



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0213	Title:	Providing a tuition tax credit for nonpublic school education
Primary Sponsor:	Fitzpatrick, Steve	Status:	As Amended in House Appropriations Committee

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$152,721	(\$283,540)	(\$281,807)	(\$280,045)
Revenue:				
General Fund	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)
Net Impact-General Fund Balance:	<u>(\$2,844,378)</u>	<u>(\$2,408,117)</u>	<u>(\$2,409,850)</u>	<u>(\$2,411,612)</u>

Description of fiscal impact: HB 213, as amended by the House Appropriations Committee, would allow income tax credits for paying tuition for private school students. Credits would be about \$2.7 million per year, and would cost about \$0.1 million per year to administer. This bill would also result in a \$378,072 reduction in K-12 BASE aid on an ongoing basis.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would allow a credit against individual income tax of up to \$550 for tuition the taxpayer pays for a private school student. Credits in excess of the taxpayer's income tax liability could be carried forward for five years.
2. Taxpayers who claim the credit but have less than \$550 of tax liability will have to carry the difference between the credit and tax liability forward. However, taxpayers who claim the credit, particularly parents or grandparents of a private school student, are likely to be paying tuition and claiming the credit every year for a number of years in a row. Because of this, the carryover provision is likely to have a relatively small effect on the dollar amount of credits claimed.
3. There are approximately 6,250 tuition-paying Montana students in private schools in the state. Credits will be claimed for tuition paid for these students. There are approximately 1,100 other students in private

schools that either are entirely supported by donations or draw their student populations primarily from out of state. No credits will be claimed for these students (This data is retrieved from data from OPI and two online directories of private schools: www.privateschoolreview.com/state_private_schools/stateid/MT and <http://montana.educationbug.org/private-schools/?subdomain=montana>)

4. On 2011 resident tax returns, 17% of dependents were reported on a return with zero tax liability, 36% of dependents were reported on a return with tax liability of less than \$550 per dependent, and 47% of dependents were reported on a return with tax liability of at least \$550 per dependent. Average tax liability per dependent was \$196 on returns where it was more than zero and less than \$550.
5. If the parents of tuition-paying Montana students in private schools in the state have the same distribution of tax liability as all couples with dependents, they would be able to claim 2,964 full credits of \$550 and 2,220 partial credits averaging \$196. Total credits claimed by parents would be \$2,065,114.
6. As amended, this bill would allow a student’s parents, grandparents or siblings to claim a credit for paying part or all of the student’s tuition. This fiscal note assumes that grandparents and siblings will claim additional partial credits totaling \$590,000. This is equivalent to an average of \$180 of additional credit for each of the 3,278 students whose parents do not claim a full credit. Total credits would be \$2,655,114. The average amount of credit claimed per student would be \$425.
7. The credits allowed by this bill will reduce the net price of attending private school (tuition less discounts or scholarships and credits) for students whose families claim the credit. Some families who are not willing and able to send a child to a private school at current net prices would be willing with the lower net price. Recent research indicates that a 10% reduction in the net price of private school results in about a 2% increase in children whose families are willing and able to pay the net price to send them to a private school. (see, for example, Susan Dynarski, Jonathan Gruber and Danielle Li: Cheaper by the Dozen: Using Sibling Discounts at Catholic Schools to Estimate the Price Elasticity of Private School Attendance, Center for Economic Studies, U.S. Census Bureau paper CES 11-34, 2011, and Richard Blundell, Lorraine Dearden and Luke Sibieta: The Demand for Private Schooling in England: the Impact of Price and Quality, Institute for Fiscal Studies working paper 10/21, 2010.)
8. Private schools would be willing to accept additional students only if they receive additional funding to pay the costs of serving them. On average, full tuition appears to cover about 60 percent of private school costs in Montana. Since many students receive some kind of discount, actual tuition payments cover less than 60 percent of costs. Spending per student is about \$9,191, and non-tuition revenue per student is about \$3,631. (Based on tuition and fees reported on private school websites, average cost per student in public schools from OPI and ratios of private school costs to public school costs estimated in Bruce Baker: Private Schooling in the U.S.: Expenditures, Supply, and Policy Implications, Boulder and Tempe: Education and the Public Interest Center, University of Colorado & Education Policy Research Unit, Arizona State University, 2009). The remaining expenses are paid from donations, subsidies from a supporting organization such as a church, and other non-tuition sources. Additional students attending private schools would pay tuition less than the cost of serving them. Private schools can accept these additional students and continue to meet all their expenses only if they raise tuition to capture part of the value of the tax credits and use these funds to subsidize the additional students.
9. The change in private school enrollment that could result if schools increased tuition to capture part of the credits was calculated using the following formulas describing the tuition-setting actions of affected private schools, and enrollment decisions of families of current and potential private school students:

$$tuition = \frac{total\ expenditures - nontuition\ revenue}{students}$$

$$\frac{additional\ students}{2012\ students} = -0.2 \frac{change\ in\ net\ price}{2012\ tuition}$$

$$change\ in\ net\ price = tuition\ increase - average\ credits\ per\ student$$

10. If schools raise tuition to the point where the number of additional students wanting to enroll equals the number of additional students whose costs would be covered by their own tuition and the increased tuition from existing students, the average tuition increase would be \$50, and private school enrollment would be increased by 86. Total credits would be the average amount of credits per student, \$425 multiplied by 6,328 students, or \$2,691,657.
11. This credit would first be available for TY 2013. Credits would be claimed on tax returns filed in the spring following each tax year, beginning in FY 2014.
12. The Department of Revenue would need an additional 0.50 FTE position to process applications and an additional 1.00 FTE position to process and verify credit claims on returns and information returns from schools. Personal services costs would be \$80,588 per year in FY 2014 and FY 2015, \$82,111 in FY 2016, and \$83,663 in FY 2017. Annual operating costs for the two positions would be \$13,294 in FY 2014, \$13,944 in FY 2015, \$14,154 in FY 2016, and \$14,364 in FY 2017. One-time costs to set up the two positions would be \$6,603 in FY 2014.
13. The credit application and credit claim forms would have to be programmed into the department's data capture and processing systems at a cost of \$48,000. Developing the two new forms would cost \$4,236. These costs would be incurred in FY 2014.

Office of Public Instruction (OPI)

14. In addition to the students who are currently served by entities that meet the definition of qualified education provider, OPI estimates that the tuition tax credit of \$550 will provide an incentive for an additional 86 students to seek these services in FY 2014. This number could grow to as many as 1% or 1,500 over time, but it is assumed that increase would happen outside of the timeframe of this fiscal note.
15. If 86 students would transfer from public schools, this would decrease the current-year ANB count by 89 ANB (86 X 187 / 180) each year. State support per ANB for K-12 BASE Aid is approximately \$4,248. A decrease of 89 ANB beginning in FY 2014 would represent decreased state expenditures for K-12 BASE Aid of \$378,072 (89 X \$4,248) per year beginning in FY 2015.
16. The transfer of 86 students from public schools is not expected to affect any of the other formula-driven sources of state funding for schools such as school facility reimbursements, transportation aid, or county retirement GTB.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
Department of Revenue (DOR)				
FTE	1.50	1.50	1.50	1.50
Expenditures (DOR) :				
Personal Services	\$80,588	\$80,588	\$82,111	\$83,663
Operating Expenses	\$72,133	\$13,944	\$14,154	\$14,364
TOTAL Expenditures	\$152,721	\$94,532	\$96,265	\$98,027
Funding of Expenditures(DOR):				
General Fund (01)	\$152,721	\$94,532	\$96,265	\$98,027
TOTAL Funding of Exp.	\$152,721	\$94,532	\$96,265	\$98,027
Office of Public Instruction (OPI)				
Expenditures (OPI):				
K-12 BASE Aid	\$0	(\$378,072)	(\$378,072)	(\$378,072)
TOTAL Expenditures	\$0	(\$378,072)	(\$378,072)	(\$378,072)
Funding of Expenditures (OPI):				
General Fund (01)	\$0	(\$378,072)	(\$378,072)	(\$378,072)
TOTAL Funding of Exp.	\$0	(\$378,072)	(\$378,072)	(\$378,072)
Revenues:				
General Fund (01)	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)
TOTAL Revenues	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)	(\$2,691,657)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	(\$2,844,378)	(\$2,408,117)	(\$2,409,850)	(\$2,411,612)

Effect on County or Other Local Revenues or Expenditures:

1. School districts that have lower enrollments because students move to private schools will have lower costs, lower spending caps, and reduced state funding. The statewide decrease of approximately 86 students would not allow affected school districts to reduce staff or facility costs. Therefore, actual cost savings are likely to be less than the average cost per student. Schools districts that are at the cap on per-student spending will have to reduce spending and property tax levies. Schools districts that are below the cap will be able to choose whether to reduce spending and property taxes.

Technical Notes:

Department of Revenue

1. This bill would allow credits for tuition paid to a “qualified education provider,” and gives criteria an entity must meet to qualify. DOR would have to resolve any questions about whether an entity meets these conditions as part of the process of approving credit applications and granting credits. It may be better to assign this responsibility to OPI, which has the expertise to make this determination.
2. Many schools give discounts for multiple children from the same family. In this case, it would be necessary to determine how much tuition to attribute to each child. If the bill does not explicitly define which charges qualify as tuition for a particular child, the department will have to do so through rules.

Sponsor’s Initials

Date

Budget Director’s Initials

Date