	13592.16712
Center 58	Jackson	2,630	2715.389	2638.000705
Fort Osage R-I	Jackson	5,069	5082.809	4937.948652
Grain Valley R-V	Jackson	4,410	4151.533	4033.21431
Grandview C-4	Jackson	4,303	4529.924	4400.821457
Hickman Mills C-1	Jackson	6,034	6587.815	6400.061884
Independence 30	Jackson	15,243	15203.81	14770.49869
Kansas City 33	Jackson	15,372	33402.08	32450.1181
Lee's Summit R-VII	Jackson	18,296	17211.92	16721.37581
Lone Jack C-6	Jackson	657	593.9088	576.9823992
Oak Grove R-VI	Jackson	2,010	1943.113	1887.734377
Raytown C-2	Jackson	9,429	9592.051	9318.677644
Crystal City 47	Jefferson	524	586.6609	569.9410644

School District	Qualifying County or City	Student Population	Formula WADA	Adjusted Formula WADA (2.85% reduction)
DeSoto 73	Jefferson	2,721	2884.954	2802.732422
Dunklin R-V	Jefferson	1,588	1682.88	1634.91792
Festus R-VI	Jefferson	2,985	2991.885	2906.616666
Fox C-6	Jefferson	11,478	11449.33	11123.02837
Grandview R-II	Jefferson	659	814.7867	791.562791
Hillsboro R-III	Jefferson	3,425	3430.385	3332.619319
Jefferson Co. R-VII	Jefferson	1,027	936.9883	910.2841335
Northwest R-I	Jefferson	6,271	6233.416	6055.763644
Sunrise R-IX	Jefferson	308	390.8417	379.7027116
Windsor C-1	Jefferson	3,016	2966.775	2882.221427
Ft. Zumwalt R-II	St. Charles, O'Fallon	18,125	17687.01	17182.9309
Francis Howell R-III	St. Charles, St. Peters	17,680	16160.87	15700.28112
Orchard Farm R-V	St. Charles	2,055	1798.245	1746.994726
St. Charles R-VI	St. Charles, St. Peters	4,987	4924.315	4783.972023
Wentzville R-IV	St. Charles, O'Fallon	16,788	15675.7	15228.94236
Affton 101	St. Louis	2,560	2408.091	2339.460212
Bayless	St. Louis	1,723	1811.76	1760.124451
Brentwood	St. Louis	753	652.3887	633.7956221
Clayton	St. Louis	2,624	2202.182	2139.41991

School District	Qualifying County or City	Student Population	Formula WADA	Adjusted Formula WADA (2.85% reduction)
Ferguson-Florissant R-II	St. Louis	10,560	10343.31	10048.52644
Hancock Place	St. Louis	1,520	1382.978	1343.563321
Hazelwood	St. Louis	17,819	17778.36	17271.6782
Jennings	St. Louis	2,557	2712.191	2634.893459
Kirkwood R-VII	St. Louis	6,038	5126.593	4980.484905
Ladue	St. Louis	4,148	3883.099	3772.430679
Lindbergh Schools	St. Louis	6,934	6327.068	6146.746465
Maplewood-Richmond Heights	St. Louis	1,476	1231.395	1196.299854
Mehlville R-IX	St. Louis	10,432	9826.372	9546.319912
Normandy Schools Collaborative	St. Louis	3,240	3969.127	3856.006492
Parkway C-2	St. Louis, Ballwin, Chesterfield	17,902	16211.12	15749.10493
Pattonville R-III	St. Louis	5,943	5716.767	5553.838946
Ritenour	St. Louis	6,422	6726.435	6534.7317
Riverview Gardens	St. Louis	5,557	6275.824	6096.96267
Rockwood R-VI	St. Louis	21,201	18609.75	18079.37679
Special School District	St. Louis	4,352	6617.939	6429.327641
St. Louis City	St. Louis City	22,971	38166.81	37079.05572

School District	Qualifying County or City	Student Population	Formula WADA	Adjusted Formula WADA (2.85% reduction)
University City	St. Louis, University City	2,778	2792.314	2712.73276
Valley Park	St. Louis	901	748.2511	726.9259437
Webster Groves	St. Louis	4,619	4135.059	4017.209624
Cape Girardeau School District	Cape Girardeau	4,224	4143.611	4025.518184
Columbia 93 School District	Columbia	18,491	17517.83	17018.57525
Jefferson City School District	Jefferson City	9,073	8677.998	8430.675348
Joplin Schools	Joplin	7,778	7950.694	7724.099512
Springfield R-XII	Springfield	25,778	25680.32	24948.43185
St. Joseph School District	St. Joseph	11,647	12079.1	11734.84487
Washington	Washington	4,141	3738.236	3631.695983
Total		423,252		

*Student Population from 12/17/18 School Directory on DESE website

Oversight notes this proposal begins on July 1, 2020 (FY 2021) with the contributions being made by the taxpayers to the educational assistance organizations. Oversight assumes the first group of students may be able to transfer in July 2021 (FY 2022).

Oversight notes that when DESE calculated the amount of the scholarship they used the state adequacy target (\$6,308) which this proposal allows the scholarship “not to exceed” the state adequacy target which limits the number of students receiving the scholarships to 3,567.

ASSUMPTION (continued)

Oversight notes that many private schools in this state have tuition rates lower than \$6,308 per student. Home schooled students may be able to purchase their textbooks and curriculums at a rate lower than the \$6,308 per student. Oversight notes that currently, DESE pays some school districts less than \$6,308 per student. Oversight notes that this proposal would allow for scholarships to be issued lower than \$6,308 per student which would allow for more than the 3,567 students to participate. Per the Iowa Department of Revenue, the average tuition grant award for the Iowa School Tuition Organization Tax Credit was \$1,583 for program year 2016 and the average scholarship per student for the Florida Tax Credit Scholarship program was \$5,930 for the 2017-2018 school year.

Oversight notes Iowa has a 2017-2018 certified public school enrollment of 448,794.8 and a 2017-2018 certified non-public school enrollment of 34,393 per the Iowa Department of Education. Oversight notes the number of tuition grants issued each year has averaged 10,500 for the Iowa School Tuition Organization Tax Credit per the Iowa Department of Revenue. Oversight estimated a participation rate of 2.2% of the total school enrollment in the Iowa School Tuition Organization Tax Credit ($10,500 / ((448,794.8 + 34,393))$).

Oversight notes Florida had a total 3,044,368 K-12 students enrolled in school in 2017 according to the U.S. Census Bureau. Oversight notes the number of scholarship enrollments for the Florida Tax Credit Scholarship program were 108,098 for the 2017-2018 school year. Oversight estimated a participation rate of 3.5% of total school enrollment in the Florida Tax Credit Scholarship program ($108,098 / 3,044,368$).

Oversight used an average of the Florida and Iowa participation rates to estimate a participation rate of 2.85% for Missouri ($((2.2\% + 3.5\%) / 2)$). To estimate the reduction in ADA from transferring students and the corresponding savings to the foundation formula, Oversight used straight-line participation rate of 2.85% for each of the school districts potentially impacted. However, Oversight notes the participation rate is likely to vary from district to district and notes this would ultimately impact the calculation of savings to the foundation formula as each school district's state aid payment is adjusted for district's local effort and therefore varies from district to district. Oversight has provided the formula weighted average daily attendance and the adjusted formula weighted average daily attendance in the chart starting on page 9.

Assuming an average participation rate of 2.85%, **Oversight** notes this could result in a reduction of approximately 13,229 in average daily attendance numbers for the school districts affected by the proposed legislation (assuming all scholarship recipients were public school students transferring to private schools). The reduction in average daily attendance numbers would result in an estimated savings of \$72 million to the state in foundation formula payments and an

ASSUMPTION (continued)

equivalent loss to school district funds.

Any school district with an ADA of less than 350 is considered hold harmless and will receive the 2004-2005 funding levels regardless of a reduction in ADA. **Oversight** notes one school district included in the estimate has a regular ADA of less than 350, Sunrise R-IX. Oversight notes the adjusted WADA per this proposal reduces the state funding below the 04-05 level, kicking-in the hold harmless provision. The estimate of savings accounts for the hold harmless less than 350 ADA provision.

Additionally, districts over 350 ADA, also have a provision that limits any reduction in state aid payments to the state revenue per weighted ADA as received by the district from the state aid calculation in the 2005-2006 school year. **Oversight** notes the 05-06 funding level for these districts is estimated at \$1,198,984,489 and the adjusted formula weighted payments for this proposal are estimated at \$1,459,726,464.80. Oversight notes there is a \$260,741,975 difference between the funding levels. Oversight notes the estimate of savings accounts for the hold harmless greater than 350 ADA provision.

Oversight notes "in computing the amount of state aid a school district is entitled to receive for the minimum school term only under section 163.031, a school district may use an estimate of the weighted average daily attendance for the current year, or the weighted average daily attendance for the immediately preceding year or the weighted average daily attendance for the second preceding school year, whichever is greater" §163.036. Oversight notes that the savings to the foundation formula from reduced public school attendance is not anticipated to impact the General Revenue Fund until FY 2023 (partial year of savings) with full implementation occurring in FY 2024.

Oversight notes if 13,229 transfer from public to private schools, the savings to school districts is estimated \$152,874,324 based on the average expenditure of affected school districts of \$11,556 per student (13,229 x \$11,556). However, **Oversight** notes some of the expenditures of the school district may be fixed costs (such as debt service payments and facility maintenance operations) and may not change as students transfer. Based on calculations from the National Public Education Financial Survey, Oversight estimated the fixed costs of school expenditures at 36% with the remaining 64% being variable costs. Of the \$11,556 in average expenditures per ADA, \$7,396 is estimated to be variable cost ($\$11,556 * .64$). Assuming fixed costs, if 13,229 scholarship recipients transfer out of public schools and into private schools, then the savings to local districts is estimated at \$97,841,684 ($13,229 * \$7,396$).

ASSUMPTION (continued)

Additionally schools may be subject to economies of scale suggesting that the savings generated per change in student may be less than the average cost per student. (For instance if one student transfers, the school may not be able to reduce fixed costs as noted above nor may it be able to reduce the instructional staff due to requirements such as limits on class size, etc.) Estimating the savings to the school districts would largely depend on circumstances of each individual school: the size of the school, the number of transferring scholarship students, presence of fixed costs and economies of scale. Oversight will show the savings to school districts as unknown.

In the previous version, **Oversight** estimated 13,229 students may participate under the \$50 million dollar cap with an average scholarship award of \$3,780 (\$50 million/ 13,229). Oversight notes a reduction in cap may result in a change to the award amount, a change in the participation rate or a combination of both. Ultimately, Oversight would expect the reduction in cap to result in a combination of effects likely reducing both the participation rate and the average scholarship award depending on how the program is implemented. At a reduced cap of \$25 million in Missouri, Oversight notes Iowa has a similar cap availability per student population.

	Cap	Student Population	Cap Available per Student Population
Iowa	\$12 Million	483,188	\$24.84
Missouri	\$25 Million	1,008,492	\$24.79

Therefore, Oversight also used Iowa’s participation to represent the effect of a combined change in participation and award amount. Below is a range of outcomes under a reduced cap of \$25 million:

Scenario (Reduction in Cap)	Rate	Participants	Avg. Award	FF Savings
Changes award amount only	2.85%	13,229	\$1,890	\$72 Million
Changes award amount and participation rate (based on Iowa)	2.2%	10,212	\$2,448	\$56 Million
Changes participation rate only	1.425%	6,614	\$3,780	\$36 Million

*Oversight notes that Sunrise R-IX would not be hold harmless under the 1.425% or 2.2% scenarios.

ASSUMPTION (continued)

Oversight estimated the savings to school districts under the different participation rate scenarios.

Scenario	Reduced ADA	Total Savings	Variable Savings
2.85%	13,229	\$152,874,324	\$97,841,684
2.2%	10,212	\$118,009,872	\$75,527,952
1.425%	6,614	\$76,431,384	\$48,917,144

*Oversight used the average expenditure per district (\$11,556) to estimate the total savings with variable savings estimated at 64% of the average expenditure (\$7,396).

While the foundation formula was fully funded in FY 2018, **Oversight** is unable to predict whether it will be fully funded in future fiscal years. Oversight notes that if the foundation formula is not fully funded then any savings due to the transfer of students would be redistributed to other school districts and not result in a savings to General Revenue or the State School Moneys Fund. Therefore, Oversight will show the impact as \$0 (not fully funded and money redistributed) to \$18,430,689 (DESE estimate of savings) or the \$72,000,000 originally estimated by Oversight.

Oversight currently does not have the data or resources available to produce independent revenue projections, therefore Oversight uses the same assumptions for revenue growth as the FY 2020 Consensus Revenue Estimate (CRE) for revenue growth in all future years. The CRE assumes an increase in net general revenue collections of \$192.6 million for FY 2020.

Oversight notes pursuant to §143.011 - §143.022 (SBs 509 & 496 2014) if the previous fiscal year's net general revenue collections exceed the highest net general revenue collections of the three previous fiscal years by at least \$150 million, then there will be a reduction in the individual income tax rate by one-tenth of a percent and a reduction for individual income tax filers of 5% of "business income." These reductions will reduce net General Revenue collections by an estimated \$160.0 million annually. Oversight notes the proposed legislation may impact future net revenue collections and could impact future triggering of the rate reductions required under §143.011 - §143.022.

<u>FISCAL IMPACT -</u> <u>State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
GENERAL REVENUE FUND				
<u>Revenue Reduction -</u> DOR - §135.713 - educational assistance tax credit				
	\$0	(\$25,000,000)	(\$25,500,000)	(\$26,530,200)
<u>Cost - DOR 3 RPT</u> §135.713 & .716				
Personal Service	\$0	(\$73,811)	(\$74,549)	(\$76,047)
Fringe Benefits	\$0	(\$60,326)	(\$60,551)	(\$61,008)
Equip & Exp	<u>\$0</u>	<u>(\$23,637)</u>	<u>(\$1,509)</u>	<u>(\$1,586)</u>
<u>Total Cost -</u>	<u>\$0</u>	<u>(\$157,774)</u>	<u>(\$136,609)</u>	<u>(\$138,641)</u>
FTE Change	0 FTE	3 FTE	3 FTE	3 FTE
<u>Cost - STO 4 FTE</u> §135.713 & .716				
Personal Service	(\$157,571)	(\$190,975)	(\$192,885)	(\$196,762)
Fringe Benefits	(\$90,052)	(\$108,638)	(\$109,220)	(\$110,402)
Equip & Exp	<u>(\$55,055)</u>	<u>(\$22,025)</u>	<u>(\$22,576)</u>	<u>(\$23,718)</u>
<u>Total Cost -</u>	<u>(\$302,678)</u>	<u>(\$321,638)</u>	<u>(\$324,681)</u>	<u>(\$330,882)</u>
FTE Change	4 FTE	4 FTE	4 FTE	4 FTE
<u>Cost - STO 1 Analyst</u> §166.710				
Personal Service	\$0	\$0	(\$40,506)	(\$41,320)
Fringe Benefits	\$0	\$0	(\$24,954)	(\$25,202)
Equip & Exp	<u>\$0</u>	<u>\$0</u>	<u>(\$14,931)</u>	<u>(\$5,929)</u>
<u>Total Cost -</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$80,391)</u>	<u>(\$72,452)</u>
FTE Change	0 FTE	0 FTE	1 FTE	1 FTE

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
GENERAL REVENUE FUND (continued)				
 <u>Cost Avoidance -</u> DESE- §166.700 - State Schools Money Fund decreased call to foundation formula	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0 to</u> <u>\$18,430,689 or</u> <u>\$72,000,000</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	 <u>(\$302,678)</u>	 <u>(\$25,479,412)</u>	 <u>(\$26,041,681)</u>	 <u>\$0 to</u> <u>(\$8,641,486)</u> <u>or \$44,927,825</u>
 Estimated Net FTE Change on General Revenue	 4 FTE	 7 FTE	 8 FTE	 8 FTE

<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
 STATE SCHOOL MONEYS FUND				
<u>Cost Avoidance -</u> General Revenue decreased ADA for empowerment students (\$166.700)	\$0	\$0	\$0	\$0 to \$18,430,689 or \$72,000,000
<u>Loss - Schools</u> decreased ADA for empowerment students (\$166.700)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$18,430,689</u> <u>or</u> <u>\$72,000,000)</u>
 ESTIMATED NET EFFECT ON STATE SCHOOLS MONEY FUND	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>	 <u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
LOCAL SCHOOL DISTRICTS				
<u>Savings</u> - School Districts - transfer of qualified students out of the school district (\$166.700)	\$0	\$0	Unknown	Unknown
<u>Loss</u> - Schools Decreased ADA for empowerment students (\$166.700)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0 to (\$18,430,689 or \$72,000,000)</u>
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS FUNDS	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>	<u>Unknown to (Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses may be impacted to the extent they qualify for the tax credit established under this proposal.

FISCAL DESCRIPTION

This act establishes the Missouri Empowerment Scholarship Accounts Program.

For all fiscal years beginning on or after July 1, 2020, 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 and the amount of the tax credit claimed shall not exceed 50% of the taxpayer's state tax liability for the tax year for which the credit is claimed.

FISCAL DESCRIPTION (continued)

Tax credits authorized under the program may not be transferred, sold, or assigned, and are not refundable. The annual cumulative amount of tax credits is limited at \$25 million, which shall be adjusted for inflation. The Department of Revenue shall establish a procedure to allocate the tax credits to the educational assistance organizations on a first come, first served basis. The Department may reallocate 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 Department 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 Department, 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 shall publicly report to the Department, 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 Department shall provide standardized forms for program participants. The Department or State Auditor may conduct an investigation of any educational assistance organization if it possesses evidence of fraud. In addition, the Department may bar an educational assistance organization from participating if the organization has failed to comply with program requirements.

The Department shall issue a report on the state of the program five years after it goes into effect.

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

A student is eligible to receive funds in a Missouri Empowerment Scholarship Account if he or she is an elementary or secondary school student who is a resident of Missouri and resides in a county with a charter form of government or a municipality with a population greater than 30,000.

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

FISCAL DESCRIPTION (continued)

The parent of a qualified student shall sign an agreement with an educational assistance organization to enroll the qualified student in a qualified school to receive an education for the student in certain subjects; not enroll the student, other than a student that is in the custody of the state, in a school operated by the qualified student's district of residence or in a charter school; release the district of residence from the obligation of educating the student while the student is enrolled in the program; use the Missouri Empowerment Scholarship Account money for only specified purposes; and not use the funds for consumable education supplies or tuition at a private school located outside of the state.

The scholarship accounts are renewable on an annual basis upon request of the parent of a qualified student. A qualified student 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 shall be returned to the educational assistance organization for redistribution to other qualified students. If a qualified student moves out of a county with a charter form of government or a municipality with a population greater than 30,000 before the end of the school year in which they were participating in the program, the student will remain eligible for participation in the program until they graduate from high school. (§166.705)

Beginning in the 2021-2022 school year, the Department shall conduct or contract for an annual audit of accounts to ensure compliance. A parent may be disqualified from program participation if the Director of the Department of Revenue determines that the parent is found to have committed an intentional program violation. The Department may refer cases of substantial misuse of moneys to the Attorney General. (§166.710)

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. (§166.715)

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 Elementary and Secondary Education
Department of Revenue
Joint Committee on Administrative Rules
Office of the Attorney General
Office of Administration Division of Budget and Planning
Office of the Secretary of State
Office of the State Auditor
Office of the State Public Defenders
Office of the State Treasurer
Springfield Public School District
Wellsville-Middletown R-I School District



Kyle Rieman
Director
February 8, 2019

Ross Strobe
Assistant Director
February 8, 2019