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Steven J. Anderson, CPA, MBA, Director

Sam Brownback, Governor

March 22, 2012

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2753 by House Committee on Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2753 is respectfully submitted to your committee.

HB 2753 would establish the Kansas Educational Opportunities Act. The bill would provide a refundable income tax credit equal to the amount of tuition or fees paid for a student to enroll in an eligible school up to $3,500. The bill defines an "eligible school" as any elementary or secondary school, or other institution located in this state and operated by an entity other than a unified school district. To qualify for the income tax credit, the taxpayer would be required to apply to the State Board of Education for a certification that the following requirements are met:

1. The taxpayer is a parent of an eligible student;

2. The eligible student scored less than 75.0 percent on the state reading assessments for grade three;

3. The eligible student had been enrolled in a public school in grade three;

4. The eligible student is enrolled in an eligible school in grade four and would be required to be enrolled in an eligible school for each consecutive year for the taxpayer to claim the tax credit for grades five through 12; and

5. A certification by a responsible official that that the statements and information in the application are true, accurate, and complete.

The State Board of Education would be required to develop the application form, review the eligibility of applications, and issue a certificate of compliance to the Director of Taxation for any application that is approved. The State Board of Education and the Department of Revenue would each have the authority to writes rules and regulations to implement the bill.

According to the Kansas Department of Revenue, enactment of HB 2753 would reduce revenues to the State General Fund as a result of the tax credits. However, the agency does not have information available to estimate the amount and number of tax credits that would be claimed from this program. Generally, tax credits claimed in tax year 2012 would be paid in FY 2013. For illustrative purposes, if 5,000 taxpayers each claim the maximum $3,500 tax credit in tax year 2012, the reduction to State General Fund revenues in FY 2013 would be $17.5 million (5,000 taxpayers X $3,500).

The Department of Education also provided estimates on the amount of participation in this new tax credit program. The Department of Education estimates are based on approximately 1,073 students participating in this new program which would be approximately 10.0 percent of the 10,727 students that scored less than 75.0 percent on the state reading assessments for grade three. Using the assumptions of the Department of Education, the reduction to the State General Fund revenues in FY 2013 would be $3,755,500 (1,073 taxpayers X $3,500).

The Department of Revenue indicates the bill would require $74,900 from the State General Fund in FY 2013 for administrative costs to implement the new income tax credit program and to modify the automated tax system. The required programming for this bill by itself (1,220 hours of in-house programming and 1,320 hours of implementation) would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Department of Education estimates that it would require a part-time position to process and prepare applications for review at a cost of $10,000, all from the State General Fund. The Department did not estimate the number of students who would no longer be attending public school as a result of this bill.

The Division of the Budget estimates that for every public school student who enrolls in a private school, the state will eventually have a reduction in required State General Fund base state aid per pupil of approximately $3,800 to that school district assuming no additional weightings. The savings would not occur for several years with the declining enrollment provision in the school finance formula. For illustrative purposes the following chart is provided:

Amount of tax credits issued using the Dept. of Revenue example	$17,500,000
Number of new students enrolling in private schools	5,000
State General Fund savings per year before tax credits/expenses	$19,000,000

In addition, it should be noted that the public school district from which the student transferred will retain all local funds that would have been spent on that student still available for the local public school resulting in an increase in available funds per student at the local district level.

Combined with the Department of Revenue and the Department of Education estimates of expenditures, the Division of the Budget calculates the state will eventually anticipate a net gain of approximately $1,415,100 from the State General Fund based on the assumptions in the illustration. Any fiscal effect resulting from enactment of HB 2753 is not accounted for in *The FY 2013 Governor's Budget Report*.

Sincerely,

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Dale Dennis, Education