

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 08-0268
Prime Sponsor(s): Rep. Lundberg

Date: January 28, 2008
Bill Status: House Finance
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TITLE: CONCERNING PROPERTY TAX CREDITS TO SUPPORT EDUCATION IN THE STATE.

Fiscal Impact Summary	FY 2008-2009	FY 2009-2010
State Revenue	\$0	\$0
State Expenditures		
General Fund Appropriations to the following:		
Department of Treasury	\$6.6 Million	\$11.2 Million
Private School Education Tax Credit Cash Fund	\$3.3 Million	\$5.6 Million
School Tuition Organization Tax Credit Cash Fund	\$3.3 Million	\$5.6 Million
General Fund Reduction to School Finance	<u>(\$2.6 Million)</u>	<u>(\$5.0 Million)</u>
Net Expenditure Increase	\$10.7 Million	\$17.4 Million
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: August 6, 2008, assuming the General Assembly adjourns as scheduled and unless a referendum petition is filed. The credit for students previously enrolled in public school is effective beginning with tax year 2008. The other two credits are effective beginning with tax year 2010.		
Appropriation Summary for FY 2008-2009: Department of the Treasury: \$13.3 million GF and Department of Education: -\$2.6 million GF.		
Local Government Impact: County treasurers would experience administrative costs associated with processing claims and remitting information to the Department of the Treasury for reimbursement.		

This fiscal note assumes adoption of L.001, a technical amendment that conforms the language in the bill as introduced to the original intent of the sponsor.

Summary of Legislation

The bill creates three property tax credits related to private and home schooling and creates two new cash funds in the Department of the Treasury. County treasurers would be reimbursed by the State Treasurer with General Fund for revenue lost to all local governments as a result of the tax credits and would be responsible for reimbursing other local governments within their boundaries.

There is no cap on the total amount of money reimbursed by the State Treasurer to counties for the credit for children who had been enrolled in public school or younger than six in the prior year. However, the total amount reimbursed for this credit determines the cap on the other two credits. Of the amount for which the State Treasurer reimburses counties for the credit for children enrolled in public school or younger than six in the prior year, the bill requires one-half to be appropriated to the newly created **Private School Education Tax Credit Cash Fund** and one-half

to the newly created **School Tuition Organization Tax Credit Cash Fund**. Ultimately, twice as much as is required for the first credit is appropriated to the General Fund to reimburse county treasurers for local property tax revenue foregone by the three credits. The credits are described below.

Credit for children enrolled in public school or younger than six in the prior year. Beginning in tax year 2008, parents or guardians of home schooled or private school students who were either younger than six years old or were enrolled in a public school for a full school year in the prior year can claim a credit equal to their educational expenses. The credit is capped at \$1,000 for children who were not yet six, \$1,000 for children who were enrolled full-time in public school in the prior year, and \$500 for children enrolled half-time at a public school in the prior year. The Department of the Treasury would use General Fund to reimburse local governments for the amount of the credits claimed.

Private School Education Tax Credit. Beginning in the 2010 property tax year, parents or guardians whose children do not qualify for the above credit and who pay for alternatives to the public school system can claim a credit of up to \$1,000 per child. The amount of the credit per child is capped at \$1,000 or the total amount of money in the **Private School Education Tax Credit Cash Fund** on each January 15th divided by the number of applicants during any particular fiscal year, whichever is smaller.

School Tuition Organization Tax Credit Beginning in the 2010 tax year, individuals who donate money to certain tax-exempt charitable organizations can claim a credit equal to their donation of up to \$1,000. The organization must allocate at least 90 percent of its annual revenue for educational scholarships and grants to allow students to attend any private school. The amount of the credit is capped at \$1,000 or the total amount of money in the **School Tuition Organization Tax Credit Cash Fund** on each January 15th divided by the number of applications during any particular fiscal year, whichever is smaller.

Taxpayers must file an affidavit with the county treasurer in order to receive any of the three credits. Parents and guardians are eligible to receive only one of the two credits for educational expenses. A parent or guardian may claim the credit until the student graduates from high school. Renters would be allowed to transfer the credit in exchange for at least 90 percent of the credit value.

For purposes of public school finance, a tax credit claimed pursuant to this bill is deemed to not reduce the amount of property tax revenue that a school district is entitled to receive from its property tax levy.

State Revenue

The state will not experience a change in revenue as a result of this bill. County treasurers would be reimbursed by the State Treasurer for any property tax revenue lost to all local governments as a result of the credits. County treasurers would be responsible for reimbursing other local governments within their districts.

State Expenditures

General Fund. The bill requires the State Treasurer to reimburse county treasurers for revenue lost to all local governments as a result of the tax credits. In FY 2008-09, the State Treasurer would reimburse a total of \$13.3 million for the tax credits. Of this, the State Treasurer would reimburse \$6.6 million from the General Fund for the credit for children who had been enrolled in public school or younger than six in the prior year. The Private School Education Tax Credit Cash Fund would receive a \$3.3 million appropriation from the General Fund for purposes of reimbursing county treasurers for revenue lost due to the private school education tax credit. Finally, the School Tuition Organization Tax Credit Cash Fund would receive a \$3.3 million appropriation for purposes of reimbursing county treasurers for the school tuition organization tax credit. General Fund expenditures on the tax credits will be offset with \$2.6 million of savings in school finance, resulting in a net increase in General Fund expenditures of \$10.7 million.

There are currently approximately 52,275 Colorado students enrolled in private schools or home schooled this year. K-12 enrollment in Colorado's private schools has decreased at an average annual rate of 2.4 percent over the last five years. For purposes of this fiscal note, the following is assumed:

- Enrollment will continue to decrease over the next three years, but at a slower rate than would have occurred without the credits.
- Approximately 2 percent of those enrolled in private or home schools each year attended a public school in the previous year.
- Of the children assumed to have been enrolled the previous year in public school, about 35 percent would not have chosen to transfer to private or home schools if not for the credit.
- Approximately 2 percent of children who were younger than six on July 1, 2008 and who entered private or home schooling in kindergarten are assumed to have chosen to enter private or home schools because of the credit.

Finally, the Department of the Treasury will need to hire a temporary employee for the period during which they would be processing and completing local government reimbursements. The cost of this temporary employee is estimated by Legislative Council Staff at \$5,240 based on an hourly rate of \$14.50.

Impact on the taxpayer. Table 1 shows the estimated number of children for which a credit is received and the average amount each taxpayer will receive on behalf of that child for the next three tax years. It is assumed that parents and guardians of children enrolled in private school or home schooled will incur at least \$1,000 in tuition and other educational costs during any particular tax year. The number of applicants for the School Tuition Organization tax credit is unknown.

**Table 1
Number of Applicants and Average Amount of the Credit
Property Tax Years 2008-2010**

	2008		2009		2010	
Tax Credit	Number of Children	Average Credit	Number of Children	Average Credit	Number of Children	Average Credit
Children Enrolled in Public School or Younger than Six in the Prior Year Tax Credit						
Previously Enrolled Full-time	802	\$1,000	1,531	\$1,000	2,185	\$1,000
Previously Enrolled Part-time	83	\$500	164	\$500	243	\$500
Previously Younger than Six	5,789	\$1,000	9,591	\$1,000	13,289	\$1,000
Private School Education Tax Credit						
All Children	<i>Not Applicable</i>		<i>Not Applicable</i>		30,028	\$297

Local Government Impact

Though local governments would be reimbursed for any property tax revenue not received as a result of the credits, **county treasurer offices** would likely incur administrative costs associated with the program including processing claims and remitting information to the Department of the Treasury for reimbursement. **School district** expenditures and FTE would decrease as a result of reduced enrollment.

State Appropriations

The following General Fund appropriations would be required for FY 2008-09:

- \$6,637,272 to the **Department of the Treasury** for local reimbursement of tax credits and administrative costs.
- \$3,316,016 to the **Private School Education Tax Credit Cash Fund** for local reimbursement of tax credits.
- \$3,316,016 to the **School Tuition Organization Tax Credit Cash Fund** for local reimbursement of tax credits.
- A reduction of \$2,546,881 to the **Department of Education** for reduced school finance costs.

Departments Contacted

Education Local Affairs Treasury Legislative Council Staff