

South Carolina Board of Economic Advisors

Statement of Estimated Revenue Impact

Date: April 28, 2009

Bill Number: S.520

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Committee Requesting Impact: Senate Education

Bill Summary

A bill to amend the code of laws of South Carolina, 1976, so as to enact the "South Carolina Educational Opportunity Act" by adding Article 6 to Chapter 63, Title 59 so as to provide that a student is eligible to receive a scholarship or tuition grant and a person who pays tuition for that student is eligible for a tax credit for the payment of that tuition upon certain conditions; to allow a tax credit for a person who paid tuition for a qualifying student to attend an independent or public school upon certain conditions during the first three fiscal years after the enactment of this act, to allow a tax credit for a person who paid tuition for any student who is enrolled in grades two through four in an independent or public school for the fourth year after the enactment of this act, and to allow a tax credit for a person who paid tuition for any student enrolled in any grade in an independent or public school for every fiscal year thereafter; to provide terms and conditions of the tax credit, to provide that the tax credit may be carried forward and applied prospectively for up to five years; to allow a tax credit of up to one thousand dollars per student for a person who teaches his student at home; to allow a tax credit for a person or corporation for a contribution made to a student scholarship organization upon certain terms and conditions; to provide requirements that an independent school must meet in order to accept students pursuant to this Article; to require participating schools to administer certain assessment tests; to require a failing school to notify parents and guardians of students enrolled in the school of its failing status; to allow the department of revenue to promulgate regulations and make investigations in accordance with this Article; to require the state budget and control board annually to report on the fiscal impact of this Article, and to specify what must be included in the report; to require the state budget and control board to undertake a long-term evaluation of the impact of the Article, and to specify what must be included in the evaluation, and to define certain terms; and by adding Section 12-6-3383 so as to create the tax credit and reference its terms and conditions.

REVENUE IMPACT ^{1/}

This bill is expected to reduce General Fund income tax revenue by \$56,458,136 in FY 2009-10. By FY 2013-14 when fully implemented this bill is expected to reduce General Fund income tax revenue by \$174,408,302. State appropriations may potentially be reduced by \$35,583,754 in the first year and by \$42,481,302 in FY 2013-14. We estimate the net impact on local school districts calculated by subtracting the reduced State appropriations from the estimated expenditures reduction due to the transferring students at a potential savings of \$4,200,186 in FY2009-10 and \$4,004,733 in FY 2013-14. Once the bill is fully implemented in FY 2013-14, the net revenue reduction across the state and local school districts is an estimated \$127,922,103.

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Explanation

This legislation would create tuition tax credits for special needs students, students zoned to attend a failing school, and independent and home school students. In the first year, all special needs public school students in grades K – 12 are eligible for the credit calculated as the lesser of 100% of the State's per pupil total allocation to the school district, \$4,153, or their family's income tax liability. Public school children zoned for failing schools in grades K–12 are eligible for 75% of the maximum credit, or \$3,115, and other public school students are eligible for 50% of the maximum, or \$2,077 upon transferring to an independent or another public school. Kindergarten children in independent schools will be eligible for the same \$2,077 credit in FY 2009-10. Special needs kindergarten children in independent schools will be eligible for the higher \$4,153 credit. Eligibility for independent school children in the remaining grades will be phased-in over the next 4 years as mandated by the legislation. Parents of home schooled students are eligible for a tax credit of up to \$1,000 per home school student for instruction related supplies beginning in the first year. Under a general provision of the state income tax code, all of these tuition credits will not be refundable, which means that they will be limited to the amount of a taxpayer's income tax liability. This legislation would also create scholarship tax credits for contributions to student scholarship organizations beginning in FY 2009-10. Students are eligible for these scholarships if the student transfers to an independent or other public school and is in a family with household income below 200% of the federal poverty level, or is physically or mentally handicapped.

State Revenue Impact: In the first year, FY 2009-10, we estimate that of the expected 691,816 public school children, 93,395 will be special needs students based on the EFA handicapped classifications excluding homebound students. All of these children in grades K–12 are eligible for tuition tax credits in the first year of the Act, and we anticipate that parents of 2,493 of these children will transfer to an independent or other public school and claim the credit. For these students, the average tuition tax credit will be \$3,915, slightly below the \$4,153 maximum credit due to a lack of state income tax liability. The state revenue reduction from these students is expected to total \$9,758,878 in FY 2009-10. We expect that of the 208,338 children zoned to attend failing schools, parents of 5,560 will claim the credit of 75% State per pupil total allocation, or \$3,115. These credits total \$16,982,357 in FY 2009-10. We expect an additional 5,809 other public school students to transfer to independent or another public school and claim the credit calculated at 50% of the State per pupil total allocation, or \$2,077. The tuition credits for these students total \$12,063,265 in FY 2009-10. Kindergarten children attending independent schools will be eligible for the \$2,077 tuition credit. We estimate that parents of 4,161 kindergarten students in independent schools will claim \$6,754,795 in tuition credits. Special needs kindergarten students in independent schools will claim \$7,229,653 in tuition credits at 100% of the State's per pupil total allocation to the school district, or \$4,153, or their family's income tax liability, whichever is less. We estimate the total number of home school children will total 17,300 in FY 2009-10. Of these, 1,374 will be at the kindergarten level. We anticipate that parents of these students will claim the tuition credit at the lesser of the \$1,000 credit or their income tax

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liability amounting to \$723,982 in FY 2009-10. Overall, in the first year of implementation we expect that parents of 19,571 public, independent and home school students will claim tuition tax credits reducing General Fund income tax revenue by \$46,758,136 in FY 2009-10. We expect donations by individuals and corporations to student scholarship organizations, based on actual experiences in Florida and Pennsylvania, to total \$9,700,000 in FY 2009-10. The total revenue reduction to General Fund income tax revenue is expected to be \$56,458,136 in FY 2009-10. By FY 2013-14, when all the independent and home school students in K-12 are phased-in, we expect that 89,518 students, 14,151 from public school, 54,972 from independent schools, and 20,395 from home schools will claim \$162,707,302 in tuition tax credits. Contributions to student scholarship organizations are expected to create credits of \$11,700,835, for a total reduction in General Fund income tax revenue of \$174,408,138. A summary of the State revenue impact for the five year phase-in period and annual details by type of students are attached.

State Appropriation Impact: The maximum cost savings the state could expect in FY 2009-10 would be the full amount of state appropriations of \$4,513 in average state per pupil allocations for K-12 school operations. The definition of average state per pupil allocation in the bill includes all direct and indirect expenditures by the state for public education. If the state were to reduce appropriations by this per pupil amount for each student that transfers, the reduction would total \$57,568,886. Not all state appropriations, however, are directly tied to the number of students. For example, school district property tax reimbursements from the Property Tax Relief Trust Fund are included in the \$4,513 estimate. These appropriations are allocated to school districts, but are mandated by law for property tax relief. These reimbursements would not be affected by a reduction in the number of public school students. Education Improvement Act funds from the 1% sales and use tax and lottery appropriations are also included in state allocations. We estimate that expenditures directly related to the number of students, such as EFA funding and school district employer contributions account for 61.8% of all state expenditure for K-12 school operating expenditures. We estimate these expenditures that are mainly a function of the number of pupils to amount to \$2,567 per pupil in FY 2009-10. Multiplying this amount times the number of students moving to independent schools provides estimates of the reduction in state appropriations if the state chose to implement these per pupil reductions. For the first fiscal year, the state could reduce appropriations to public education by \$35,583,754 to help offset the financial exposure to the loss of General Fund revenue from the tax credits. By FY 2013-14 when the legislation is fully implemented, the state could reduce appropriations to public education by \$42,481,302 to help offset the financial exposure to the loss of General Fund revenue from the tax credits.

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Potential State Appropriation Reduction

Fiscal Years	Students Moving to Independent Schools from Public Schools	61.8% of Avg. State Appropriations for K-12 Operations	Potential State Appropriation Reduction
FY 2009-10	13,862	\$2,567	\$35,583,754
FY 2010-11	13,934	\$2,669	\$37,189,846
FY 2011-12	14,006	\$2,776	\$38,880,656
FY 2012-13	14,078	\$2,887	\$40,643,186
FY 2013-14	14,151	\$3,002	\$42,481,302

Local School District Revenue Reduction: The state appropriation reductions above, if the state chose to implement these per pupil reductions, are the corresponding revenue reductions to the school districts.

Local School District Expenditure Reduction: We expect local school district expenditure savings based on the anticipated reduction in the number of teachers and a small amount of the remaining variable costs. Other expenditures for counseling, libraries, building upkeep, and leadership positions would generally not be reduced for the anticipated marginal reduction in the number of students. Once the Act is fully implemented in FY 2013-14, we estimate that a total of 14,151 students would move from public schools to independent. This expected reduction amounts to less than 2% of the expected 705,756 public school students in FY 2013-14. Given the estimated reduction in public school students, we estimate the reduction in spending that would occur provided that the students per teacher ratio would be maintained. The estimate anticipates that the school districts will not reduce the number of students per teacher below the current estimated ratio of 21 to 1. We expect that maintaining the same teacher – pupil ratio will necessitate restructurings of classes and courses. In addition to the teacher reductions, we expect that the school districts would be able to reduce expenditures on the remaining costs by 5%.

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Local School District Expenditure Savings and Net Impact on School Districts

Fiscal Year	Students Moving to Independent Schools from Public Schools	Estimated Reduction in the Number of Teachers - 21 to 1 Student to Teacher Ratio	Estimated SC Average Teacher Salary	Estimated Per Pupil Local Expenditure Reduction (Teacher Salaries plus 5% of total local expenditures)	Estimated Total Local Expenditure Reduction (Teacher Salaries plus 5% of total local expenditures)	Estimated Potential State Appropriation Reductions	Net Impact Expenditure Reductions less Reduced State Appropriations
FY 09-10	13,862	660	\$48,472	\$2,870	\$39,783,940	\$35,583,754	\$4,200,186
FY 10-11	13,934	664	\$49,926	\$2,973	\$41,425,782	\$37,189,846	\$4,235,936
FY 11-12	14,006	667	\$51,424	\$3,065	\$42,928,390	\$38,880,656	\$4,047,734
FY 12-13	14,078	670	\$52,967	\$3,172	\$44,655,416	\$40,643,186	\$4,012,230
FY 13-14	14,151	674	\$54,556	\$3,285	\$46,486,035	\$42,481,302	\$4,004,733

The net impact on local school districts is calculated by subtracting the reduced State appropriations from the estimated expenditures reduction due to the transferring students. We estimate that local school districts would have a net increase of \$4,004,733 in FY 2013-14 once the bill is fully implemented. This analysis of local school district expenditure savings is based on average teacher salaries and per pupil expenditures. Average expenditures on teachers and other per pupil expenditures were used to reflect results that might be achieved with reorganization and other cost savings actions.

Fiscal Impact Summary Across State and Local School Districts: A summary of the estimated revenue reduction from the tuition and scholarship tax credits and the estimated expenditure savings for all levels of government is provided in the table below. This summary totals the state General Fund income tax revenue reduction from the tax credits, the potential reduced State appropriations, and net local estimated expenditure reductions.

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Summary Across State and Local School Districts

Fiscal Year	Tuition and Scholarship Tax Credits - Reduction to State General Fund	Estimated Potential State Appropriation Reduction	Estimated Potential Local Expenditure Reductions Net of State	Net Revenue Loss Combined Across All Levels of Government
FY 2009-10	(56,458,136)	\$35,583,754	\$4,200,186	(\$16,674,196)
FY 2010-11	(66,985,181)	\$37,189,846	\$4,235,936	(\$25,559,399)
FY 2011-12	(78,086,015)	\$38,880,656	\$4,047,734	(\$35,157,625)
FY 2012-13	(97,849,766)	\$40,643,186	\$4,012,230	(\$53,194,350)
FY 2013-14	(174,408,138)	\$42,481,302	\$4,004,733	(\$127,922,103)

As seen in the table above, the cost of the state tax credits is not offset by the estimated potential expenditure savings at the state and local school district levels. Once the bill is fully implemented in FY 2013-14, the net loss across all levels of state and local school districts total \$127,922,103.

/s/ WILLIAM C. GILLESPIE

William C. Gillespie, Ph.D.
Chief Economist

Analysts: Shuford, Jolliff, and Dinger

^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact, or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.