

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3775-01
Bill No.: SB 897
Subject: Elementary and Secondary Education; Higher Education; Taxation and Revenue - General
Type: Original
Date: March 4, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue*	(\$409,627 to Unknown)	\$730,167 to Unknown)	(1,128,108 to Unknown)
Urban Flight Scholarship Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds**	(\$409,627 to Unknown)	(\$730,167 to Unknown)	(\$1,128,108 to Unknown)

* Subject to Appropriation

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
School Districts**	\$0	\$0	\$0

** Further fiscal impact could be divided between General Revenue 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 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Coordinating Board for Higher Education (CBH)** indicated this proposed legislation would have no fiscal impact on their agency; however, CBH assumed potential state impact since the program is administered by the Department of Elementary and Secondary Education.

Officials from the **Office of State Treasurer** assume this proposal would have no fiscal impact on their agency.

Officials from the **Kansas City Missouri School District** indicated this program would have no fiscal impact on the District but it would help relieve teacher shortage.

Officials from the **St Louis Public Schools** state this proposed legislation would have no fiscal impact on their district.

Officials from the **Secretary of State's Office (SOS)** assume the rules, regulations and forms issued by the Department of Elementary and Secondary Education could require as many as 46 pages in the *Code of State Regulations*. For any given rule, roughly half again as many pages are published in the *Missouri Register* as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the *Missouri Register* is \$23. The estimated cost of a page in the *Code of State Regulations* is \$27. The actual costs could be more or less the SOS's estimated cost of \$2,829 for FY 2003. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules, filed, amended, rescinded or withdrawn.

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. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Insurance (INS)** stated that the proposed legislation does not indicate specific tax liabilities credits would apply to. INS assumes that the proposal includes premium tax liability under Chapter 148 RSMo. Credits could potentially be taken by approximately 1,600 insurance companies. Premium tax revenue and split 50/50 between General Revenue and County Foreign Insurance Fund. County Foreign Insurance Funds are later distributed to school districts after they have been collected by the state. Loss or revenue to General Revenue and County Foreign Insurance Fund could occur as a result of this proposed

legislation with the amount depending on participation by insurance companies. The proposal

ASSUMPTION (continued)

does not set a limit on the credit per taxpayer nor does it cap total credits; therefore, INS is unable to estimate potential loss of revenue from premium tax collections.

The **Department of Elementary and Secondary Education (DESE)** made the following fiscal assumptions regarding the proposed program:

	<u># of Scholarships</u>	x	<u>Tuition</u>	=	<u>Total</u>	<u>Allocation</u>	
						<u>State</u> 75%	<u>Donation Fund</u> 25%
FY 03	100		\$4,726		\$ 472,600	\$ 354,450	\$ 118,150
FY 04	200		\$4,868		\$ 973,556	\$ 730,167	\$ 243,389
FY 05	300		\$5,014		\$1,504,144	\$1,128,108	\$ 276,036

Program costs will grow significantly until year four when the costs should begin to level out. These calculations assume all 100 scholarships are appropriated each year and that each scholar continues through the program until the fourth year, meeting all requirements for eligibility. DESE chose the University of Missouri - Columbia to represent an average of tuition and fees for Missouri's four-year colleges and universities; it should be noted that costs can exceed or be somewhat below this level. DESE further assumed a 3% increase in tuition and fees in subsequent years.

DESE assumes there is no cap on the tax credit provision and the dollar impact is not known. Tax credits will reduce income tax receipts flowing to the General Revenue Fund. Additional tax credits could mean less General Revenue available for state use including education and fully funding the foundation formula.

Officials from the **Department of Revenue (DOR)** assume that the Division of Taxation will need one Tax Processing Tech I (each at \$21,192) in Personal Tax for every 10,000 credits received and for each 3,000 additional pieces of correspondence relating to this credit. Business Tax will need One Tax Processing Tech I (at \$21,192) for every 3,680 claims received for this credit. The MINITS, COINS and PC systems will need to be updated and it is estimated that it will take 1,384 hours of programming at a cost of \$46,170. State Data Center implementation costs will be \$9,007. DOR assumes the total costs to implement the tax credit program, including the three FTE and programming expenses would total \$152,635 in FY 2003, and roughly \$100,000 each year thereafter.

Oversight has allowed DOR programming costs and State Data Center charges of \$55,177 in FY 2003, but assumes that DOR could handle the personnel requests associated with this proposal with existing resources or request additional staff through the budget process.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			
<u>Cost</u> - Income tax credits for donations to Urban Flight Scholarship Fund	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> - Department of Elementary and Secondary Education (DESE) Scholarship Funds (75%)*	<u>(\$354,450)</u>	<u>(\$730,167)</u>	<u>(\$1,128,108)</u>
<u>Cost</u> - Department of Revenue Reprogramming costs	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND**	<u>(\$409,627 to Unknown)</u>	<u>(\$730,167 to Unknown)</u>	<u>\$1,128,108 to Unknown)</u>
* Subject to Appropriation			
URBAN FLIGHT SCHOLARSHIP FUND			
<u>Income</u> - Donations from businesses	\$118,150	\$243,389	\$376,036
<u>Cost</u> - Urban Flight Scholarships (25%)	<u>(\$118,150)</u>	<u>(\$243,389)</u>	<u>(\$376,036)</u>
ESTIMATED NET EFFECT ON URBAN FLIGHT SCHOLARSHIP FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2003 (10 Mo.)	FY 2004	FY 2005
SCHOOL DISTRICTS**	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

**** Further fiscal impact could be divided between General Revenue 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 IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent they would incur cost for making the voluntary cash contributions and receive benefit from the tax credit for making the contribution.

DESCRIPTION

This proposal creates the Urban Flight Scholarship Program, subject to appropriation, which consists of one hundred new full-ride scholarships for students enrolled in Missouri metropolitan or urban school districts with high at-risk student populations, as shall be defined by the Department of Elementary and Secondary Education. Recipients of the scholarship will make a commitment to teach in Missouri at an elementary or secondary public school in a metropolitan or urban school district with a high at-risk student population for two years for every one year they received a scholarship. If the scholarship recipient fails to uphold this contract, the scholarship shall be considered a loan with 9 1/2% interest.

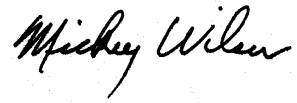
Seventy-five percent of the Urban Flight Scholarship Program will be financed by the state and twenty-five percent will be supported by donations from businesses. Any donating business firm shall receive a tax credit equal to fifty percent of the amount of the donation.

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
Office of Secretary of State
 Administrative Rules Division
Coordinating Board for Higher Education
Office of State Treasurer
Department of Insurance
Kansas City Missouri School District
St Louis Public Schools

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A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive style with a large initial "M".

Mickey Wilson, CPA
Acting Director
March 4, 2002

LMD:LR:OD (12/01)