

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1153S.03C
 Bill No.: SCS for SB 360
 Subject: Education, Elementary and Secondary; State Treasurer
 Type: Original
 Date: March 23, 2023

Bill Summary: This proposal modifies provisions of the Missouri Empowerment Scholarship Accounts Program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 20XX)
General Revenue	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 20XX)
Missouri Empowerment Scholarship Account Fund (0278)*	\$0	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

*Transfers-in and distributions net to zero.
 Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 20XX)
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 2024	FY 2025	FY 2026	Fully Implemented (FY 20XX)
Total Estimated Net Effect on FTE	0	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 20XX)
Local Government	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal could reduce Total State Revenues (TSR). This proposal may impact the calculation under Article X, Section 18(e).

This proposal would remove the existing \$75 million annual authorization cap. B&P notes that for FY23, the authorization cap is \$25,000,000. The anticipated authorization cap for FY24 is \$27,025,000. B&P does not have enough information to determine when the \$75 million cap may occur.

This proposal would also create an additional annual adjustment in years where transportation funding is higher than 40% of the amount needed in FY21 to fully fund transportation aid. B&P notes that this program currently requires the 40% threshold to be met before tax credits may be authorized. B&P does not have enough information to determine when, or by how much, this additional adjustment may occur. However, this proposal will likely increase the program authorization cap faster than what would occur under current law.

Therefore, B&P estimates that this proposal may reduce TSR and GR by an unknown, could be significant, amount in the future.

Officials from the **Department of Revenue (DOR)** note this proposal makes changes to the Missouri Empowerment Scholarship Program and tax credit. The program and credits were created in 2021. Due to the newness of the program, DOR does not have any data on its issuances or redemptions.

When the program was created, the tax credit contained language that allowed it to be adjusted annually for inflation until it reached a cap of \$75 million. This proposal removes the \$75 million cap so it could continue to grow into the future. Additionally, language is added that would also adjust the credit cap based on the needs of the state to supply transportation funding for schools. Currently, the state funds the state education transportation formula around 40%. This proposal would require the tax credit cap be adjusted to maintain the 40% minimum funding of the transportation formula.

The responsibility for the administering of the tax credit and program as well as setting the cap amount are those of the Office of the State Treasurer. DOR is only responsible for the redeeming of the credits. Therefore they defer to the Office of the State Treasurer for determining the future tax credit impact.

The other changes in this proposal impact how the program is administered. These changes will not have a fiscal impact on DOR.

Officials from the **Department of Elementary and Secondary Education (DESE)** state changes to Sections 135.714 and 166.700 could increase the number of students qualified for the Missouri Empowerment Scholarship. If additional students participate in this scholarship, DESE may have more Formula Funds to pay out until the provision expires (166.720 RSMo). However, there is no way to calculate what that impact could be without knowing the number of students who would become eligible to access the scholarship and of those eligible students how many would choose to access the funds.

Oversight assumes this proposal appears to remove the income requirements for eligible students and expands the geographical limitations which would allow more students to participate under the existing cap. For purposes of this fiscal note, Oversight will not show an additional cost from removing the income requirements as the full value of the tax credit cap (full participation) was accounted for in prior legislation and increasing the number of students who may participate will not impact the amount of donations (which drives the 100% tax credit amounts).

Oversight assumes this proposal could increase the annual tax credit cap calculation if transportation funding exceeds a certain amount. Per DESE's Budget Request Book for FY 2024, Oversight notes the FY 2023 budget included \$214,463,392 of additional general revenue funding for transportation. This was funded as a one-time and has been core reduced from the Department's FY 2024 budget request. Oversight will show a \$0 to unknown cost for this provision and a corresponding loss to school districts beginning in FY 2025.

Additionally, **Oversight** assumes this proposal removes the limit on inflation adjustments in future years. Oversight assumes the cost of this change would be the increase in the cap beyond the \$75 million limit from additional inflation. Oversight cannot estimate when this would occur but notes the following impacts assuming different inflation scenarios:

Assumed Inflation	Estimated Cost
2.0% (FOMC Goal)	\$1,500,000
6.4% (Current Change in CPI)	\$4,800,000

Oversight will show an unknown cost to General Revenue occurring in a future unknown year. Oversight assumes additional students could participate and the cost of the inflation adjusted cap would be offset by savings to the foundation formula. Additionally, Oversight will show a range of impact of \$0 (cap not exceeded) to an unknown savings to the foundation formula.

Oversight assumes the impact to General Revenue would result in a net cost based on the difference between the scholarship cost (\$6,375) and the average state aid payment (\$3,966). For each additional student transferring, General Revenue would experience a net cost of \$2,409 on average.

Ultimately, **Oversight** assumes the potential impacts from this proposal are unknown. The above estimates are to illustrate the potential impact. However, Oversight cannot estimate the impact due to the uncertainty of when (or if) the current inflation limited cap would be exceeded as well as the uncertainty regarding the number of students that would participate as a result of the change.

In response to the previous version, officials from the **Office of the State Treasurer** estimated the need for up to 1 FTE depending on the number of additional students participating.

Oversight assumes the STO is provided with core funding to handle a certain amount of activity each year. If the STO requires additional staffing at substantial costs, the STO could request funding through the appropriation process. Oversight assumes the changes in this proposal would not necessitate an additional FTE for the Office of the State Treasurer.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 20XX)
GENERAL REVENUE				
<u>Costs</u> - for increased tax credits if annual cap increases due to transportation funding	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Costs</u> - removal of inflation limit on tax credit cap	\$0	\$0	\$0	\$0 or (Unknown)
<u>Savings</u> - to the foundation formula from additional students participating as a result of expanding the cap	<u>\$0</u>	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 20XX)
MISSOURI EMPOWERMENT SCHOLARSHIP ACCOUNT FUND (0278)				
<u>Income</u> - Contributions	\$0	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Cost</u> - distribution of increased grant awards	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON MISSOURI EMPOWERMENT SCHOLARSHIP ACCOUNT FUND (0278)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 20XX)
SCHOOL DISTRICTS				
<u>Loss</u> - of foundation formula dollars from students transferring to private schools as result of expanding cap	\$0	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICTS	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

FISCAL IMPACT – Small Business

If a small business makes a donation and claims the tax credit they could be positively impacted.

FISCAL DESCRIPTION

This act modifies provisions of the Missouri Empowerment Scholarship Accounts program.

Currently, the cumulative amount of tax credits that may be allocated may be annually increased by adjustments in inflation. This act provides that the cumulative amount may be increased by the same percentage increase above the forty percent threshold used to trigger the program that is tied to funding of transportation aid under the state funding formula. The act repeals the current provision that no more increases in the cumulative amount may occur when the figure reaches \$75 million.

The act modifies the grant amount that shall be provided to students with a qualified individualized education plan to be equal to all state and federal moneys allocated to public schools on a per capita basis to students with an individualized education plan.

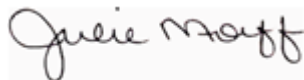
Under the act, no parent of a student who attends a home school shall be required to undergo a background check in order to participate in the program.

Finally, the definition of "qualified student" is modified by repealing language that such student shall be a member of a household whose total annual income does not exceed an amount equal to 200% of the income standard used to qualify for free and reduced price lunches. The definition of "qualified student" has also been modified to include any student who resides in a county in which any portion of a city that has at least thirty thousand inhabitants is located in such county, rather than any city with at least thirty thousand inhabitants.

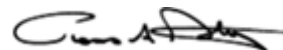
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
Office of the State Treasurer



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March 23, 2023



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March 23, 2023