

Sponsor's Fiscal Note 2013 Biennium

Date 3-15-11
SB 282

Bill # SB282

Title: Student scholarship organizations and tax credits for donations for scholarships

Primary Sponsor: Lewis, Dave

Status: Unamended, note assumes amends 01,02,05,06,08

- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2012</u> <u>Difference</u>	<u>FY 2013</u> <u>Difference</u>	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>
Expenditures:				
General Fund	(\$4,096,798)	(\$5,261,307)	(\$6,860,480)	(\$8,935,846)
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$3,500,000)	(\$4,550,000)	(\$5,915,000)	(\$7,689,500)
State Special Revenue	\$0	\$0	\$0	\$0
Federal Special Revenue	\$0	\$0	\$0	\$0
Other	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance	<u>\$596,798</u>	<u>\$711,307</u>	<u>\$945,480</u>	<u>\$1,246,346</u>

Description of fiscal impact: This bill would allow a tax credit for donations to provide scholarships for private schools. A net revenue gain to the general fund can be accomplished between exchange of the cost of tax-credits and the savings of the ANB funding attached to students who transfer from public school to nonpublic school. The costs of these scholarships to the state are directly related to the tax credits distributed. However, these costs are offset by the savings of state expenditures when students leave public schools.

Due to public school funding and tax-credit lags, the program would actually be revenue neutral in its first year. A small cost of hiring a tax examiner to analyze incoming donations and outgoing tax credits would be seen in FY 2012. Donations collected in 2011 would be granted to students in that year, the donors' tax-credits would not be redeemable until 2012. There would be a decrease in public school students in 2011 due to these scholarships and General fund expenditures for ANB would decrease in 2012.

In Fiscal Year 2012, the proposed program would have a net impact of an estimated gain of \$596,798. In future years this bill yields positive returns to the General Fund, saving \$711,307 in 2013, \$945,480 in 2014 and \$1,246,346 in 2015. This trend extends through the course of the program, showing considerable savings to the state.

FISCAL ANALYSIS**Assumptions:**

1. This bill would allow a credit against individual income tax or corporation license tax for 100% of the amount a taxpayer donates to a non-profit organization that grants scholarships to students who like to attend a nonpublic school. Taxpayers would first be able to claim the credit for donations made in 2011.
2. Taxpayers wanting to claim the credit would be required to file a form requesting the credit with the DOR by October 1 each year. DOR would have 30 days to review and approve credits, and once approved, taxpayers would have 30 days to make donations. Credits would initially be limited to \$3.5 million the first year, growing over time. The cap on credit is allowed to increase by 30% if 80% of the capped amount is granted in scholarships the prior year.
3. This fiscal note assumes 100% donations and scholarships granted and that scholarship organizations would begin to solicit donations upon passage and approval and use the funds to give scholarships for the school year beginning the next fall. Thus, the first donations and credits would occur in the tax year 2011 (fiscal year 2012) and the first scholarships would be for the 2011-2012 school year (fiscal year 2012).
4. For donations to a scholarship organization to be eligible for the credit, the scholarships must be used for tuition and fees at a private school or a distance learning program, recipients must transfer from a public school or be entering school at kindergarten or first grade, or be in foster care. Scholarships must average \$3,000.
5. Several states have credits that share some features of this bill. Pennsylvania, Florida, Rhode Island, Arizona, Georgia, and Iowa have tax credits for donations to nonprofits for school scholarships. Most of these allow credits for both individuals and corporations. A few allow credits only for corporations. Pennsylvania's credit started in 2001, has a maximum credit of 90%, has not dropped below 90% utilization and the first year was 95% utilized. Florida's 100% credit started in 2002, it has not dropped below 83% utilization. Florida's first year was 95% utilized. Arizona's 100% corporate credit began in 2005 and only had a 5.3% utilization the first year with utilization since then at near 100% until last year dropping to 73%. Rhode Island's maximum 90% corporate credit started in 2007 and has been over utilized since then by an average of 112%. Iowa's 65% corporate and individual credit was started in 2005 with 100% utilization and has not dropped below 83% since then with minimal corporate participation. Georgia's 75% individual and corporate credit started in 2008 with a \$50 million cap. The initial year yielded 13% utilization and the second year 50% utilization.
6. The credit in this bill is for 100% of donations and the donation amount is limited to 90% or less than the taxpayers tax liability for both individuals and corporations. If the charitable donation is claimed for the credit it cannot be deducted on the Federal return. Since all other states have a cap on total credits allowed and all of them but Georgia and Arizona reached the cap in the first year, Arizona in the second year and the dollar amount allowed per credit varies substantially it cannot be determined how many credits would be utilized in these states if the amount of the credits had not been capped. Most of these states continue to raise their cap on the tax credits but have yet to determine if they have reached maximum participation. The states with the most robust corporate participation offer a 90% or a 100% corporate credit. It is assumed the maximum credits allowed will be utilized based on the experience in the other states. This is not unreasonable to assume, due to the program's small size. If the credit is more than the taxpayer's tax liability, the excess credit would not be refunded, but could be carried forward for up to five years.
7. The 2009 scholarship demand data was developed by a Fellow of the Milton Friedman Foundation economist from data collected from other states with similar programs. The number of scholarships can be estimated through understanding the price elasticity of private schooling in Montana. This elasticity was estimated at -.75, as referenced in Brian Gottlob's 2009 study. Demand is determined from; scholarship value, income eligibility, family income, tuition amount and participation by families that apply for scholarships in other states with similar programs. A key component to demand is public awareness of the

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existence of the scholarship program. A conservative estimate of 5,896 students in public schools could be expected to apply for scholarships at an average of \$3,000 per student if the public is aware of the program. This number excludes private school demand, as current private school students are not eligible for participation.

8. Scholarship organizations are assumed to receive enough donations to fund 1,050 scholarships that average \$3,000.00 in value. The demand of 5,896 will be greater than the supply.

9. According to the Office of Public Instruction from school year 2007-08 to school year 2009-10 private elementary school enrollment declined by 1056 students or 15.7%. During the same period public elementary school enrollment increased by 1,440 students or 1.6%. The timing of this enrollment shift from tuition based schools to "free" public schools aligns with the beginning of the recession in 2008. In school year 2007-08 private elementary enrollment was 6,702, private high school enrollment was 2,005 and home school enrollment was 4,106. In school year 2009-2010 there are 5,646 students in private elementary schools (1,056 student decline), 1,999 students in private high schools (6 student decline) and 4,079 students in home schools (27 student decline) in Montana. The recession has affected those with least financial means the most, young families. LFD determine current per-ANB entitlement for elementary ANB is \$5,388, and for middle school and high school ANB is \$6,701. The state share of support per elementary ANB is \$3,635 and local share is \$1,753. The state share of support per high school ANB is \$4,396 and local share is \$2,305. The cost to the taxpayer of this enrollment shift is 5.7 million dollars per year (3.8 million State general fund and 1.9 million local).

10. In the 2011-2012 school year the program's first year of awarding scholarships, the demand for scholarships (5,896) will outstrip the available supply of scholarships (1,050) in a program with a \$3.5 million cap. These scholarships will only be available to current public school students and students entering kindergarten or first grade. Total scholarships awarded would be \$3,150,000. or 90% of the \$3.5 million in donations received. These donations occur in FY 2011 for application for the 2011-2012 school year. Credits for these donations would be claimed on returns in FY 2012.

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
Scholarship value:	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>	<u>\$3,000</u>
-Total public donations to Scholarship Granting Organizations	\$3,500,000	\$4,550,000	\$5,915,000	\$7,689,500	\$9,996,350
-Total available for Scholarship Programs	\$3,150,000	\$4,095,000	\$5,323,500	\$6,920,550	\$8,996,715
-Scholarships Available	1,050	1,365	1,775	2,307	2,999
-Demand for Scholarships	5,896	5,896	5,896	5,896	5,896
-Scholarships Awarded to Public School Students	1,050	1,365	1,775	2,307	2,999
-Cost of Scholarships, General fund revenue reduction	\$0	(\$3,500,000)	(\$4,550,000)	(\$5,915,000)	(\$7,689,500)
-State Share ANB Savings, General fund expenditure reduction	\$0	(\$4,096,798)	(\$5,325,533)	(\$6,924,706)	(\$9,000,072)
-Gross State Fiscal Impact	\$0	\$596,798	\$775,533	\$1,009,706	\$1,310,572
-Gross Local Government Impact	\$0	\$2,043,787	\$2,403,151	\$3,545,367	\$4,489,635

11. This bill would require the Department of Revenue to process and pre-approve credit applications, verify that taxpayers have made the donations for which they have applied to receive a credit, review annual reports from scholarship organizations to verify that they and the students they grant scholarships meet the requirements of this bill, and process additional documents filed with claimants' tax returns.

12. The responsibility for these additional duties would be performed by the newly formed Student Scholarship Organizations (SSOs). Funding for these SSOs is a product that can be no greater than 10% of total donations. In most programs, these average operational costs are 5% of total donations, the SSO's operating expense could be limited to 5% after the 4th year of the program.
13. 10% of donations will be used to fund scholarships for Native American students.
14. The department would need to develop a new form for taxpayers to apply to receive the credit. The cost for developing the new form would be \$1,700 in FY 2012. Changes to income tax returns and instructions would be made as part of the annual update process.
15. Public school enrollment in 2009-10 was 141,807. Assumption #8 estimates that all 1,050 scholarships available at an average value of \$3,000 will be used by public schools students.
16. Once a public school student transfers to a private school, the student will continue to be eligible for the scholarship (the student meets the requirement that the student was a full-time public school student when first granted a scholarship).
17. These 1,050 students will reduce ANB counts in FY 2012 by 1,050 ANB, the year after they transfer out of the public school system. Their footprint will be completely removed from 3-year averaging of ANB (20-9-311, MCA.) with a 1,050 ANB decrease in general fund expenditures in 2012.
18. Small public schools are kept whole when a student transfers to a nonpublic school with a scholarship. If the student continues to reside in the public school district in which they were previously enrolled then the student may not be subtracted from ANB counts in any school year that they reside in the district if the subtraction decreases the ANB count to less than:
 - 20 students in kindergarten or grades 1 or 2;
 - 28 students in grades 3 or 4;
 - 30 students in grades 5, 6, 7, or 8; or
 - 50 students in grades 9, 10, 11 or 12.
19. Direct State Aid, GTB and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates and estimated property tax values.
20. The per-ANB entitlements provided by LFD are \$5,388 for elementary ANB and \$6,701 for high school ANB.
21. The savings to the state general fund for decreased direct state aid, guaranteed tax base aid, county retirement, and Indian education for all the decrease of these students in the public school system is \$0.6 million in FY 2013, \$.8 million in FY 2014, \$1 million in FY 2015 and \$1.3 million in FY 2016.
22. If additional tax analysis is necessary outside of the scope of what the SSOs can perform, a tax examiner may necessary to ensure that the program adheres to certain standards. Below is the Fiscal Impact of employing an additional tax examiner.
23. DOR would be required to provide a report to the Revenue and Transportation Interim Committee every two years. This would be done instead of other interim work with no additional costs.

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FTE	1.00	1.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$50,330	\$50,330	\$51,588	\$52,878
Operating Expenses	\$8,996	\$7,696	\$7,696	\$7,696
Equipment	\$4,900	\$0	\$0	\$0
Benefits	\$0	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
TOTAL Expenditures	<u>\$64,226</u>	<u>\$58,026</u>	<u>\$59,284</u>	<u>\$60,574</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$64,226	\$58,026	\$59,284	\$60,574
TOTAL Funding of Exp.	<u>\$64,226</u>	<u>\$58,026</u>	<u>\$59,284</u>	<u>\$60,574</u>

Effect on County or Other Local Revenues or Expenditures:

- Each student that accepts a scholarship to leave public schools may reduce local education spending by \$1,753 per Elementary ANB and \$2,305 per High School ANB if local school trustees choose to reduce their budget. They may elect to keep the budget authority if their budget is under the maximum budget allowed by the school funding formula.

	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>
Expenditures:				
Local Education Spending	\$0	(\$2,043,787)	(\$2,403,151)	(\$3,454,367)
Revenue:				
Local Education Spending	\$0	\$0	\$0	\$0
Gross Impact Local County	<u>\$0</u>	<u>\$2,043,787</u>	<u>\$2,403,151</u>	<u>\$3,454,367</u>

Long-Range Impacts:

- The long term fiscal impact on the state can be found in the difference between tax-credit expenditures (including potential program costs) and savings created by a smaller student population in public schools. Over the period from FY 2011 through FY 2015, aggregate State General Fund expenditures would be reduced by a total of \$3.7 million and Local County taxes may be reduced by a total of \$12.5 million.

Sponsor's Signature

Date