

February 15, 2019

CORRECTED

The Honorable Kristey Williams, Chairperson
House Committee on K-12 Education Budget
Statehouse, Room 286-N
Topeka, Kansas 66612

Dear Representative Williams:

SUBJECT: Corrected Fiscal Note for HB 2150 by Representative Erickson and Representative Humphries

In accordance with KSA 75-3715a, the following corrected fiscal note concerning HB 2150 is respectfully submitted to your committee.

HB 2150 would establish the Kansas Hope Scholarship Act to be administered by the State Treasurer. Any student would be eligible to participate in this program if the student has reported an incident of bullying. A student may report an incident of bullying to any teacher, counselor or administrator, who would prepare a written report and submit it to the principal of the school where the student regularly attends. The principal would be required provide a copy of the report to the parent of the student who reported the bullying incident and investigate the incident. Within 24 hours after receipt of the written report, the principal would be required to provide a copy to the parent of the alleged offender and the superintendent of the school district.

Upon conclusion of the investigation, or within 15 days after the incident was reported, whichever occurs first, the district would be required to notify the parent of the student who reported the incident that the student is eligible for the Kansas Hope Scholarship Program and provide a written description of the program. Upon the student becoming eligible for the program, the parent may elect to participate in the program and transfer the eligible student to a participating learning entity.

The bill would provide a process to be followed in establishing accounts for eligible students of the Kansas Hope Scholarship program, as well as requiring the State Treasurer to maintain a list of qualified private schools. The accounts would be accessible to the parents of a student to make electronic payments to the eligible new school. Upon execution of an agreement between the State Treasurer and the parent, the State Treasurer would notify the resident school district of the student's participation.

For school year 2019-2020, and each subsequent school year, a student participating in the Act would be counted in the enrollment of his or her resident school district for the purpose of

calculating state aid. The State Board would determine amounts to be transferred to the scholarship fund and deducted from the state aid calculated for the resident school district as follows: (1) 88.0 percent of the BASE aid if the eligible student is enrolled in any of the grades one through five in the current school year; (2) 92.0 percent of the BASE aid if the eligible student is enrolled in any of the grades six through eight in the current school year; and (3) 96.0 percent of the BASE aid if the eligible student is enrolled in any of the grades nine through 12 in the current school year.

The bill would create the Kansas Hope Scholarship Fund in the state treasury. Each month, the bill would authorize the fund to earn interest based upon the average daily balance in the fund and the net rate of the Pooled Money Investment Portfolio for the preceding month. The fund would be used by the State Treasurer to deposit scholarship funds for each student, as well as finance the administrative costs of the program. The bill would allow the State Treasurer to deduct a percentage of the amount transferred into a scholarship account as reimbursement for its administrative costs. For the first two years of the program, up to 5.0 percent could be deducted, while in the third and subsequent years, up to 2.5 percent could be deducted.

For Kansas state income tax purposes, the bill would allow the amount of the scholarship to be subtracted from federal gross income. Finally, HB 2150 would outline the process for schools to become a qualified private school on forms prescribed by the State Treasurer.

Enactment of HB 2150 would potentially reduce state aid to school districts by the transfer of state aid from the prescribed BASE calculation for a participating student to the scholarship account that is managed by the State Treasurer. The transferred amount from the school district's state aid would be determined by the enrolled grade level of the student. However, the number of students that would participate in the program cannot be estimated.

The State Treasurer indicates that the enactment of the bill would require expenditures between \$252,800 and \$302,800 in the first year of the Act's implementation, as well as an additional 2.00 FTE positions. This estimate includes salaries and wages (including fringe benefits) of \$64,500 for a Public Service Administrator II position and \$45,800 for an Administrative Specialist. Also included in this estimate is the cost of annual and quarterly audits totaling \$42,500 (500 hours at \$85 per hour). Finally, the agency estimates that purchasing software for the program would cost between \$100,000 and \$150,000 from a vendor. However, the agency indicates that if in-house programming resources would be available, this cost could be reduced, depending on other existing priority projects. To finance these administrative expenditures, the bill would allow the State Treasurer to deduct a percentage of the amounts transferred from the school districts for reimbursements of these costs, of up to 5.0 percent in the first two years of the program and up to 2.5 percent in the subsequent years.

The State Treasurer indicates that the agency cannot estimate the number of students that would participate in the program. However, transfers of between \$5,056,000 and \$6,056,000 would have to be made from school districts for scholarships in the first year in order to generate revenues to cover its costs to administer the program ($\$5,056,000 \times 5.0\% = \$252,800$ and $\$6,056,000 \times 5.0\% = \$302,800$). Based upon the current approved BASE in the school finance formula for FY 2020 of \$4,302 and using an average of 92.0 percent of this BASE (\$3,958) that would be transferred from school districts for a scholarship, between 1,278 students and 1,531 students would have to participate in order to generate revenues for the expenses of the State Treasurer ($\$5,056,000 / \$3,958 = 1,278$ students and $\$6,056,000 / \$3,958 = 1,531$ students).

After the first year of implementation, the State Treasurer notes that the annual administrative costs would total \$152,800, including the salary and wage costs (including fringe benefits) of the salaries of the Public Service Administrator II position (\$64,500) and the Administrative Specialist (\$45,800), as well as the audit costs (\$42,500).

In addition, because the bill would authorize the Kansas Hope Scholarship Fund to earn monthly interest, enactment of the bill would increase transfers from the State General Fund. However, because the average daily balance of the fund and interest rate is not known, this fiscal effect cannot be estimated.

Calculations for Kansas income taxes for the scholarships would be based on the Kansas adjusted gross income, which is calculated by adding or subtracting certain types of income from the federal adjusted gross income. The bill would allow the amount deposited in a Kansas Hope Scholarship Account to be excluded from income for Kansas income tax purposes beginning in tax year 2019. However, if the scholarship would not be considered taxable for federal purposes by the IRS, then the taxpayer would be able to deduct the scholarship amount on the taxpayer's state tax return, which would still reduce revenue to the State General Fund.

The Department of Revenue indicates that it would require a total \$314,495 from the State General Fund in FY 2020 to implement the bill and to modify the automated tax system. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue and outside contract programmer services. In addition, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short, additional expenditures for outside contract programmer services beyond the Department's current budget may be required. Any fiscal effect associated with HB 2150 is not reflected in *The FY 2020 Governor's Budget Report*.

Sincerely,



Larry L. Campbell
Director of the Budget

cc: Dale Dennis, Education
Peter Northcott, Office of the Treasurer
Lynn Robinson, Department of Revenue