

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5324-01  
Bill No.: HB 1822  
Subject: Elementary and Secondary Education  
Type: Original  
Date: February 27, 2014

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Bill Summary: This proposal modifies provisions relating to elementary and secondary education, creates the "Passport Scholarship Program", and establishes a statewide achievement school district.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	(Unknown - Could exceed \$745,209 up to more than \$20,267,439)	(Unknown - Could exceed \$776,692 up to more than \$20,806,774)	(Unknown - Could exceed \$785,137 up to more than \$21,321,425)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown - Could exceed \$847,532 up to more than \$20,267,439)</b>	<b>(Unknown - Could exceed \$776,692 up to more than \$20,806,774)</b>	<b>(Unknown - Could exceed \$785,137 up to more than \$21,321,425)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Criminal Records	\$176,000	\$44,000	\$44,000
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$176,000</b>	<b>\$44,000</b>	<b>\$44,000</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</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 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
General Revenue	10 FTE	10 FTE	10 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>10 FTE</b>	<b>10 FTE</b>	<b>10 FTE</b>

- Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).
- Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>Unknown - Could exceed \$100,000</b>	<b>Unknown - Could exceed \$100,000</b>	<b>Unknown - Could exceed \$100,000</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Governor**, the **Missouri Senate** and the **Department of Finance, Insurance and Professional Registration** assume no fiscal impact to their agency.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS's office 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 Secretary of State's office for Administrative Rules is less than \$2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 their office can sustain with their core budget. Therefore, 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 with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

§§160.011 to 167.241 - Education Provisions

Officials from the **Office of Administration - Division of Budget and Planning** defer to the Department of Elementary and Secondary Education regarding the fiscal impact of the education provisions of this legislation.

§162.1110

Officials from the **Department of Elementary and Secondary Education (DESE)** assume unknown, but significant costs will be incurred by DESE for the operation of the Statewide Achievement School District.

LMD:LR:OD

ASSUMPTION (continued)

SECTIONS 1-7 - Passport Scholarship Program

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)**, this proposal creates the Passport 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 60% of the amount of the contribution. This tax credit is capped at \$20 million per fiscal year, but shall be annually adjusted by DED for inflation. DED is to receive up to two percent of qualifying contributions for marketing and administrative expenses of such program. BAP assumes this proposal may impact general and total state revenues by more than (\$20 million) annually.

According to officials from the **Department of Economic Development - Division of Business and Community Services (DED)** the Passport Scholarship Program will be administered by DED and is a tax credit program. DED assumes that §135.713 will require that DED provide marketing support for this program.

The program would allow educational assistance organizations to receive donations from taxpayers and for consideration of those donations DED would provide the taxpayer with 60% 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 \$20,000,000. The annual cap can be increased by DED to take account of inflation.

The tax credits must also be equally proportioned among educational assistance organizations.

DED will designate a qualified non-profit as an educational assistance organization (EAO).

For the administration of this program DED will require 5 FTE. who 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 program manager, an Economic Development Incentive Specialist III, two accountants, and one administrative assistant.

ASSUMPTION (continued)

Officials from the **Department of Revenue - Division of Taxation** assume their agency will need additional personal services to work with the tax credit portion of this program:

Personal Tax:

Personal Tax requires two (2) Revenue Processing Technicians I for tax credit redemption and tax credit transfers.

Corporate Tax:

This section requires three (3) Revenue Processing Technicians I for tax credit redemptions, tax credit transfers, credit recipient reporting, and compliance mailings and correspondences. Each technician requires CARES equipment and licenses.

ITSD-DOR:

Individual Income Tax: 504 hours

Corporate Income Tax: 504 hours

**Oversight** will assume six months of cost for DOR FTE in FY 2015.

Officials from the **Department of Public Safety - Missouri State Highway Patrol** state that, according to the Private School Review website, there are 684 private schools in Missouri serving 120,000 students. In 2013, the Criminal Justice Information Services (CJIS) Division processed approximately 40,000 criminal background checks for the Department of Elementary and Secondary Education (DESE). CJIS estimates the number of private school employees requiring background checks under this legislation to be approximately 8,000 or 20 percent (40,000 x .20). It is anticipated that there will be a 25 percent annual renewal of 2,000 (8,000 x .25) fingerprint based criminal background checks for the second and subsequent years.

The charge for each background check processed is \$44.80. Twenty dollars for the state fingerprint check, \$16.50 for the federal check, and an \$8.30 charge for the electronic fingerprint option used through a third-party vendor ( $\$20 + 16.50 + 8.30 = \$44.80$ ). Of this amount, the state retains the \$20 fee and \$2 of the federal charge of \$16.50 for a pass-thru fee. The \$8.30 charge is paid directly to the vendor at the time of application.

ASSUMPTION (continued)

Estimated Revenue FY15 8,000 x \$36.50 (state/federal background check)	\$292,000
Estimated Expense FY15 8,000 x \$14.50 (federal background check charge)	\$116,000
Estimated Revenue FY16 and beyond 2,000 x \$36.50 (state/federal background check)	\$73,000
Estimated Expense FY16 and beyond 2,000 x \$14.50 (federal background check charge)	\$29,000

Officials from the **Department of Elementary and Secondary Education** assume the tax credit would reduce the state's tax revenues and decrease the amount of money available for public schools and all public school students.

**Oversight** assumes that a reduction in public school students (who are now going to private schools because of the Passport Scholarship Program) will not be a savings to General Revenue at this time since the foundation formula is not fully funded. However, it may save money at the local school district level with fewer students to teach.

Officials from the **Joint Committee on Legislative Research** assume the **Oversight Division** would perform the requirements outlined Section 6. Oversight assumes that in addition to any appropriation received, grants will be applied for and any grants received will be used to assist in funding the study required by this section.

Officials from the **Fulton School District** assume this proposal appears to be using tax credits which may reduce funds available for the general foundation formula which could have a fiscal impact on their school district.

Officials from the following school districts: Blue Springs, Branson, Caruthersville, Charleston R-I, Cole R-I, Columbia, Fair Grove, Francis Howell, Harrison R-IX, Independence, Jefferson City, Johnson County R-7, Kansas City, Kirksville, Kirbyville R-V, Lee's Summit, Malden R-I, Malta Bend, Mexico, Monroe City R-I, Nixa, Parkway, Pattonville, Raymore-Peculiar R-III, Raytown, Riverview Gardens, Sedalia, Sikeston, Silex, Special School District of St. Louis County, Spickard R-II, Springfield, St Joseph, St Louis, St. Charles, Sullivan, Warren County R-

ASSUMPTION (continued)

III, and Waynesville did not respond to **Oversight's** request for fiscal impact.

Oversight assumes the \$20 million annual cap will be adjusted for inflation, per Section 2.3, by 2.5% each year. Therefore, Oversight will reflect a potential loss of tax revenue of up to \$20 million in FY 15, \$20.5 million in FY 16, and \$21 million in FY 17.

<u>FISCAL IMPACT - State Government</u>	FY 2015	FY 2016	FY 2017
<b>GENERAL REVENUE</b>			
<u>Income</u> - Department of Economic Development (DED) - Up to 2% of donations for administrative costs	\$0 to \$477,770	\$0 to \$469,918	\$0 to \$476,212
<u>Loss</u> - Passport Scholarship Program - Tax Credits (Sections 1-7)	\$0 or (Up to \$20,000,000)	\$0 or (Up to \$20,500,000)	\$0 or (Up to \$21,012,500)
<u>Costs</u> - Department of Elementary and Secondary Education - Expenses related to the operation of the Statewide Achievement School District (§162.1110)	(Unknown - Could exceed \$100,000)	(Unknown - Could exceed \$100,000)	(Unknown - Could exceed \$100,000)
<u>Costs</u> -DED - Administration costs of Passport Scholarship Program (Sections 1-7)			
Personal Costs	(\$238,416)	(\$240,800)	(\$243,208)
Fringe Benefits	(\$121,604)	(\$122,820)	(\$124,048)
Equipment & Expense	(\$17,750)	(\$3,798)	(\$3,893)
Marketing Budget	<u>(\$100,000)</u>	<u>(\$102,500)</u>	<u>(\$105,063)</u>
Total Costs - DED	(\$477,770)	(\$469,918)	(\$476,212)
FTE Change - DED	5 FTE	5 FTE	5 FTE
<u>Costs</u> - Department of Revenue (DOR) - Tax credit processing (Sections 1-7)			
Personal Services	(\$65,960)	(\$133,239)	(\$134,572)
Fringe Benefits	(\$33,643)	(\$67,959)	(\$68,638)
Equipment and Expense	<u>(\$67,836)</u>	<u>(\$5,576)</u>	<u>(\$5,715)</u>
Total Expenses - DOR	(\$167,439)	(\$206,774)	(\$208,925)
FTE Change - DOR	5 FTE	5 FTE	5 FTE

<u>FISCAL IMPACT - State Government</u> (Continued)	FY 2015	FY 2016	FY 2017
<b>GENERAL REVENUE (Continued)</b>			
Costs - Legislative Research (Oversight Division) Funding for study of Passport Scholarship Program (Section 6)	\$0	(Unknown - Not expected to exceed \$100,000)	(Unknown - Not expected to exceed \$100,000)
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b><u>(Unknown - Could exceed \$745,209 up to more than \$20,267,439)</u></b>	<b><u>(Unknown - Could exceed \$776,692 up to more than \$20,806,774)</u></b>	<b><u>(Unknown - Could exceed \$785,137 up to more than \$21,321,425)</u></b>
Estimate Net FTE Change for General Revenue	10 FTE	10 FTE	10 FTE
<b>CRIMINAL RECORDS</b>			
<u>Revenue</u> - Missouri State Highway Patrol - Background checks (Section 4)	\$292,000	\$73,000	\$73,000
<u>Expenses</u> - MHP - Charges for federal background checks (Section 4)	<u>(\$116,000)</u>	<u>(\$29,000)</u>	<u>(\$29,000)</u>
<b>ESTIMATED NET EFFECT ON CRIMINAL RECORDS</b>	<b><u>\$176,000</u></b>	<b><u>\$44,000</u></b>	<b><u>\$44,000</u></b>

	FY 2015	FY 2016	FY 2017
<u>FISCAL IMPACT - Local Government</u>			
<b>POLITICAL SUBDIVISIONS</b>			
<u>Savings</u> - School Districts - Reduction of education costs for students attending private schools under Passport Scholarship Program	Unknown - Could exceed <u>\$100,000</u>	Unknown- Could exceed <u>\$100,000</u>	Unknown - Could exceed <u>\$100,000</u>
<b>EXPECTED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<u>Unknown - Could exceed \$100,000</u>	<u>Unknown- Could exceed \$100,000</u>	<u>Unknown - Could exceed \$100,000</u>

FISCAL IMPACT - Small Business

Small businesses could qualify for the tax credit established under this legislation.

FISCAL DESCRIPTION

This bill establishes a Stateside Achievement School District and creates the "Passport Scholarship Program to grant scholarships to students attending schools that are underperforming.

**§162.1110**

This section establishes, effective January 1, 2015, the Statewide Achievement School District (ASD) to which the state board must transfer any underperforming schools from an unaccredited district.

Its powers and duties include managing schools assigned to it, overseeing facility planning, employment of staff members, management of contracts, and development of a community outreach plan. It is not to be considered a successor entity for employment contracts, unemployment compensation payments, or any other purpose. Schools under its jurisdiction will receive a portion of the district's state aid, while the unaccredited district remains intact for tax purposes.

FISCAL DESCRIPTION (continued)

*Sections 1 - 7*

This portion of the proposal establishes the Passport Scholarship Program to grant scholarships to students of unaccredited districts who could not be accommodated in the district of residence or a receiving district in an accredited school to private schools. Beginning in tax year 2014, a taxpayer who makes a qualifying contribution to an educational assistance organization may claim a credit against specified taxes in an amount equal to 60% of the contribution. The annual cumulative amount of tax credits is limited to \$20 million in any one fiscal year, which will be annually adjusted based on the federal Consumer Price Index. The tax credit is nonrefundable and may be carried forward for four years or transferred.

The Director of the Department of Economic Development must establish a procedure to apportion the amount of tax credits among all educational assistance organizations and may reapportion unused credits to educational assistance organizations that have used all, or a certain percentage, of their tax credits.

An educational assistance organization must meet certain requirements, including being exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; providing a department-approved receipt to taxpayers for contributions; ensuring that funds are used as specified in the bill; distributing scholarship payments four times per year; providing the department, upon request, with criminal background checks on all of its employees and board members; and demonstrating financial accountability and viability as specified in the bill. Each educational assistance organization must ensure that a qualified school will:

- (1) Comply with all health and safety laws applicable to nonpublic schools;
- (2) Hold a valid occupancy permit if required by its municipality;
- (3) Certify that the school will not discriminate in admissions based on race, color, national origin, or disability; and
- (4) Provide academic accountability to parents. An educational assistance organization must annually publicly report, by June 1, to the department information prepared by a certified public accountant about the organization, the scholarship recipients, and the total number and dollar amounts of scholarships awarded. An educational assistance organization cannot provide scholarships for eligible students to attend any school with paid staff or board members or

FISCAL DESCRIPTION (continued)

relatives in common with the organization. An educational assistance organization must not limit its scholarships to the students of only one school.

A qualified school must comply with all state laws applicable to public schools regarding criminal background checks for employees and exclude from employment anyone prohibited from working in a public school. A qualified school must administer the statewide assessment to its scholarship students. A qualified school must also meet certain accountability measures, including fiscal soundness, accreditation, and surveys of parents and students.

Subject to appropriations or available private donations, the Joint Committee on Legislative Research must contract with a qualified researcher to conduct a study of the program. The study must cover a period of six years.

The provisions of the bill regarding the Passport Scholarship Program will expire 10 years after the effective date.

The bill contains an emergency clause.

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

Elementary and Secondary Education  
Joint Committee on Administrative Rules  
Office of the Governor  
Missouri Senate  
Office of Secretary of State  
    Administrative Rules Division  
Department of Economic Development  
Department of Revenue  
Department of Insurance, Finance and Professional Registration  
Department of Public Safety  
    Missouri State Highway Patrol  
Joint Committee on  
Legislative Research  
School Districts

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