Fiscal Note

BILL # HB 2676

TITLE: tax credit; title I schools

SPONSOR: Rivero

STATUS: House Engrossed

PREPARED BY: Steve Schimpp

Description

The bill establishes a new public school tax credit program that would allow an individual income tax filer to receive a state income tax credit of up to $200 annually ($400 for a married couple filing jointly) for voluntary donations to a public school that qualifies for federal Title I Part A funding and has at least 70% of its students coming from low income families. It requires the Arizona Department of Education (ADE) to provide a 4 to 1 match for the first $250,000 of contributions that eligible school districts statewide receive annually under the bill. If by July 1 of each year ADE receives requests to match more than $250,000 of statewide contributions, it would distribute matching dollars proportionately and only among qualifying schools that have applied as of that date. Otherwise it would allocate matching monies on a first come first served basis.

Estimated Impact

The bill would have a net estimated fiscal impact of $2 million in FY 2017 and $4 million in FY 2018 and annually thereafter. This assumes that the bill would reduce state individual income tax collections by $(1) million in FY 2017 and by $(3) million annually starting in FY 2018. It also assumes that ADE would allocate $1 million in matching monies from the state General Fund under the bill each year starting in FY 2017. (So for FY 2017, for example, the bill would result in an estimated state revenue loss of $1 million and an increase in state costs of $1 million for a total net state fiscal impact of $2 million.)

The Arizona Department of Revenue (DOR) has not yet provided a fiscal impact estimate for the bill.

Analysis

ADE reports that 1,284 (66.4%) of Arizona public schools (district and charter) were "Title I schools" in FY 2015. The bill would authorize any of these schools to receive tax credit-eligible contributions from individuals starting in Tax Year 2016 (FY 2017).

Only Title I schools with at least 70% of students coming from low income families, however, would qualify for matching (4 to 1) funds from ADE under the bill. The bill does not define "low income families," but this analysis assumes that it means families with students that qualify for free or reduced price lunches under the federal free or reduced price lunch program. If so, the bill would make approximately 750 Title I schools (58%) eligible for ADE matching funds under the bill based on ADE free and reduced price lunch data.

The new credit would be in addition to the existing public school extracurricular tax credit authorized by A.R.S. § 43-1089.01. DOR reports that public schools statewide received approximately $51 million in fees and cash contributions under the existing credit in each of the past 3 fiscal years for which data have been reported (FY 2012 through FY 2014). The average public school donation in FY 2014 was $192, which was substantially less than the $400 cap on public school tax credits for married couples filing jointly. This suggests that creating a new public school tax credit may not increase public school contributions substantially, since capacity for increased giving remains even under the existing program.

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We therefore assume that contributions to public schools would increase by roughly 5% under the bill, but with an increase of only 2.5% in FY 2017 due to start up lags. This would increase public school tax credits by approximately $1 million in FY 2017 ($51 million currently level X 2.5% ≈ $1 million) and by approximately $3 million total in FY 2018 and annually thereafter ($51 million X 5% ≈ $3 million). The actual increase would depend on how successful Title 1 schools were in marketing the new tax credit opportunity to potential donors and the extent to which potential donors have state tax liabilities that could be offset by an additional tax credit.

The bill would require ADE to match contributions on a 4 to 1 basis for up to $250,000 of statewide contributions under the bill each year, so by up to $1 million annually. This would increase state General Fund costs by an estimated $1 million annually starting in FY 2017, since we estimate above that the bill would increase public school contributions by $1 million in FY 2017 and by $3 million in FY 2018 and annually thereafter (so by more than $250,000 per year annually starting in FY2017).

This would result in a net state fiscal impact of $2 million in FY 2017 ($1 million in foregone state revenue from tax credits + $1 million in new state costs for matching funds = $2 million) and $4 million in FY 2018 ($3 million in foregone revenue + $1 million cost for matching funds = $4 million).

Local Government Impact

Incorporated towns and cities receive 15% of income tax collections from 2 years prior. As a result of lowered state income tax collections, local governments would lose an estimated $(150,000) in fiscal year 2019 ($1 million X 15%) and $(450,000) per year ($3 million X 15%) beginning in fiscal year 2020.

3/3/16