

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

Legislative Fiscal Note

REVISED

BILL NUMBER: House Bill 269 (Second Edition)

SHORT TITLE: Children w/Disabilities Scholarship Grants.

SPONSOR(S): Representatives Jordan, Brandon, Jones, and Stam

FISCAL IMPACT

(\$ in millions)

Yes No No Estimate Available

Table with 5 columns: State Impact, FY 2013-14, FY 2014-15, FY 2015-16, FY 2016-17, FY 2017-18. Rows include General Fund Revenues, General Fund Expenditures, State Positions, and NET STATE IMPACT.

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

Department of Revenue, North Carolina State Education Assistance Authority, Department of Public Instruction

EFFECTIVE DATE: Sections 1, 2, and 3 of this act are effective for taxable years beginning on or after January 1, 2014. Sections 5 & 6 are effective July 1, 2013. The remainder is effective when it becomes law.

TECHNICAL CONSIDERATIONS:

Yes - See Technical Considerations Section

BILL SUMMARY:

Sections 1 through 3 repeal relevant Session Law and General Statutes related to S.L. 2011-395, Tax Credits for Children With Disabilities. These pieces are repealed effective for taxable years beginning on or after January 1, 2014.

Section 4 amends Article 9 of Chapter 115C of the General Statutes to create the new Special Education Scholarship Grants for Children with Disabilities program (the Program). The program provides scholarship grants of up to \$3,000 per semester to eligible children to attend a nonpublic school. The scholarship grant may only be used for the reimbursement of tuition and special education and related services.

1 Nonpublic schools include traditional private schools and home schools.

To be eligible for the scholarship grant, the student must:

1. Require an individualized education plan;
2. Receive special education or related services on a daily basis;
3. Not have been placed in a nonpublic school or facility by a public agency at public expense;
4. Not have spent any time enrolled in a postsecondary institution as a full-time student taking at least 12 hours of academic credit.
5. Not have received a high school diploma; and
6. Meet one of the following requirements:
 - a. Was enrolled in a North Carolina public school during the previous semester;
 - b. Received special education or related services through the North Carolina public schools as a preschool child with a disability during the previous semester;
 - c. Received a scholarship grant for the previous semester; or
 - d. Is eligible for initial enrollment in kindergarten or the first grade in a North Carolina public school.

Eligible students who received a scholarship grant during the previous semester or who generated a tax credit for the fall semester of the 2013-14 school year shall be given priority. Otherwise, scholarship grants will be awarded in the order in which the applications are received.

The Program will be administered by the North Carolina State Education Assistance Authority (SEAA). SEAA will have the following responsibilities:

1. Make applications available no later than May 1 of each year
2. Provide information about the scholarship grants and the application process on the SEAA website.
3. Notify parents of their eligibility to receive scholarship grants by July 1 of each year for fall semesters and by December 1 of each year for spring semesters
4. Issue additional scholarship grants if scholarship grant funds remain after making initial awards.
5. Establish rules and regulations for the administration of the Program.
6. Ensure that students receiving scholarship grants are reevaluated at least every three years by the local education agency (LEA) in order to verify that the student continues to be a child with a disability.

SEAA shall report to the Joint Legislative Education Oversight Committee by October 1 of each year on the following:

1. Total number, age and grade level of eligible students receiving scholarship grants;
2. Total amount of scholarship grant funding awarded;
3. Nonpublic schools in which scholarship grant recipients are enrolled and the number of scholarship grant students at the school; and
4. The type of special education or related services for which scholarship grants were awarded.

SEAA may seek verification of information on any application for scholarship grants.

SEAA must report to the Department of Public Instruction (DPI) by August 1 of each year, reporting the number of students who both:

1. Awarded a scholarship grant for the upcoming semester; and
2. Were enrolled in a public school during the prior semester.

DPI shall adjust the allotments of LEAs based on the number of students awarded a scholarship grant who attended an LEA during the semester prior to the semester for which the scholarship grant was awarded.

Section 5 of the bill appropriates \$3,670,500 for FY 2013-14 and \$4,341,000 for FY 2014-15. Of these amounts, up to \$670,500 may be transferred to DPI to conduct reevaluations of eligible students as required by G.S. 115C-112.3(c) in FY 2013-14, and up to \$1,341,000 may be transferred and used for the same purposes in FY 2014-15. Of the funds appropriated, SEAA may retain up to \$200,000 in FY 2013-14 and up to 2% of the appropriated amount for FY 2014-15 and subsequent years.

ASSUMPTIONS AND METHODOLOGY:

This bill would eliminate the tax credit created by S.L. 2011-395 and replace this program with a scholarship grant program. As a result, the fiscal analysis must compare the projected fiscal impact of:

1. The tax credit created by S.L. 2011-395; and
2. The scholarship grant program created by this bill.

Projecting the cost of the S.L. 2011-395 tax credit

Data from the Department of Revenue (DOR) indicates that 619 returns reported an associated tax credit value of \$1,538,054 for the 2011 taxable year. Preliminary data through March 12, 2013 indicates that 485 returns reported an associated tax credit value of \$1,218,383 for the 2012 taxable year. Over both years, the average tax credit claimed was approximately \$2,500.

Of course, the tax credit created by S.L. 2011-395 is non-refundable. That is, the tax filer can only receive a credit up to the amount that he or she owes in State taxes. This amount is reduced further by claiming of other tax credits. As a result, tax credits *claimed* exceeds the value of tax credits *realized*.

Based on the first two years' data, it appears as if tax credits realized are approximately half of tax credits claimed. That is, while \$1.2 million of tax credits have been claimed so far for the 2012 taxable year, the amount of credits realized is likely to be closer to \$600,000.

It is important to note that many taxpayers have yet to file their 2012 taxes as of March 12. That means that the number of tax credits claimed and realized are likely to be significantly higher than the initial data above indicates. Unfortunately, there is little historic data to draw from to formulate an estimate. It is probably safe to say, however, that the number and value of credits will exceed the number claimed in the 2011 taxable year for two reasons. First, the program for the 2011 taxable year only covered one semester. Second, the program is likely to grow in the 2012 taxable year, as more taxpayers become aware of the program. As a result, this analysis

assumes that there will ultimately be 800 tax credits claimed for the 2012 taxable year, with an average value of \$2,500 each. This analysis assumes a further 10% growth in the program for the subsequent taxable years.

Finally, it is also important to note that unused portions of the credit may be carried forward for the succeeding three years. For purposes of calculating carry-forward amounts, this analysis assumes that the program will have a turnover rate of 15%. That is, 15% of taxpayers claiming a credit in 2011 will not claim a credit in 2012, and instead will begin to realize the credits carried forward.

For purposes of analysis, it is assumed that tax credits generated in the 2012 taxable year will impact State revenues in the 2012-13 fiscal year, tax credits generated in the 2013 taxable year will impact State revenues in the 2013-14 fiscal year, and so forth.

Based on the above, one would anticipate that the S.L. 2011-395 tax credit would have the following estimated impact going forward:

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Returns	619	800	880	968	1065	1172	1289
Claimed Value	\$1,538,054	\$2,000,000	\$2,200,000	\$2,420,000	\$2,662,500	\$2,930,000	\$3,222,500
Realized Value	\$769,027	\$1,000,000	\$1,100,000	\$1,210,000	\$1,331,250	\$1,465,000	\$1,611,250
Amount Carried Forward		\$115,354	\$197,842	\$315,000	\$496,500	\$546,188	\$600,938
Total Reduction to Revenues	\$769,027	\$1,115,354	\$1,297,842	\$1,525,000	\$1,827,750	\$2,011,188	\$2,212,188

Projecting the additional expenditures of the scholarship grant program

The expenditures related to the scholarship grant program proposed by this bill is simply the appropriated amount of \$3,670,500 for FY 2013-14 and \$4,341,000 for FY 2014-15.

Total fiscal impact of the bill

The total impact of the bill is the increase in revenues anticipated from the elimination of the tax credit program, less the appropriation made for the scholarship grant program (increased expenditures).

SOURCES OF DATA: Department of Revenue

TECHNICAL CONSIDERATIONS:

SEAA indicates that administrative costs for FY 2014-15 are likely to exceed the amount they are authorized to retain for such purposes in FY 2014-15. SEAA indicates that administration of the program considered by this bill would cost \$117,900. SEAA would be authorized to retain up to \$86,820 under this bill. Bill sponsors might consider increasing the allowable retention percentage for FY 2014-15 to 2.8% to provide the funds necessary to SEAA for program administration.

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