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Shawn Sullivan, Director of the Budget

Sam Brownback, Governor

March 14, 2017

CORRECTED

The Honorable Larry Campbell, Chairperson
House Committee on K-12 Education Budget
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Campbell:

SUBJECT: Corrected Fiscal Note for HB 2374 by House Committee on Taxation

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2374 is respectfully submitted to your committee.

HB 2374 would make changes and expand the current Tax Credit for Low Income Students Scholarship Program Act. The bill would remove the cap on educational scholarships that is currently set at $8,000 and would set the scholarship amount equal to the "at-risk aid" amount received by an eligible student's resident school district. "At-risk aid" would include the school finance formula weightings of at-risk and high-density at-risk, as well as the General State Aid Per pupil amount for the student's resident school district.

The bill would change the definition of an eligible student to one whose family household income does not exceed 130.0 percent of the federal poverty level if the student was enrolled in a school district the preceding year or whose household income that does not exceed 185.0 percent of the federal level if the student is eligible to be enrolled in a public school district in the succeeding year.

The bill would require 82.0 percent of educational scholarships awarded by a Scholarship Granting Organization (SGO) to be awarded to eligible students whose family household income do not exceed 130.0 percent of the federal poverty level if a student was enrolled in a school district the preceding year. Not more than 1.0 percent of scholarships could be awarded to students enrolled in a school district in the immediately preceding school year. On or before May 1 of each year, the SGO would be required to notify each school district of the number of scholarships it will award in the upcoming school year.

The bill would expand eligibility for individual tax payers to receive a tax credit of up to 90.0 percent of contributions to a SGO for tax years commencing after December 31, 2017. The eligibility for businesses receiving a tax credit of up to 70.0 percent of contributions against the liability for certain corporate income taxes would not be changed. For individuals, contributions to a SGO made between January 1 and April 15 each year must be claimed during that tax year. Contributions made between April 16 and December 31 each year must be claimed in the immediate next tax year. The bill would modify the Kansas Adjusted Gross Income for contributions made to prevent a taxpayer from "double counting" a charitable contribution. The maximum total amount of tax credits allowed under the program could not exceed $10.0 million in any one tax year, which is the same as current law.

According to the Department of Revenue, enactment of the bill would likely decrease revenues to the State General Fund by approximately $9.2 million each year, beginning in FY 2019, as the expanded tax credit can be claimed in tax years commencing after December 31, 2017. This reduction would occur as a result of expanding the tax credit availability to individual taxpayers. Since the original program was authorized by the 2014 Legislature, approximately $550,000 in tax credits have been claimed each year; the Department assumes the enactment of the bill would not change the amount of corporate tax credits claimed each year. Although the bill does not change the current maximum total tax credits of $10.0 million in any one tax year, the Department estimates that the program would become almost fully utilized with individual taxpayer participation.

Because the bill would expand the number of scholarships available, the Department of Education indicates that it would require an additional 0.50 FTE Public Service Administrator II position to process and certify students eligible for scholarships to SGOs. The additional position would require expenditures totaling $36,372 from the State General Fund, beginning in FY 2018. Of this amount, $30,355 is for salaries and wages and $6,017 is for other operating expenditures, including office equipment and rent. The original fiscal note estimate from the Department of Education inadvertently reported the cost of a full-time Public Service Administrator II position instead of the cost of a half-time position.

The Division of the Budget notes that the fiscal effect of reduced revenues to the State General Fund from the expanded tax credits for individuals could partially or totally be offset by an eventual reduction of state aid payments to school districts. Any reduction would depend on the number of students that switch attendance from public schools to private schools because of the scholarship awards, as well as how a future school finance formula would allow school districts to reflect a reduction of FTE students when calculating its state aid entitlement. However, this fiscal effect cannot be estimated, as the number of additional students that would participate under the expanded program is not known. Also, a statutory school finance formula is currently absent after June 30, 2017 from which state aid payments to school districts can be estimated. Any fiscal effect associated with HB 2374 is not reflected in *The FY 2018 Governor's Budget Report*.

Sincerely,

Shawn Sullivan,
Director of the Budget

cc: Dale Dennis, Education
Lynn Robinson, Department of Revenue