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March 28, 2018

The Honorable Fred Patton, Chairperson
House Committee on K-12 Education Budget
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Patton:

SUBJECT: Fiscal Note for HB 2635 by House Committee on K-12 Education Budget

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2635 is respectfully submitted to your committee.

HB 2635 would make changes to the Tax Credit for Low Income Students Program Act (TCLISPA). Under current law under the TCLISPA, a "public school" is defined as a school that would qualify as either a Title I focus school or a Title I priority school under the federal Elementary and Secondary Education Act. HB 2635 would change this definition to a school that is identified by the State Board of Education as one of the lowest 100 performing schools with respect to student achievement among all Kansas schools in the current school year.

Current law defines a "qualified school" as any nonpublic school that provides education to elementary or secondary students and that has notified the State Board of Education of its intention to participate in the TCLISPA. The bill would change the definition of a "qualified school" under the TCLISPA to mean: (1) a nonpublic school that does not offer any of the grades nine through 12 and is accredited by the State Board of Education; (2) a nonpublic school that offers any of the grades nine through 12 and has a postsecondary rate that exceeds the trendline among all school districts and accredited nonpublic schools as determined by the State Board of Education, or whose composite ACT score exceeds the statewide average for all school districts and accredited nonpublic schools; or (3) a nonpublic school that was a participating qualified school prior to July 1, 2018, or that has been a qualified school participating in the TCLISPA in any preceding school year.

The bill would require a scholarship granting organization under the TCLISPA to award at least 50.0 percent of all scholarships in a school year to students that are certified by the Department for Children and Families as a member of a family whose household income does not exceed 130.0 percent of the federal poverty level.

Under current law, individual income taxpayers are allowed a tax credit of an amount equal to 70.0 percent of the amount contributed to a scholarship granting organization. HB 2635 would sunset this provision as of January 1, 2018. However, the bill would reinstate the ability for certain financial institutions and insurance companies to claim a corporate income tax credit of 70.0 percent of amounts contributed to scholarship granting organizations, with a limit of $10.0 million in tax credits in any one tax year.

The bill would also amend the Kansas School Equity and Enhancement Act. Under current law, the Base Aid for Student Excellence (BASE) is $4,128 in school year 2018-2019, and $4,128 in school year 2019-2020 plus an amount equal to the average percentage increase in the CPI-U in the Midwest region, as published by the federal Bureau of Labor Statistics. HB 2635 would set the BASE at $4,425 in school year 2018-2019, $4,781 in school year 2019-2020, and $5,135 in school year 2020-2021. For school year 2021-2022, the BASE would be the amount in the immediate preceding school year plus an amount equal to the average percentage increase in the CPI-U for the Midwest region during the second preceding school year.

In addition to other technical changes to the school finance formula, the bill would: (1) consolidate certain enrollment weightings; (2) eliminate the protest petition for the Local Option Budget (LOB); (3) clarify the transportation weighting calculation to coincide with the Department's current practice; (4) eliminate the school-based at-risk weighting calculation; (5) prohibit schools from paying for utility expenses and certain insurance premiums from a district's capital outlay fund; and (6) eliminate the "bond cap" imposed on the State Board of Education for approving new capital improvement bond issues applications from school districts.

Estimated State Fiscal Effect				
	FY 2018 SGF	FY 2018 All Funds	FY 2019 SGF	FY 2019 All Funds
Revenue	--	--	$9,500,000	$9,500,000
Expenditure	--	--	$295,110,000	$295,110,000
FTE Pos.	--	--	--	--

According to the *Memorandum on Legislative Adjustments to Consensus Estimates* dated June 30, 2017, a revenue reduction of $9.0 million was made to the official State General Fund revenue estimates, beginning in FY 2018, as a result of the enactment of 2017 SB 19. Certain sections of this law expanded the TCLISPA to allow for individuals to claim an income tax deduction of 70.0 percent of amounts contributed to scholarship granting organizations, with a maximum individual credit of $500,000 and a program aggregate of $10.0 million in any one tax year. HB 2635 would remove the ability for individual tax payers to take this deduction and would limit tax credits to certain financial institutions and insurance companies to 70.0 percent of amounts contributed to scholarship granting organizations, with an aggregate of $10.0 million in any one tax year. As a result, the Department of Revenue estimates the enactment of HB 2635 would result in an increase of revenues to the State General Fund by $9.5 million, beginning in FY

2019, which represents a level of tax credits for financial institutions and insurance companies prior to the changes in 2017 SB 19.

The Department of Revenue estimates the enactment of HB 2635 would require additional administrative costs totaling $56,828, all from the State General Fund in FY 2019. Expenses would include changes to tax forms, Webfile and Efile systems, as well as information technology systems testing and development for the tax changes.

The Department of Education estimates the enactment of HB 2635 would require net additional state aid payments to school districts totaling $295.1 million in FY 2019, $245.6 million in FY 2020 and $244.3 million in FY 2021, all from the State General Fund. For FY 2019, of the $295.1 million in additional payments estimated, $285.1 million would be for increased State Foundation State Aid payments and $10.0 million would be for Supplemental General State Aid payments. Any fiscal effect associated with HB 2635 is not reflected in *The FY 2019 Governor's Budget Report*.

Sincerely,

L. Campbell

Larry L. Campbell
Chief Budget Officer

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