

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0485-01
Bill No.: HB 33
Subject: Education, Elementary and Secondary; Tax Credits
Type: Original
Date: March 4, 2019

Bill Summary: This proposal creates a new funding mechanism for Bryce’s Law.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
General Revenue	(\$426,295)	(Could exceed \$403,474,230)	(Could exceed \$403,470,218)	(Could exceed \$354,943,821)
Total Estimated Net Effect on General Revenue	(\$426,295)	(Could exceed \$403,474,230)	(Could exceed \$403,470,218)	(Could exceed \$354,943,821)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Bryce’s Law Scholarship	\$0	\$0	\$0	\$0
State Schools Money	\$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 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2020	FY 2021	FY 2022	Fully Implemented (FY 2024)
Total Estimated Net Effect on All 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	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	4 FTE	5 FTE	5 FTE	5 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

§135.726 Tax Credit

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal will reduce Total State Revenue by an unknown amount. This proposal would grant a tax credit to a taxpayer that makes a contribution to a scholarship granting organization.

Beginning with tax year 2020, a taxpayer may claim a tax credit for contributions in an amount equal to one hundred percent of the amount the taxpayer contributed during the tax year for which the credit is claimed. The taxpayer may not claim a tax credit in excess of 50% of their state tax liability. The tax credit may be carried forward for four tax years. There is no sunset date for this tax credit.

B&P estimates that this proposal will have an unknown, negative impact on Total State Revenue and General Revenue beginning in FY 2021. This proposal will impact the calculation under Article X, Section 18(e).

Officials at the **Department of Revenue (DOR)** assume this proposed 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.

DOR's Personal Tax Section will require 1 Revenue Processing Technician (\$24,360) for every additional 6,000 tax credits redeemed. Form changes may be necessary to update Form MO-TC and Form MO-1040. The Department anticipates system changes due to this proposed legislation totaling \$123,617.

DOR defers to DESE for the fiscal impact to Total State Revenue and General Revenue.

Oversight will show DOR's FTE and computer costs in the fiscal note. Oversight notes the changes to the Integrated Tax System program are currently contracted. Oversight assumes that DOR will not need the FTE until FY 2021 when the tax returns are filed.

§135.725 - §161.825 Bryce's Law

Oversight notes this proposal requires the Office of the State Treasurer to create a receipt form to provide to the scholarship granting organizations. The taxpayers make a contribution to the scholarship granting organizations and are provided a receipt indicating the value of the

ASSUMPTION (continued)

contribution. That receipt is filed with the taxpayer's tax return to claim the 100% tax credit equal to their contribution.

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 organization. STO does not operate tax credit programs and does not currently have the resources to absorb these duties. These seem better suited to DOR or Department of Economic Development which already operate tax credit programs and may have staff available for this function. STO anticipates a minimum of 4 FTEs being required to perform the functions noted in the bill. The FTE would be 1 Director (\$84,925), 2 Analysts (\$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 by STO, 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.

Officials at the **STO** note this proposal creates the Bryce's Law Scholarship Fund (§135.728.3) but has no mechanism for any monies to be deposited into the fund. Section 135.728.4 says "no more than 2% of the contributions may be deposited" into the fund for administration and marketing; however, those monies are given directly to the educational assistance organization and the monies never enter the state treasury.

Oversight notes this proposal allows the STO to receive up to 2% of the contributions deposited into the Bryce's Law Scholarship Fund for marketing and administration. Since the taxpayer's money is not deposited into the Bryce's Fund but given directly to the scholarship granting organizations, Oversight assumes that all administration expenses (FTE costs) will be funded by General Revenue.

Oversight will show the Bryce's Law Scholarship Fund in the fiscal note, but will show no money received by the fund.

ASSUMPTION (continued)

Officials at the **Department of Elementary and Secondary Education** assume that using census data and other information collected by the Department, the maximum number of scholarships available in the 2018-2019 school year is indicated in the table below:

	Children	Students
Angleman Syndrome	3	8
Autism	762	1,848
Cerebral Palsy	112	273
Dyslexia	N/A	5,456
Down Syndrome	45	109
Total	922	7,694

Section 161.825.8 states the maximum scholarship would be up to \$20,000 per eligible child and \$50,000 per eligible student, and therefore the Department estimates a maximum negative impact on Total State Revenue of up to \$403.1 million ($\$20,000 \times 922$) + ($\$50,000 \times 7,694$). Because the amount of scholarships available is dependent on the amount donated, the Department will indicate a negative impact range of \$0 - \$403.1 million.

Oversight notes this proposal creates a tax credit equal to 100% of the contribution made to a scholarship granting organization. This proposal does not place a cumulative cap on the tax credit or a limit on the amount an individual taxpayer can give. Oversight will show the loss to General Revenue for the tax credit as Could exceed \$403.1 million, the amount estimated by DESE for the scholarships.

Oversight notes this proposal defines an eligible student as one with a qualifying need. Those needs are defined as a student with an Autism Spectrum disorder, Down Syndrome, Angelman Syndrome, cerebral palsy or dyslexia. Additionally, §161.825.7 allows 10% of qualifying children and students to receive the scholarship. The numbers in the chart above are the 10% of qualifying children and students.

Oversight notes that DESE provides the Legislature with the following information regarding high need students (receiving funding through the High Needs Fund) and the average cost of their disability:

ASSUMPTION (continued)

Disability	Average Cost per Student
Deaf/Blindness	\$63,845
Multiple Disabilities	\$57,020
Vision Impairment	\$55,504
Autism	\$48,758
Other Disabilities	\$46,661
Intellectual Disability	\$46,111
Orthopedic Impairment	\$45,092
Other Health Impairments	\$44,194
Emotional Disturbance	\$43,171
Traumatic Brain Injury	\$39,688

Source: Department of Elementary and Secondary Education

Oversight is unable to independently determine how many students would qualify for these scholarships and will use the estimate provided by DESE in the fiscal note. Oversight notes that the full number of scholarships can be made if donations equaling that amount are received.

Oversight notes the children and students are allowed to transfer to another public school or to a private school. If the students chose another public school there would be no savings to the state. However, if all 7,694 students were to take the scholarship money and go to a private school, it would result in a savings to the foundation formula (State Schools Money Fund) of \$48,533,752 (7,694 x \$6,308 current state adequacy target rate). Oversight will not show a savings to the 922 children as they are not currently counted in the foundation formula. Oversight will show the savings to the foundation formula as \$0 to \$48,533,752.

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

ASSUMPTION (continued)

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 all the 7,694 students transfer from public to private schools, the savings to school districts is estimated \$88,911,864 based on the average expenditure of school districts of \$11,556 per student (7,694 x \$11,556). However, Oversight notes school districts typically face higher cost to education students with special education needs. Ultimately, Oversight cannot estimate the savings to schools as it 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.

Officials at the **Joint Committee on Administrative Rules** 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 \$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 request funding through the appropriation process.

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

ASSUMPTION (continued)

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				
<u>Revenue Reduction -</u> DOR - §135.726 - 100% tax credit for contributions to scholarship granting organizations	\$0	(Could exceed \$403,100,000)	(Could exceed \$403,100,000)	(Could exceed \$403,100,000)
<u>Cost - DOR</u> §135.726 - 1 RPT				
Personal Service	\$0	(\$24,604)	(\$24,850)	(\$25,349)
Fringe Benefits	\$0	(\$20,109)	(\$20,184)	(\$20,336)
Equip & Exp	<u>\$0</u>	<u>(\$7,879)</u>	<u>(\$503)</u>	<u>(\$529)</u>
<u>Total Cost - DOR</u>	\$0	(\$52,592)	(\$45,537)	(\$46,214)
FTE Change - 1 FTE	0 FTE	1 FTE	1 FTE	1 FTE
<u>Cost - DOR</u> §135.726 computer programming	(\$123,617)	\$0	\$0	\$0

FISCAL IMPACT -

<u>State Government</u>	FY 2020			Fully
(continued)	(10 Mo.)	FY 2021	FY 2022	Implemented
				(FY 2024)

**GENERAL
 REVENUE**
 (continued)

Cost - STO 4 FTE
 §135.725 - 161.825

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 - STO</u>	<u>(\$302,678)</u>	<u>(\$321,638)</u>	<u>(\$324,681)</u>	<u>(\$330,882)</u>
FTE Change - 4	4 FTE	4 FTE	4 FTE	4 FTE

Cost Avoidance -
 DESE- § - State
 Schools Money
 Fund decreased call
 to foundation
 formula

	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 to <u>\$48,533,752</u>
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**ESTIMATED NET
 EFFECT ON
 GENERAL
 REVENUE**

	<u>(\$426,295)</u>	(Could exceed <u>\$403,474,230)</u>	(Could exceed <u>\$403,470,218)</u>	(Could exceed <u>\$354,943,821)</u>
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Estimated Net FTE
 Change on General
 Revenue

	4 FTE	5 FTE	5 FTE	5 FTE
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<u>FISCAL IMPACT -</u> <u>State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022	Fully Implemented (FY 2024)
BRYCE’S LAW SCHOLARSHIP FUND				
<u>Revenue/Costs -</u> STO - no funding source	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE BRYCE’S LAW SCHOLARSHIP FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
STATE SCHOOLS MONEY FUND				
<u>Cost Avoidance -</u> General Revenue decreased ADA for Bryce Law students	\$0	\$0	\$0	\$0 to \$48,533,752
<u>Loss - Schools</u> decreased ADA for Bryce Law students	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$48,533,752)</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	\$0	\$0	Unknown	Unknown
<u>Loss</u> - Schools Decreased ADA for Bryce Law students	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 to <u>(\$48,533,752)</u>
ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS FUNDS	<u>\$0</u>	<u>\$0</u>	<u>Unknown</u>	Unknown to <u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the tax credit could be impacted.

FISCAL DESCRIPTION

This bill changes the funding for "Bryce's Law" by creating the "Bryce's Law Scholarship Fund."

For all tax years beginning January 1, 2020, taxpayers may make a contribution to a scholarship granting organization and claim a credit against their state tax due in an amount equal to 100% of the contribution, not to exceed 50% of the taxpayer's state tax liability for the year. The tax credit amount may carry over for four subsequent tax years.

Scholarship granting organizations must be exempt from federal tax and provide state approved receipts to donors.

FISCAL DESCRIPTION (continued)

No more than 2% of qualifying contributions to the fund may be used by the State Treasurer for marketing and administrative expense or the costs incurred in administering the program, whichever is less.

The bill also removes the sunset provision.

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



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March 4, 2019

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