

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

FISCAL NOTE, 2015 LEGISLATIVE SESSION

FISCAL NOTE 2015-SB189A (SENATE ENGROSSED VERSION)

SB 189 is an act to provide a tax credit to insurance companies that contribute to an organization providing educational scholarships to certain students and instructional supply grants to certain teachers and parents.

Overview of the Partners in Education Tax Credit Program

SB189 contains three major components that make up the Partners in Education Tax Credit Program. The first component provides for tuition assistance scholarships to assist low-income K-12 students at qualifying nonpublic schools. The second component provides funding for instructional supply grants to be awarded to qualified teachers and home school families. The final component of the bill allows for a new tax credit for insurance companies that would provide the funding mechanism for components one and two above.

The scholarship program component would provide scholarships to students in families whose total annual income in the previous year was lower than 150% of the poverty level to defray the costs of tuition and fees. The qualified student is required to attend a South Dakota nonpublic school that is accredited by the Department of Education.

The education supply grant component provides funding for South Dakota certified teachers who are in an instructional position in an accredited K-12 school, or any home school family, for the purposes of defraying the cost of instructional materials and supplies. The supply grants cannot exceed \$250 in any school fiscal year.

Finally, SB189 creates the tax credit program used to fund the scholarships and supply grants. Any company that pays the insurance company premium and annuity tax can claim credit for contributions made for the purposes of this program.

A nonprofit organization would provide the administrative services required to process the scholarships and supply grants. A maximum fee of ten percent can be used for the administrative expenses.

Estimating the Fiscal Impact of the Partners in Education Tax Credit Program

The purpose of this fiscal note is to measure the impact of the tax credit program on the General Fund and local property taxes. The tables on the following pages estimate the costs associated with the scholarship and supply grant programs, as well as the savings generated by students attending a nonpublic school rather than a publicly funded school.

The overarching assumption made in this analysis is that enough insurance companies will elect to participate in this program, and will provide the maximum amount allowed.

Estimating the fiscal impact of the scholarship portion of the program is complicated. The first estimation that must be made is the number of students who will take advantage of this program. We have identified three groups of students who could be scholarship recipients as follows:

1. Students who would ordinarily attend kindergarten, first grade, or ninth grade in a nonpublic school, with or without this bill, and who meet the income guidelines (see Line 5);
2. Students who would ordinarily transfer from a public school to a nonpublic school, regardless of the student's grade; with or without this bill, and who meet the income guidelines (see Line 9); and
3. Additional students who are incentivized to attend a nonpublic school for the first time, who would not otherwise be able to do so, but for the low income scholarship available with this bill (see Line 12).

Cohorts 1 and 2 above will not generate savings because, regardless of the new program, these students would have enrolled in a nonpublic school anyway. Cohort 3 will generate savings because these students would otherwise be in public schools. For fiscal years in which the number of qualifying students exceeds the number of available scholarships, Lines 6, 10, and 13 provide a proportional allocation among the three cohorts.

As outlined in the bill, the General Fund savings would be equal to the state's portion of the per student allocation (PSA), which is 53.8% while the local property tax savings is 46.2%, for students from the third cohort. In FY16, the savings per student would be approximately \$2,623 (state) and \$2,253 (local). By multiplying the savings by the estimated number of students in the third cohort, the estimated savings for state and local can be seen on Lines 16 and 18 of the attached tables. Because the scholarship is funded with tax credits, however, the net fiscal impact to the General Fund is negative (Line 17). However, because the scholarship portion also results in savings for local property taxes, the overall impact of the scholarship on tax funds in general is positive (Line 19).

The fiscal impact of the instructional supply grant portion of this bill is relatively easy to calculate. The total funding available for the instructional supply grant portion is set forth in Section 4.(3) of the bill at fifty percent of the total credits received after making an allowance for administrative fees. LRC estimates the number of teachers and home school families eligible for supply grants to be approximately 11,205, and further assumes that all of the instructional supply grant funds will be awarded each year. No savings are generated for the state, or for local property taxes, from this component of the bill, and the negative fiscal impact to the General Fund can be seen on Line 26.

The net impact of all portions of the bill are negative for both the General Fund (Line 27) and tax funds as a whole (Line 28). Three fiscal years of analysis (FY17-FY19) are shown due to the fact that it is estimated that it will take three years to achieve full implementation of the bill's provisions.

The table below details the analysis the Legislative Research Council used to determine a fiscal impact for FY17, as compared to the status quo for that fiscal year.

SB 189 Fiscal Note		
Estimated FY17 (Cost)/Savings of Private School Scholarship Half of SB 189		
1.	Estimated Average Scholarship Amount (50% of \$3,783 avg K-12 tuition)	\$1,892
2.	Estimated Amount Available for Scholarships in FY17, less Administrative Costs	\$1,800,000
3.	Estimated Number of Scholarships Available in FY17 (line 2 divided by line 1)	951
4.	Kindergarten, 1st & 9th Grade Students Attending Private School, Regardless of SB 189	2,188
5.	Estimated Number Below 150% of Federal Poverty (20%)* Minus "Switchers"	365
6.	Line 5 as a Percent of Lines 5, 9 & 12	24.71%
7.	Estimated Number of Students in This Category Receiving Scholarships	235
8.	Average Annual Number of Public School Students Switching to Private School	310
9.	Estimated Number Below 150% of Federal Poverty (35%)*	108
10.	Line 9 as a Percent of Lines 5, 9 & 12	7.34%
11.	Estimated Number of Students in This Category Receiving Scholarships	70
12.	Estimated Additional Private School Enrollment Due to SB 189	1,003
13.	Line 12 as a Percent of Lines 5, 9 & 12	67.95%
14.	Estimated Number of Students in This Category Receiving Scholarships	646
15.	Estimated Cost of Scholarship Half of SB 189	(\$2,000,000)
16.	Est. State Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 53.8%)	\$1,696,289
17.	Estimated Net (Cost)/Savings to State of Scholarship Half of SB 189	(\$303,711)
18.	Est. Property Tax Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 46.2%)	\$1,456,665
19.	Estimated Net (Cost)/Savings to State <u>and</u> Property Taxes of Scholarship Half of SB 189	\$1,152,954
Estimated FY17 (Cost)/Savings of Instructional Supply Grants Half of SB 189		
20.	Estimated Number of Home Schooled Students	4,149
21.	Estimated Number of School Age Children per Home School Family	2
22.	Estimated Number of Home School Parents Eligible for Grant	2,075
23.	Estimated Number SD Certified Teachers Eligible for Grant	9,130
24.	Total Number Eligible for Grant (line 22 plus line 23)	11,205
25.	(Cost) at \$250 per Grant, Plus Administrative Costs	(\$3,112,361)
26.	Actual Cost at Lesser of Line 25 or Line 15	(\$2,000,000)
27.	Total Estimated FY17 (Cost)/Savings to State of SB 189	(\$2,303,711)
28.	Total Estimated FY17 (Cost)/Savings to State <u>and</u> Property Taxes of SB 189	(\$847,046)

** National estimates show 20% of current private school students are from households that are at or below 150% of the federal poverty rate. For public school students, the comparable figure is 35%.*

The table below details the analysis the Legislative Research Council used to determine a fiscal impact for FY18, as compared to the status quo for that fiscal year.

SB 189 Fiscal Note		
Estimated FY18 (Cost)/Savings of Private School Scholarship Half of SB 189		
1.	Estimated Average Scholarship Amount (50% of \$3,783 avg K-12 tuition)	\$1,892
2.	Estimated Amount Available for Scholarships in FY18, less Administrative Costs	\$2,250,000
3.	Estimated Number of Scholarships Available in FY18 (line 2 divided by line 1)	1,190
4.	Kindergarten, 1st & 9th Grade Students Attending Private School, Regardless of SB 189	2,188
5.	Estimated Number Below 150% of Federal Poverty (20%)* Minus "Switchers"	365
6.	Line 5 as a Percent of Lines 5, 9 & 12	24.71%
7.	Estimated Number of Students in This Category Receiving Scholarships	294
8.	Average Annual Number of Public School Students Switching to Private School	310
9.	Estimated Number Below 150% of Federal Poverty (35%)*	108
10.	Line 9 as a Percent of Lines 5, 9 & 12	7.34%
11.	Estimated Number of Students in This Category Receiving Scholarships	87
12.	Estimated Additional Private School Enrollment Due to SB 189	1,003
13.	Line 12 as a Percent of Lines 5, 9 & 12	67.95%
14.	Estimated Number of Students in This Category Receiving Scholarships	808
15.	Estimated Cost of Scholarship Half of SB 189	(\$2,500,000)
16.	Est. State Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 53.8%)	\$2,120,922
17.	Estimated Net (Cost)/Savings to State of Scholarship Half of SB 189	(\$379,078)
18.	Est. Property Tax Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 46.2%)	\$1,821,312
19.	Estimated Net (Cost)/Savings to State <u>and</u> Property Taxes of Scholarship Half of SB 189	\$1,442,235
Estimated FY18 (Cost)/Savings of Instructional Supply Grants Half of SB 189		
20.	Estimated Number of Home Schooled Students	4,149
21.	Estimated Number of School Age Children per Home School Family	2
22.	Estimated Number of Home School Parents Eligible for Grant	2,075
23.	Estimated Number SD Certified Teachers Eligible for Grant	9,130
24.	Total Number Eligible for Grant (line 22 plus line 23)	11,205
25.	(Cost) at \$250 per Grant, Plus Administrative Costs	(\$3,112,361)
26.	Actual Cost at Lesser of Line 25 or Line 15	(\$2,500,000)
27.	Total Estimated FY18 (Cost)/Savings to State of SB 189	(\$2,879,078)
28.	Total Estimated FY18 (Cost)/Savings to State <u>and</u> Property Taxes of SB 189	(\$1,057,765)

* National estimates show 20% of current private school students are from households that are at or below 150% of the federal poverty rate. For public school students, the comparable figure is 35%.

The table below details the analysis the Legislative Research Council used to determine a fiscal impact for FY19, as compared to the status quo for that fiscal year.

SB 189 Fiscal Note		
Estimated FY19 (Cost)/Savings of Private School Scholarship Half of SB 189		
1.	Estimated Average Scholarship Amount (50% of \$3,783 avg K-12 tuition)	\$1,892
2.	Estimated Amount Available for Scholarships in FY19, less Administrative Costs	\$2,812,500
3.	Estimated Number of Scholarships Available in FY19 (line 2 divided by line 1)	1,487
4.	Kindergarten, 1st & 9th Grade Students Attending Private School, Regardless of SB 189	2,188
5.	Estimated Number Below 150% of Federal Poverty (20%)* Minus "Switchers"	365
6.	Line 5 as a Percent of Lines 5, 9 & 12	24.71%
7.	Estimated Number of Students in This Category Receiving Scholarships	367
8.	Average Annual Number of Public School Students Switching to Private School	310
9.	Estimated Number Below 150% of Federal Poverty (35%)*	108
10.	Line 9 as a Percent of Lines 5, 9 & 12	7.34%
11.	Estimated Number of Students in This Category Receiving Scholarships	109
12.	Estimated Additional Private School Enrollment Due to SB 189	1,003
13.	Line 12 as a Percent of Lines 5, 9 & 12	67.95%
14.	Estimated Number of Students in This Category Receiving Scholarships	1,003
15.	Estimated Cost of Scholarship Half of SB 189	(\$3,102,067)
16.	Est. State Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 53.8%)	\$2,631,697
17.	Estimated Net (Cost)/Savings to State of Scholarship Half of SB 189	(\$470,370)
18.	Est. Property Tax Savings from Private School Enrollment Increase (line 14 x \$4,877 PSA x 46.2%)	\$2,259,934
19.	Estimated Net (Cost)/Savings to State <u>and</u> Property Taxes of Scholarship Half of SB 189	\$1,789,564
Estimated FY19 (Cost)/Savings of Instructional Supply Grants Half of SB 189		
20.	Estimated Number of Home Schooled Students	4,149
21.	Estimated Number of School Age Children per Home School Family	2
22.	Estimated Number of Home School Parents Eligible for Grant	2,075
23.	Estimated Number SD Certified Teachers Eligible for Grant	9,130
24.	Total Number Eligible for Grant (line 22 plus line 23)	11,205
25.	(Cost) at \$250 per Grant, Plus Administrative Costs	(\$3,112,361)
26.	Actual Cost at Lesser of Line 25 or Line 15	(\$3,102,067)
27.	Total Estimated FY19 (Cost)/Savings to State of SB 189	(\$3,572,438)
28.	Total Estimated FY19 (Cost)/Savings to State <u>and</u> Property Taxes of SB 189	(\$1,312,504)

* National estimates show 20% of current private school students are from households that are at or below 150% of the federal poverty rate. For public school students, the comparable figure is 35%.

APPROVED BY: /s/ Jason Hancock, Director

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