

# FISCAL NOTE

**Bill #:** HB0555

**Title:** Tax credit for education expenses;  
excellence in teaching award program

**Primary  
Sponsor:** Joe Balyeat

**Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## Fiscal Summary

	<b><u>FY2002</u></b>	<b><u>FY2003</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>Expenditures:</b>		
General Fund	(\$507,966)	(\$1,914,231)
<b>Revenue:</b>		
General Fund	(\$560,757)	(\$1,936,781)
<b>Net Impact on General Fund Balance:</b>	<b>(\$52,791)</b>	<b>(\$22,550)</b>

<b><u>Yes</u></b>	<b><u>No</u></b>		<b><u>Yes</u></b>	<b><u>No</u></b>	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached	X		Family Impact Form Attached

## Fiscal Analysis

### ASSUMPTIONS:

#### Office of Public Instruction

1. Non-public school enrollment for FY2001 is as follows:

	Kindergarten	Grades 1-8	Grades 9-12
Home School	89	2,696	900
Private Accredited	663	5,301	2,041
Private Non-accredited	<u>45</u>	<u>351</u>	<u>25</u>
Total	797	8,348	2,966

2. Under HB555, the parents of home school and private school students are eligible for an individual income tax credit for qualifying education expenses. Students that currently pay tuition or fees to private schools, home school organizations, or Internet schools will not be eligible until FY 2004. 10% per year of the home school students begin to pay tuition and fees to some organization in FY 2002 and FY 2003.
3. Under HB 555, the parents of public school students who pay tuition for an out-of-district placement are eligible for an income tax credit. Based on a survey conducted by the interim Education and Local Government Committee in 2000, there are 337 students attending public school through out-of-district tuition agreements for whom parents pay the cost of tuition. Students that currently pay tuition to public schools will not be eligible until FY 2004.
4. It is assumed that all the necessary paperwork, including the forms to declare the intent to claim an education tax credit, can be generated, distributed, and collected by May 10, 2001 in order for individuals to be eligible for the education tax credit in tax year 2001.
5. Current private schools in Montana are near capacity and won't be able to absorb a large increase in enrollment in the short term.
6. HB 555 requires that the eligible dependent minors who were enrolled in a public school during the current year be removed from the ANB count of the school district for the ensuing year if the parent files a declaration of intent form. Eligible students in 1st through 12<sup>th</sup> grade will be removed from the ANB count. It is assumed that, beginning in school year 2001-2002, 0.5% of public school students will transfer to a private school; another 0.5% of public school students will transfer in 2002-2003.
7. The average number belonging (ANB) in K-12 public schools under HB 555 will be as follows:

	<u>FY2001</u>	<u>FY2002</u>	<u>FY2003</u>
K-6 ANB	79,901	77,778	75,641
7-8 ANB	26,113	25,332	24,896
9-12 ANB	<u>51,524</u>	<u>50,791</u>	<u>50,287</u>
Total ANB	157,538	153,901	150,824

8. Under current law, direct state aid will be \$316.325 million in FY2002 and \$312.304 million in FY 2003. Special education payments will be \$33,899,850 in FY 2002 and FY 2003. Guaranteed tax base aid paid to schools will be \$95.820 million in FY2002 and \$94.362 million in FY2003.
9. The state general fund cost per elementary ANB is \$ 2,427 and per high school ANB is \$3,147, including direct state aid and guaranteed tax base aid. As students leave the public school system, state costs will decline by \$2,427/ elementary ANB and by \$3,147/high school ANB. Direct state aid and GTB aid costs will decrease by \$1,962,141 in FY 2002 and by \$3,980,288 in FY 2003.
10. Tuition and fees for tutoring services, academic camps, Internet classes, and summer school are not qualified educational expenses and eligible for the credit. See Technical note 4.
11. The Office of Public Instruction will design, print and disseminate a form on which parents will declare their intent to claim an educational tax credit. HB 555 requires that the form be distributed to every public school student. OPI will also need to print forms for distribution to parents of non-public school students. OPI will print and disseminate 175,000 forms at a cost of \$.10 per form or \$17,500. The form will also be posted on the OPI web page.
12. The Office of Public Instruction will need part-time help to design, disseminate, and process the tax forms in the spring of each school year, including FY2001, FY2002, and FY2003. (.2 FTE, Grade 10 = \$5,050). OPI will also need \$10,000 in FY2002 to reprogram MAEFAIRS, the automated school finance and payment system to reflect the new ANB calculations proposed by HB 555 and the payments to school districts for the Montana Excellence in Teaching Award program.

(continued)

**Department of Revenue**

13. The non-refundable tax credit cannot be fully utilized by all taxpayers. The Department of Revenue calculates that for Tax Year 2004, taxpayers with dependents can utilize only 48% of the \$1,000 per year **non-refundable** tax credit.
14. It is estimated that taxpayers can utilize 81% of the available \$375 credit in FY 2002 and 73% of the \$375/ \$375 credit in FY 2003.
15. The Department of Revenue will need a one-time appropriation of \$20,241 for administrative expenses for adding a new line for the education credit to the income tax form.
16. The teaching award pool will be the reduction in DSA and GTB payments to schools (from assumption 9) less the reduction in revenue from the income tax credit. The tax credit is estimated to reduce general fund revenue by \$560,757 in FY 2002 and \$1,936,781 in FY 2003. The net available for the awards will be \$1,401,384 (\$1,962,141 less \$560,757) in FY 2002 and \$2,043,507 (\$3,980,288 less \$1,936,781) in FY 2003.

FISCAL IMPACT:

	<u>FY2002</u>	<u>FY2003</u>
	<u>Difference</u>	<u>Difference</u>
FTE	0.2	0.2

Expenditures:

Personal Services (OPI)	5,050	5,050
Operating Expenses (OPI)	27,500	17,500
Operating Expenses (DOR)	20,241	
Local Government Assistance		
Direct State Aid and GTB	(1,962,141)	(3,980,288)
Teaching Awards	<u>1,401,384</u>	<u>2,043,507</u>
TOTAL	(\$507,966)	(\$1,914,231)

Funding:

General Fund (01)	\$52,791	\$22,550
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Revenues:

General Fund (01)	(\$560,757)	(\$1,936,781)
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Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	(\$52,791)	(\$22,550)
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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The effect of this bill on school districts would be to reduce district general fund budgets and state aid as a result of the decrease in enrollment caused by this bill. Teaching awards will increase expenditures from the miscellaneous program funds.

LONG-RANGE IMPACTS:

The cost of the income tax credit will not be fully realized until FY 2004 when it is fully phased in. If less than 1.5% of public school enrollment does not leave public schools by FY 2004, there will be a cost to the state general fund. Teaching awards will decrease from \$2.0 million in FY 2003 to \$0.2 million in FY 2004.

TECHNICAL NOTES:

1. Tax forms are generally prepared and distributed by the Montana Department of Revenue (DOR). HB 555 requires that the Office of Public Instruction (OPI) create and disseminate the form for a parent to declare the intent to claim an education tax credit. These forms are returned to OPI and forwarded to DOR.
2. If a parent files a declaration of intent to transfer a child to a non-public school, but does not subsequently transfer the child, the public school district would not be able to recover the direct state aid, GTB, and special education block grant that the student would generate. A district may adopt a budget amendment to increase the district general fund budget to accommodate the returning student.
3. It is questionable if this legislation is constitutional due to the language in Article X, Section 6 of the Montana Constitution. Section 6 reads as follows: "Aid prohibited to sectarian schools. (1) The legislature, counties, cities, towns, school districts, and public corporations shall not make any direct or indirect appropriation or payment from any public fund or monies, or any grant of lands or other property for any sectarian purpose or to aid any church, school academy, seminary, college, university, or other literary or scientific institution, controlled in whole or in part by any church, sect, or denomination."
4. It is unclear if educational expenses for tutoring, academic camps, and summer school qualify as educational costs. These students will likely continue to be in public schools and may also receive the tax credit. As the bill currently reads if the intent to claim education tax credit form is filled out by the parent, and the student continues in public school, the public school will not receive state funding and the parent receive the credit.
5. Page 2 line 23 refers to an 18-month period of time, January 1, 2002 to June 30, 2003, it should reference a 6-month period from January 1, 2002 to June 30, 2002.
6. Section 3. (3)(a) refers to a calculation that the superintendent of public instruction (OPI) performs to determine the amount of savings that can be sent to school districts for the Montana excellence in teaching awards. This calculation will be difficult in the first years, an impossible over the long term as OPI will not be able to distinguish between students that are attending private schools as a result of this bill and those that would have been in private schools without this bill.