

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

FISCAL NOTE, 2016 LEGISLATIVE SESSION

FISCAL NOTE 2016-SB159B (SENATE EDUCATION ENGROSSED VERSION)

SB 159 provide a tax credit to insurance companies that contribute to an organization providing educational scholarships to certain students.

Overview of the Partners in Education Tax Credit Program

SB159 contains two major components. First, the bill provides educational scholarships to low-income K-12 students at qualifying nonpublic schools in South Dakota. The second component creates a tax credit for insurance companies, which provides the funding mechanism for the scholarships.

The scholarship component would provide scholarships to defray the costs of tuition and fees for students in families with a total annual income in the previous year lower than 150% of the income standard used to qualify for a free or reduced-price lunch. In addition to meeting the income requirement, a student must be entering a nonpublic school for the first time, or entering kindergarten, first grade or ninth grade. The qualified student is required to attend a South Dakota nonpublic school that is accredited by the Department of Education.

The second component creates a tax credit, which is used to fund the scholarships. Any company that pays the insurance company premium and annuity tax may claim credit for up to eighty percent of the total contributions made to a scholarship granting organization in a year. A scholarship granting organization is a nonprofit organization that complies with the program requirements outlined SB159 and awards scholarships to qualifying students. The maximum amount of tax credits that may be claimed in Fiscal Year (FY) 2017 is \$2,000,000.

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 on the General Fund and local property taxes. Table 1 estimates the costs associated with the tax credit, as well as the savings generated by diverting students from public schools to nonpublic schools.

The overarching assumption in this analysis is that enough insurance companies will elect to participate in this program and will make enough contributions to provide the maximum amount allowed for scholarships.

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

1. Students who would ordinarily attend kindergarten, first grade, or ninth grade in a nonpublic school, regardless of this scholarship program, and who meet the income guidelines (line 9);
2. Students who would ordinarily transfer from a public school to a nonpublic school, regardless of the student's grade, with or without this scholarship program, and who meet the income guidelines (line 13);
3. Additional students who are incentivized to attend a nonpublic school for the first time, who would not be able to do so, but for this scholarship program (line 16).

Cohorts one and two above will not generate savings because these students would have enrolled in a nonpublic school regardless of the scholarship program. Cohort 3 will generate savings because these students would otherwise be enrolled in public schools. Amendment 159gd reduces the average amount of all scholarships awarded from 90% to 82.5% of the state's share of the per student allocation (PSA). Reducing the average scholarship amount, increases the total number of scholarships awarded, which in turn, increases the number of students receiving a scholarship in the third cohort.

The General Fund savings would be equal to the state's portion of PSA, which is 53.8%, while local property tax savings is 46.2%, for students in the third cohort. In FY 2017, the savings per student would be approximately \$2,632 to the state and \$2,260 in local property taxes for each student. These estimates are based on the Governor's recommended FY 2017 PSA of \$4,891.39. By multiplying the savings per student by the estimated number of students receiving scholarships in the third cohort, the estimated savings for the state and to local property taxes can be seen on lines 20 and 22 of Table 1. Because the scholarship is funded with tax credits at a cost to the General Fund of \$2,000,000, the net fiscal impact to the General Fund is a savings of \$2,603 (line 21). Since the scholarship program also results in local property tax savings, the overall impact of the scholarship program to the General Fund and local property taxes is a savings of \$1,722,311 (line 23).

In performing this analysis, the Legislative Research Council utilized data from the Governor's Budget Report for FY 2017, the South Dakota Christian Schools Association, the South Dakota Department of Education, and the United States Census American Community Survey.

Table 1 details the analysis the Legislative Research Council used to determine the fiscal impact of SB159 with amendment 159gd for FY 2017, as compared to the status quo for the same fiscal year.

| Table 1: SB 159 with Amendment 159gd Fiscal Note | | |
|--|--|--------------------|
| 1. | Maximum tax credit amount available | \$2,000,000 |
| 2. | Tax Credit Value | 80% of Donation |
| 3. | Total amount for scholarship program | \$2,500,000 |
| 4. | Administrative costs (10%) | \$250,000 |
| 5. | Total amount for scholarships | \$2,250,000 |
| 6. | Average amount of all scholarships awarded | \$2,171 |
| 7. | Number of scholarships | 1,036 |
| 8. | Kindergarten, 1st & 9th Grade Students Attending Private School, Regardless of SB 159 | 2,139 |
| 9. | Estimated Number Below 150% of Federal Poverty (20%)* Minus "Switchers" | 357 |
| 10. | Line 9 as a Percent of Lines 9, 13 & 16 | 22.62% |
| 11. | Estimated Number of Students in This Category Receiving Scholarships | 234 |
| 12. | Avg. Annual Number of Public School Students Switching to Private School, Regardless of SB 159 | 312 |
| 13. | Estimated Number Below 150% of Federal Poverty (20%)* | 62 |
| 14. | Line 13 as a Percent of Lines 9, 13 & 16 | 3.95% |
| 15. | Estimated Number of Students in This Category Receiving Scholarships | 41 |
| 16. | Estimated Additional Private School Enrollment Due to SB 159 | 1,159 |
| 17. | Line 16 as a Percent of Lines 9, 13 & 16 | 73.43% |
| 18. | Estimated Number of Students in This Category Receiving Scholarships | 761 |
| 19. | Cost of Scholarship Program | (\$2,000,000) |
| 20. | Est. State Savings from Private School Enrollment Increase (line 18 x \$4,891 PSA x 53.8%) | \$2,002,603 |
| 21. | Estimated FY17 Net (Cost)/Savings to State of Scholarship Half of SB 159 | \$2,603 |
| 22. | Est. FY17 Property Tax Savings from Private School Enrollment Increase (line 18 x \$4,891 PSA x 46.2%) | \$1,719,708 |
| 23. Estimated Net FY17 (Cost)/Savings to State and Property Taxes | | \$1,722,311 |

APPROVED BY: /s/ Jason Hancock DATE: 2/10/16