



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0408 - Revise student scholarship organization and innovative education tax credits (Vinton, Sue)

Status: As Introduced

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

FISCAL SUMMARY

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$5,200,000)	(\$6,240,000)	(\$5,088,000)
Net Impact-General Fund Balance:	\$0	(\$5,200,000)	(\$6,240,000)	(\$5,088,000)

Description of fiscal impact: HB 408 increases the tax credit caps available under the Innovative Educational Program (IEP) public-school tax credit and the Student Scholarship Organization (SSO) program for non-public schools. This bill would reduce general fund revenue by \$5.2 million in FY 2025, \$6.24 million in FY 2026, and \$5.088 million in FY 2027 relative to present law.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, taxpayers can claim a personal or corporate income tax credit for qualified donations to a Student Scholarship Organization (SSO) or to an Innovative Educational Program (IEP). The maximum that a single taxpayer can claim is \$200,000. In TY 2023, the maximum number of credits that can be claimed is \$2 million for each credit. Starting in TY 2024, the maximum number of total credits that can be claimed will increase by 20% if 80% of the maximum number of credits are claimed during the previous tax year.
2. HB 408 increases the maximum number of SSO and IEP credits that can be claimed starting TY 2024. Under the proposed bill, a total of \$5 million SSO credits can be claimed in TY 2024. The maximum number of IEP credits that can be claimed is also increased to \$5 million in TY 2024. For both credits, the maximum number

of credits will increase by 20% if 80% of the maximum credit amount is claimed the previous tax year, starting in TY 2025.

3. HB 408 also changes the IEP so that donations that exceed certain criteria must be transferred from the school district to the Superintendent of Public Instruction for deposit in a newly created Innovative Educational Program state special revenue fund.
4. Based on the credits claimed in TY 2021 and TY 2022, it is assumed that all credits will be claimed for each program each tax year under current law.

Present Law Utilization of Student Scholarship and Innovative Education Program Tax Credits					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
IEP	-\$1,000,000	-\$2,000,000	-\$2,400,000	-\$2,880,000	-\$3,456,000
SSO	-\$1,000,000	-\$2,000,000	-\$2,400,000	-\$2,880,000	-\$3,456,000
Total Value of Credits	-\$2,000,000	-\$4,000,000	-\$4,800,000	-\$5,760,000	-\$6,912,000

5. With the maximum value of credits claimed each year, the total SSO credits claimed under current law are assumed to be \$2 million in TY 2023, \$2.4 million in TY 2024, \$2.88 million in TY 2025, and \$3.456 million in TY 2026. The same number of IEP credits are assumed to be claimed each tax year under current law.
6. It is assumed that there is enough interest in both credits for up to \$6 million in credits to be claimed for both the SSO and IEP credit.
7. Based on the new credit limits created by HB 408, and a maximum of \$6 million in credits claimed (assumptions 6), it is assumed that \$5 million in IEP credits will be claimed for TY 2024, and \$6 million in credits will be claimed in TY 2025 and TY 2026. For SSO credits, it is assumed that \$5 million in credits will be claimed for TY 2024, and \$6 million will be claimed in TY 2025 and TY 2026.

HB 408 Utilization of Student Scholarship and Innovative Education Program Tax Credits					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
IEP	-\$1,000,000	-\$2,000,000	-\$5,000,000	-\$6,000,000	-\$6,000,000
SSO	-\$1,000,000	-\$2,000,000	-\$5,000,000	-\$6,000,000	-\$6,000,000
Total Value of Credits	-\$2,000,000	-\$4,000,000	-\$10,000,000	-\$12,000,000	-\$12,000,000

8. Based on current law credit assumptions, and the estimated credit usage under HB 408, the proposed bill will reduce income tax liabilities by \$5.2 million in TY 2024, \$6.2 million in TY 2025, and \$5.1 million in TY 2026.
9. It is assumed that taxpayers will not change their withholding or estimated payments in anticipation of receiving the tax credits. The proposed changes therefore will reduce general fund revenue when taxpayers file their taxes the following year.
10. HB 408 will reduce general fund revenue by \$5.2 million in FY 2025, \$6.2 million in FY 2026, and \$5.1 million in FY 2027, relative to present law.

Change from Present Law Revenue Due to HB 408 as Introduced					
Program	TY 2022	TY 2023	TY 2024	TY 2025	TY 2026
Change IEP	\$0	\$0	-\$2,600,000	-\$3,120,000	-\$2,544,000
Change SSO	\$0	\$0	-\$2,600,000	-\$3,120,000	-\$2,544,000
Total Change in Revenue	\$0	\$0	-\$5,200,000	-\$6,240,000	-\$5,088,000

11. The changes made by HB 408 can be made as part of the Department of Revenue annual change process. The Department of Revenue does not expect to incur any significant additional costs because of this bill.

Office of Public Instruction (OPI)

12. School districts that receive tax credit donations are to deposit those funds into the school district’s miscellaneous programs fund and must spend the donated funds for innovative educational programs defined in 15-30-3102, MCA.
13. The bill expands the list of eligible uses of these funds to include distributions to capital improvements and equipment necessary to support an innovative educational program.
14. School districts are limited to the amount of tax credit donations a district may retain. Donations in excess of the greater of \$50,000 or 15% of the district’s maximum general fund budget or 20% of the maximum amount of statewide donations allowed for that fiscal year must be transferred to OPI to the Innovative Educational Program state special revenue account.
15. Section 1 of HB 408 establishes the Innovative Educational Program state special revenue account to be administered by the Superintendent of Public Instruction and statutorily appropriates revenue in the account. The account revenues come from excess donations transferred from school districts where tax credit donations exceeded limits set within this legislation plus interest and earnings from the account.
16. OPI is to distribute the funds received in the innovative educational program account to school districts for advanced opportunity aid under 20-7-1506(4), MCA, and deposited in school districts’ flexibility fund to be used to pay pupil costs as provided in 20-7-1506(5)(a).
17. The funds must be distributed at the same time as the advanced opportunity aid distributions by October 1 each year.
18. Based on FY 2023 budget data released by the OPI, limitations on public tax credit donations received are displayed in the table below and are based on the 396 operating public school districts in Montana:

	Count of Districts
15% of Max under \$50,000	76
15% of Max > \$50,000 < \$1M (20% of \$5M)	282
15% of Max > \$1 million	38

19. These programs terminate December 31, 2029.
20. The OPI estimates the requirements of this bill can be absorbed into the agency workload without additional costs.
21. For purposes of this fiscal note, it is assumed that no excess donations would be made in the timeframe of this fiscal note. However, if there were excess donations to be distributed from the new state special revenue fund, they would be the first source of funding for the advanced opportunities program payments. (17-2-108(1), MCA, requires expenditure of non-general fund money before general fund whenever possible.)
22. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines.

	<u>YES</u>	<u>NO</u>
a. The money is from a continuing, reliable, and estimable source.		X
b. The use of the appropriation or the expenditure occurrence is predictable and reliable.		X
c. The authority exists elsewhere.		X
d. An alternative appropriation method is available, practical, or effective.		X
e. It appropriates state general fund money for purposes other than paying for emergency services.		X
f. The money is used for general purposes.		X
g. The legislature wishes to review expenditure and appropriation levels each biennium.	X	
h. An expenditure cap and sunset date are excluded.		X

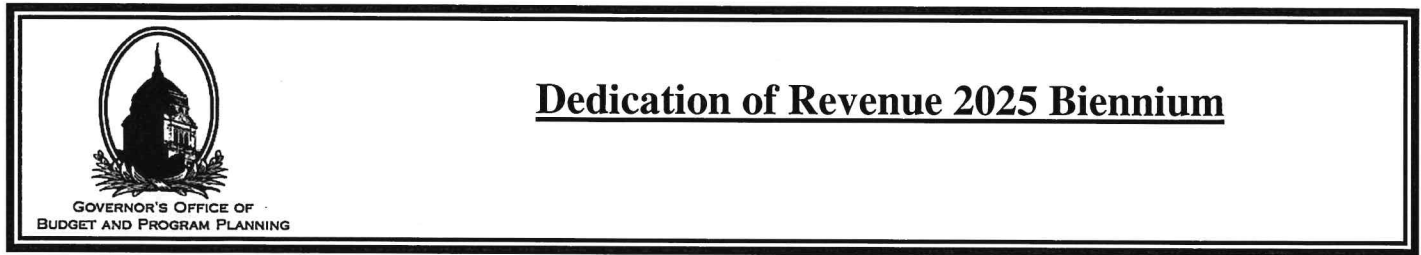
	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Personal Services	\$0	\$0	\$0	\$0
Operating Expenses	\$0	\$0	\$0	\$0
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	(\$5,200,000)	(\$6,240,000)	(\$5,088,000)
TOTAL Revenues	\$0	(\$5,200,000)	(\$6,240,000)	(\$5,088,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	(\$5,200,000)	(\$6,240,000)	(\$5,088,000)

Technical Notes:

Office of Public Instruction

- Section 15-30-3110, MCA, states “if a school district receives donations that exceed the amounts provided for in subsection (7)(a), the school district shall transfer the excess funds within 30 days to the superintendent of public instruction for deposit in the account provided for in [section 1]”. The requirement for “transfer” may not be appropriate as these are differing levels of governmental entities. The funds may need to be remitted.

 _____ Sponsor's Initials	_____ Date	 _____ Budget Director's Initials	 _____ Date
--	---------------	---	--



Dedication of Revenue 2025 Biennium

17-1-507, MCA.

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (Please explain)**
 The funds are from donations to school districts in excess of allowable limits. K-12 public school students are to benefit from these funds. Therefore, no, the donor is not the beneficiary.
- b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**
 The funds will be segregated for specific qualified expenditures not related to normal general fund expenditures.
- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**
 The funds are relevant, but since the amount is unknown – it is unknown if the will be adequate. The funds originate as a donation to a K-12 public school district then are sent to the Office of Public Instruction to be distributed to school districts to be used for advanced opportunities payments to students.
- d) **Does the need for this state special revenue provision still exist? Yes No (Explain)**
 Yes, this is a new source of funding needing to be independently identified in a state special revenue account for purposes specified in HB 408.
- e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**
 No, the dedicated revenue recoding will facilitate legislative oversight of a portion of the program.
- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**
 Yes, the funds will be used to pay a portion of the advanced opportunity aid in 20-7-1506, MCA.
- g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**
 The new fund would allow distinction of the fund for ease of tracking and reporting. If the funds were added to the general fund, they would not be as easily identified and tracked.