

Colorado Legislative Council Staff Fiscal Note
**STATE and LOCAL
 FISCAL IMPACT**

Drafting Number: LLS 09-0681
Prime Sponsor(s): Rep. Lambert
 Sen. Brophy

Date: February 11, 2009
Bill Status: House Education
Fiscal Analyst: Natalie Mullis (303-866-4778)

TITLE: CONCERNING THE CREATION OF AN INCOME TAX CREDIT FOR PRIVATE SCHOOL TUITION.

Fiscal Impact Summary	FY 2008-09	FY 2009-10	FY 2010-11	FY 2021-22 End of Phase-In Pd.
State Revenue				
General Fund - Income Taxes	(\$38.7 mill.)	(\$108.3 mill.)	(\$163.6 mill.)	(\$504.4 mill.)
State Expenditures				
General Fund - School Finance		(\$47.3 mill.)*	(\$84.8 mill.)*	(\$356.8 mill.)*
General Fund - Department of Revenue		\$96,117**	\$63,844	***
FTE Position Change		1.0 FTE	1.5 FTE	***
Effective Date: August 4, 2009, assuming the General Assembly adjourns as scheduled and unless a referendum petition is filed. Credits are effective beginning with tax year 2009.				
Appropriation Summary for FY 2009-2010: See the State Appropriations Section.				
Local Government Impact: School district expenditures and FTE would decrease.				

* Although this fiscal note indicates the schools finance savings would occur in the state's General Fund, they could occur in the General Fund, the State Education Fund, or a combination of both.

** Of this amount, \$47,796 may be funded by line item in the FY 2009-10 Long Bill for programming costs in the Department of Revenue for 2009 legislation.

*** This amount will be determined during the annual appropriation process.

Summary of Legislation

The bill creates an income tax credit for individuals who enroll their dependent child in private school and to any taxpayer who offers a scholarship to a child who enrolls in a private school. In order to qualify, the child must either be entering kindergarten in a private school or must have been enrolled full time in a public school immediately before enrolling in the private school. Children continue to qualify for the credit each year until they transfer out of private school.

Individuals who enroll their child in private school receive a credit equal to half of the state's average per pupil school finance funding for the most recent full fiscal year; this amount is equal to \$3,454 for tax year 2009. Taxpayers offering scholarships receive a credit equal to the amount of the scholarship or half of the state average per pupil school finance funding, whichever is less. The credit can be carried forward for three years and is not refundable.

In order to receive a credit, a taxpayer must obtain a tax credit certificate from the private school in which the child is enrolled. The taxpayer must then submit the tax credit certificate to the Department of Revenue with his or her income tax return for the appropriate tax year. Schools are required to provide a list of taxpayers to which they issued a tax credit certificate, along with other pertinent taxpayer information, to the Department of Revenue by December 15th of the tax year for which the certificates were issued.

State Revenue

General Fund revenue will be reduced \$39.7 million in FY 2008-09, \$108.3 million in FY 2009-10, and \$163.6 million in FY 2010-11. Because children are able to receive the credit for their entire private school career, the credit will require 13 years to be fully phased-in. General Fund revenue will be reduced an estimated \$504.4 million in FY 2021-22, the final year of the phase-in.

It is assumed that the parents or guardians of approximately 18,000 students will receive the credit for tax year 2009. Of these, it is assumed that about 7,000 students were induced to enroll in a private school because of the tax credit in this bill. In addition, it is assumed that about half of these students will receive scholarships averaging \$1,856. Table 1 shows the number of taxpayers and the credit provided to each for tax years 2009 through 2011 and for tax year 2022, the last year of the phase-in period, for each category of taxpayer affected by the bill.

**Table 1
Number of Applicants and Average Amount of the Credit
Income Tax Years 2009-2011 and 2022**

	2009		2010		2011		2022	
Population	# of Children	Credit	# of Children	Credit	# of Children	Credit	# of Children	Credit
Parents/Guardians of Children in Private School								
Children who would have attended private school under current law	10,953	\$3,453	18,932	\$3,595	26,125	\$3,696	65,109	\$4,931
Children induced to attend private school by HB 09-1195	6,991	\$3,453	11,872	\$3,595	16,261	\$3,696	36,547	\$4,931
Total Children:	17,944		30,804		42,386		101,656	
Individuals and Businesses Providing Scholarships to Qualifying Children								
All Children Receiving Scholarships	9,404	\$1,856	16,144	\$1,908	22,214	\$1,962	53,276	\$2,717

By 2022, the only children attending private schools will not receive the credit will be those who did not enter private school in Colorado in kindergarten and who transferred into a Colorado private school from another state or were previously home-schooled.

There are approximately 43,785 Colorado students in grades K-12 enrolled in private schools this year. K-12 enrollment in Colorado's private schools has decreased at an average annual rate of 2.3 percent over the last five years. For purposes of this fiscal note, the following is assumed:

- According to the Department of Education, 6,176 students transferred from public schools to private schools in FY 2007-08. Transfers that would have occurred under current law are assumed to continue to occur at this rate.
- The number of children who transfer from a public school to a private school because of this tax credit will equal approximately 0.9 percent of public school enrollment each year. This estimate is based on the performance of the Milwaukee Parental Choice Program, and public school voucher program in the city of Milwaukee that has been in operation since 1990.
- 52 percent of the children who qualify for the tax credit will receive a scholarship from an individual or business other than their parent or guardian. This assumption, and the assumed average scholarship, is based on the performance of Arizona's income tax credit for donations to private school tuition organizations as reported by the Arizona Department of Revenue¹ and the Goldwater Institute.² The average amount assumed for the scholarship was reduced to reflect the fact that the credit is capped at one-half of state per pupil school finance funding, or \$3,453 for tax year 2009.
- An individual child receiving a scholarship from an individual or business other than their parent or guardian would qualify both their parent/guardian and their scholarship benefactor for a credit.

State Expenditures

State expenditures will decrease \$47.2 million in FY 2009-10. Of this, the Department of Revenue will require \$96,117 and the school finance formula will no longer require \$47.3 million.

School Finance - (\$47.3 million) in FY 2009-10. HB 09-1195 will cause about 7,000 children to enroll in private school rather than public school who would have otherwise remained

¹ Arizona Department of Revenue, Office of Economic Research and Analysis, "Individual Income Tax Credit for Donations to Private School Tuition Organizations: Reporting for 2007," April 1, 2008.

² Murray, Vicki and Ross Groen, Goldwater Institute Policy Report. "Survey of Arizona Private Schools: Tuition, Testing, and Curricula," No. 199, January 5, 2005.

in public school each year. As a result, less money will be required by the school finance formula to fund public education. Although this fiscal note indicates that the savings would occur in the General Fund, they could occur in either the General Fund, the State Education Fund, or a combination of both. Savings under the school finance formula will increase each year until the tax credit is fully phased in. School finance savings will equal \$84.8 million in FY 2010-11, \$120.5 million in FY 2011-12, and \$356.8 million in FY 2021-22, the year in which it is fully phased-in.

Department of Revenue - \$96,117 and 1.0 FTE in FY 2009-10 and \$63,844 and 1.5 FTE in FY 2010-11. Of this amount required for FY 2009-10, \$47,796 is required to adjust the state's current and future computer systems and forms for the new credit. The annual Long Bill may include line item funding for information technology costs associated with new legislation. The Department will require 1.0 FTE in FY 2009-10 to administer and enforce the tax credit. An additional 0.5 FTE is expected to be required each year until the tax credit is fully phased-in.

It is assumed that the **Department of Education** will implement the bill within existing resources.

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under HB 09-1195*		
Cost Components	FY 2009-10	FY 2010-11
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$6,276	\$9,414
Supplemental Employee Retirement Payments	\$1,349	\$2,583
TOTAL	\$7,625	\$11,997

**More information is available at: http://www.state.co.us/gov_dir/leg_dir/lcsstaff/2009/comsched/CommonPolicies2009.pdf*

Local Government Impact

School district expenditures and FTE would decrease as a result of reduced enrollment.

State Appropriations

For FY 2009-10, this note indicates a reduction of \$47,322,264 General Fund in appropriations to the Department of Education for the school finance formula and an appropriation of \$48,321 General Fund and 1.0 FTE to the Department of Revenue.

Departments Contacted

Revenue

Education