

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1187-02  
Bill No.: Perfected HCS for HB 462  
Subject: Education, Elementary and Secondary; Tax Credits; Teachers  
Type: Original  
Date: February 27, 2019

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Bill Summary: This proposal creates certified teacher externships.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 to (Could exceed \$100,000)	\$0 to (Could exceed \$100,000)	\$0 to (Could exceed \$100,000)
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0 to (Could exceed \$100,000)</b>	<b>\$0 to (Could exceed \$100,000)</b>	<b>\$0 to (Could exceed \$100,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</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 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Local Government</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §135.1904 Externship Tax Credit

In response to the previous version, officials at the **Office of Administration Division of Budget and Planning (B&P)** assumed this proposal would grant a tax credit to a business that provides certified teacher externships. For tax years beginning on or after January 1, 2020, a business may claim a tax credit for up to 50% of costs incurred to provide teacher externships. The amount of credit claimed cannot exceed the state tax liability. The tax credit may be carried forward for five years.

B&P can find no available information regarding the frequency, duration, or cost of teacher externships. Consequently, B&P cannot provide an estimate of potential costs. Total State Revenue would be reduced by an unknown amount.

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

In response to the previous version, officials at the **Department of Revenue (DOR)** assumed §135.1904 states that, for all tax years beginning on or after January 1, 2020, any qualified business shall be allowed to claim a tax credit against the state tax liability of the qualified business in an amount equal to fifty percent of the costs the qualified business incurred to provide certified teacher externships during the tax year for which the credit is claimed. The amount of credit under this section can't exceed the amount of state tax liability of the qualified business for the tax year that the credit is claimed.

Per a document published by the Missouri Department of Elementary Secondary Education in October 2017, there has been approximately 900 teachers, counselors and administrators that have participated in externships and work based learning since "2013-14." The Department understands that, "2013-14" could have different meanings. The Department will show its impact, though, assuming that 2013-14 means fiscal year 2014. The Department then estimates that over the past 4 years, 225 teachers or counselors or administrators participated in externships or work based learning each year.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume in regards to §135.1904 tax subsidies reduce the state's revenues and decrease the amount of money available for public schools and all public school students. DESE stated that annually they give out 350-400 grants through the Pathways for Teachers Program to teachers who want to do externships.

ASSUMPTION (continued)

Officials at the **Department of Economic Development (DED)** assume this legislation creates §135.1904 giving a qualified business (any business in the state subject to income tax) that provides certified teacher externships (an externship that meets requirements created by DED and DESE under 168.025) a tax credit of 50% of the costs the qualified business incurred to provide the externship during the tax year, not to exceed the tax liability of the qualified business for the tax year in which the credit is claimed. This proposal starts January 1, 2020. DOR is to promulgate rules and there is no overall cap on the program.

This fiscal note does not provide an impact for the actual tax credit because DOR administers the tax credit. However, DED will need to hire 1 Economic Development Incentive Specialist III (\$51,108) to implement the program, to work toward creating the required definitions under 168.025 and to help DOR in administering the program from the DED side.

**Oversight** assumes that since this proposal requires that DOR administer the tax credit and DED is to help DESE with the promulgation of rules, DED could absorb these duties with existing staff.

In response to the previous version, officials at the **Raymore-Peculiar School District** assumed they have only had teachers participate in externships using the grant and that these externships are minimal time involvement. They noted that teachers can move laterally on the salary schedule of each 8 hours of graduate credit they have. Each 8 hours is worth about \$700. If the hours lead to an advanced degree, the increase in salary is \$2,500 annually per teacher.

In response to the previous version, officials at the **Columbia Public Schools** stated they have teachers that participate in externships in the local community and that those are done for 6-8 weeks in the summer months.

In response to the previous version, officials at the **Belleview R-III School District** stated they can not afford to hire substitute teachers and pay a teacher, so they do not participate in externships.

In response to the previous version, officials at the **Wellsville-Middletown R-1 School District** do not have teachers that participate in externships.

**Oversight** only reflects the responses that we have received from state agencies and political subdivisions; however, other school districts were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to [www.legislativeoversight.mo.gov](http://www.legislativeoversight.mo.gov).

ASSUMPTION (continued)

**Oversight** notes this proposal creates a tax credit for businesses that provide certified teacher externships. Oversight notes this proposal does not provide a cap for businesses that claim the tax credit nor does it provide an annual cumulative cap. It states the tax credit is 50% of the costs of the business to provide the externship.

**Oversight** notes that DESE's Pathways for Teacher's Program helps educators connect classroom academic knowledge to real world business and industry applications. According to the DESE Pathways for Teacher's Grant Application, since the 2013-2014 school year, 1,100 teachers have participated in the program through externships.

**Oversight** notes this proposal allows a business that provides the externship experience to recoup 50% of its costs in offering the externship. Oversight was unable to find how long the average externship lasts, an average cost to a business for hosting an externship or any detailed data on externships offered annually. Oversight notes that should the 350 teachers that DESE estimates will participate in externships, cost a business over \$600 in additional expenses this proposal would cost the State more than \$100,000 in tax credits. Oversight for informational purposes is showing the impact of the average number of teachers annually times various tax credit amounts to show a potential impact to state revenues.

Teachers	Business Expenses	Tax Credit Claimed per each business	Potential Impact to State
350	\$200	\$100	\$35,000
350	\$1,000	\$500	\$175,000
350	\$2,000	\$1,000	\$350,000
350	\$10,000	\$5,000	\$1,750,000
350	\$20,000	\$10,000	\$3,500,000

Oversight notes this tax credit does not have an annual cap, nor does it have a per-taxpayer cap (other than it can't exceed 50 percent of the taxpayer's liability). Without additional information, **Oversight** will show the impact as Could exceed \$100,000 to the General Revenue Fund for the tax credit.

ASSUMPTION (continued)

**Oversight** notes an amendment added to the proposal would require the externship tax credit to be appropriated otherwise no tax credits could be authorized. Oversight will show the impact as \$0 (credits not appropriated) to Could exceed \$100,000.

**Oversight** notes this proposal allows DED and DESE to create rules for the program regarding requirements for teacher externships to be considered equivalent to credit hours of graduate-level courses for salary schedules. Section 163.172 outlines the minimum starting salary for a teacher of \$25,000 and for teachers with masters degrees the minimum is \$33,000. Should DED and DESE determine that externships be allowed to be substituted for graduate-level courses, it is possible that teachers may move up their district's salary schedule quicker. Oversight does not know what program parameters DED and DESE will develop, but will show this could have a \$0 (no change to salary schedules) to Unknown impact on the school districts for increased teacher salaries.

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.

**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

ASSUMPTION (continued)

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 - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>GENERAL REVENUE</b>			
<u>Revenue Reduction</u> - DOR §135.1904 tax credit for expenses in providing an externship	\$0 to (Could exceed <u>\$100,000</u> )	\$0 to (Could exceed <u>\$100,000</u> )	\$0 to (Could exceed <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>	<b>\$0 to (Could exceed <u>\$100,000</u>)</b>	<b>\$0 to (Could exceed <u>\$100,000</u>)</b>	<b>\$0 to (Could exceed <u>\$100,000</u>)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>SCHOOL DISTRICT FUNDS</b>			
<u>Cost</u> - Potential salary adjustments from credit earned on externships	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>
<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT FUNDS</b>	<b><u>\$0 to (Unknown)</u></b>	<b><u>\$0 to (Unknown)</u></b>	<b><u>\$0 to (Unknown)</u></b>

FISCAL IMPACT - Small Business

Small businesses that participate in the program could be impacted.

FISCAL DESCRIPTION

This bill provides a definition for "certified teacher externship," "qualified business," and "tax credit" for the purposes of Section 135.1904, RSMo, and "teacher externship" for Section 168.025. This bill provides for a tax credit of up to 50% of the cost incurred to any business that provides an opportunity for a teacher externship.

The bill also directs the Department of Economic Development and the Department of Elementary and Secondary Education to develop requirements for teacher externships along with an equivalency schedule to allow externship hours to be considered for increases similar to graduate-level coursework on the salary schedule for districts.

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

Bellevue R-III School District  
Columbia Public Schools  
Department of Economic Development  
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  
Raymore-Peculiar School District  
Wellsville-Middletown R-1 School District



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L.R. No. 1187-02  
Bill No. Perfected HCS for HB 462  
Page 9 of 9  
February 27, 2019

February 27, 2019

February 27, 2019