

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0481H.01P
Bill No.: Perfected HB 627
Subject: Treasurer, State; Health and Senior Services, Department of; Education, Higher
Type: Original
Date: March 22, 2021

Bill Summary: This proposal establishes a children's savings account program.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
General Revenue	Could exceed (\$2,961,467) to (\$8,612,263)	Could exceed (\$6,696,353) to (\$24,731,285)	Could exceed (\$7,360,858) to (\$25,602,058)	Could exceed (\$4,155,856) to (\$8,930,845)
Total Estimated Net Effect on General Revenue*	Could exceed (\$2,961,467) to (\$8,612,263)	Could exceed (\$6,696,353) to (\$24,731,285)	Could exceed (\$7,360,858) to (\$25,602,058)	Could exceed (\$4,155,856) to (\$8,930,845)

*The actual impact of the changes to the MOST program is dependent upon utilization. If a percentage of participants utilize the expansion (to include repayment of student loan debt) similar to those currently using the MOST program to fund K-12 and higher education, the lower estimates should be used. If utilization percentage is similar to those claiming student loan interest deduction on their tax returns, the larger estimates should be used. If a larger population of those with student loan debt utilize the program, Oversight used "could exceed".

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Other State Funds	(\$2,427,195)	(\$4,805,970)	(\$4,807,940)	(\$4,807,940)
Missouri Children's Savings Account Program Fund *	\$3,812,900	\$7,625,800	\$7,625,800	\$7,625,800
Total Estimated Net Effect on <u>Other</u> State Funds	\$1,385,705	\$2,819,830	\$2,817,860	\$2,817,860

* Does not reflect the eventual disbursements/redemptions from the individual accounts within the fund for qualified higher education expenses, starting in approximately FY 2040.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Missouri Children's Savings Account Program Fund	2 FTE	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE	2 FTE

- ☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☒ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Local Government	\$0	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Section 166.410 – Missouri Education Savings Program - Definitions

Officials from **Office of Administration - Budget and Planning (B&P)** state this proposed legislation changes the definition of “eligible education institution” from those specified in Sections 529(e)(5), 529(c)(7), and 529(e)(3) to all references in Section 529. B&P notes that this would allow individuals to use the savings account program for student loan repayment.

Based on research, B&P determined that the average student loan in Missouri was between [\\$29,613](#) and [\\$35,400](#). Assuming individuals use a 10-year repayment plan the average annual repayment amount would be between \$2,961.30 and \$3,540. In Tax Year 2018, the most recent complete tax year data available, there were 255,000 tax filers that claimed the federal tax deduction for student loan interest. Therefore, B&P estimates that approximately \$755,134,461 to \$902,700,000 in deductions could be claimed under this provision.

However, deductions do not reduce revenues on a dollar for dollar basis, but rather in proportion to the top tax rate applied. Therefore, B&P will show the estimated impacts throughout the implementation of the tax rate reductions from [SB 509 \(2014\)](#).

	Current Law	Future Top Tax Rates		
Tax Rate	5.4%	5.3%	5.2%	5.1%
GR Loss – Low	(\$40,777,261)	(\$40,022,126)	(\$39,266,992)	(\$38,511,858)
GR Loss – High	(\$48,745,800)	(\$47,843,100)	(\$46,940,400)	(\$46,037,700)

B&P notes that this provision would take effect August 28, 2021; allowing individuals to use the savings account plan for four (4) months of Tax Year 2021. Therefore, B&P estimates that this proposed legislation will reduce TSR and GR by \$13,592,420 to \$16,248,600 in Fiscal Year 2022. Once SB 509 (2014) has fully implemented, this proposal could reduce TSR and GR by \$38,511,858 to \$46,037,700 annually.

Oversight notes B&P has estimated the impact(s) of individuals first contributing/depositing their (re)payment of student loan principle or interest into a 529 savings account, permitting them to recognize tax savings.

Oversight notes B&P’s analysis suggests individuals will be on a ten (10) year repayment plan. After conducting independent research, Oversight assumes the average term of repayment of student loan(s) totals anywhere between [twenty \(20\)](#) and twenty-five (25) years (Oversight estimate).

Furthermore, **Oversight** notes individuals would **not** be able to deduct the average total student loan amount on their Missouri taxes. This proposed legislation caps the amount that is permitted to be (re)paid through a student's 529 savings account at \$10,000.

Thus, Oversight anticipates the impact(s) of this section will increase for several years post implementation, and then decrease and flatten out afterwards.

In response to a similar proposal, SB 152, officials from the **Missouri State Treasurer's Office (STO)** stated this section expands the MOST 529 Education Plan Program to allow for the repayment of student loans up to \$10,000 per beneficiary.

STO anticipates this section will reduce state revenues by:

- \$1,409,653 in Fiscal Year 2022
- \$3,623,683 in Fiscal Year 2023
- \$4,286,929 in Fiscal Year 2024
- \$4,346,834 in Fiscal Year 2025 and Fiscal Year 2026
- \$2,895,764 in Fiscal Year 2027
- \$1,444,695 in Fiscal Year 2028
- \$1,081,927 in Fiscal Year 2029 and each year thereafter.

Oversight assumes STO anticipates a 4.13% participation rate among beneficiaries who will (re)pay their student loans through MOST 529 Education Savings accounts. Furthermore, Oversight assumes STO anticipates taxpayers will receive full benefit (\$10,000) within 2.25 years.

Oversight assumes, based on independent research, that taxpayers with student loan debt would experience tax savings for a total of seven (7) tax years as a result of the \$10,000 cap placed on the total amount permitted to be contributed/deposited into MOST 529 Education Savings accounts and used for such (re)payment. Furthermore, Oversight assumes the participation rate of individuals who will first contribute/deposit their (re)payment of student loans, before actual payment is required, may be higher.

Officials from **Department of Revenue (DOR)** state this proposal would change the qualified higher education expenses definition under the MOST program and the MO Education Deposit Program. This change in definition would allow for the repayment of principal and interest on student loans as an allowable expense. Therefore, a taxpayer would be allowed to run their student loan payment through their Missouri Education Savings Program Account (MOST account) and do it tax free.

Based on information posted by the organization LENEDU, which provides basic information and statistics on the different types of student loans available, they state that Missouri ranks 28th in average student loan debt. Here's how LENEDU ranks in-state institutions based on average debt:

1. Lincoln University: \$30,827
2. Westminster College: \$29,691
3. Maryville University: \$28,361
4. Southeast Missouri State University: \$27,318
5. University of Missouri-Columbia: \$27,146
6. Missouri State University: \$25,196
7. University of Missouri-St. Louis: \$25,110
8. Truman State University: \$24,938
9. Washington University: \$22,555
10. Columbia College: \$22,159

AVERAGE = \$26,330 - \$219 per month (10 year repayment)

Assuming an annual tax rate of 5.3% (which is estimated for the next three fiscal years), and based on the number of Missouri filers who claim the student loan interest deduction (255,000) this would result in an over \$35,000,000 loss to general revenue annually.

\$26,330 student loan amount = \$219 per month payment
X 5.3% tax rate
\$11.61 monthly tax loss
X 12 months
\$139.32 total tax loss per person per year
X 255,000
\$35,526,600 loss to state

The Department notes this proposal would become effective August 28, 2021 and therefore only four months of payments would be claimed in FY 2022. The first full year of loss would occur in FY 2023.

FY 22 \$11,842,200
FY 23 \$35,526,600
FY 24 \$35,526,600

DOR notes this proposal places a cap of \$10,000 on the amount that can be run through these programs annually. However, the Department has not assumed that contributions will increase given the average monthly payment of \$219 means most students annually pay \$2,628.

Oversight notes this section modifies the definition of “Eligible Educational Institution”

The current definition is “an institution of post-secondary education as defined in Section 529 (e)(5) of the Internal Revenue Code, and institutions of elementary and secondary education as provide din Section 529 (c)(7) and 529 (e)(3) of the Internal Revenue Code”.

This section modifies the definition to define an “Eligible Educational Institution” as “an institution of postsecondary education as defined in Section 529 (e)(5) of the Internal Revenue

Code, and institutions of elementary and secondary education as provided in Section(s) 529 (c)(7), 529(c)(8), and 529 (e)(3)”.

Oversight notes the definition has been modified to add Section 529(c)(8) to the definition of “Eligible Educational Institution”. Oversight assumes Section 529(c)(8) of the Internal Revenue Code references registered apprenticeship programs.

Oversight notes this section modifies the definition of “Qualified Higher Education Expenses or Qualified Education Expenses”.

The current definition is “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 (e)(3) of the Internal Revenue Code.

This section modifies the definition to define “Qualified Higher Education Expenses” or “Qualified Education Expenses” as “the qualified costs of tuition and fees and other expenses for attendance at an eligible educational institution, as defined in Section 529 of the Internal Revenue Code.

Oversight assumes this section would allow individuals to first deposit/contribute the amount(s) of principal and/or interest applicable for qualified education loan (re)payment into established Missouri Educational Savings accounts (MOST accounts/529 accounts) prior to actual (re)payment of such loan. Such repayment would then be paid with the funds initially deposited/contributed into the participating individual’s MOST account.

Oversight assumes this would permit such individuals to recognize Missouri tax savings while completing the obligations/terms of their qualified educational loan(s).

Per Section 166.435, amount(s) deposited/contributed to MOST accounts may be subtracted from the individual’s Federal Adjusted Gross Income to determine the individual’s Missouri Adjusted Gross Income. The maximum annual amount that may be subtracted cannot exceed \$8,000 per taxpayer.

Oversight notes pre-tax subtraction from income do not reduce revenue(s) on a dollar-for-dollar basis. The estimated amount of deduction must be multiplied by the applicable tax rate to estimate the impact to state revenue(s).

Oversight assumes this section would become effective August 28, 2021 (Fiscal Year 2022). Therefore, Oversight assumes Fiscal Year 2022 would be impacted by this section for four (4) months.

Upon completing an independent analysis, Oversight assumes this section would reduce GR by the following amount(s):

Fiscal Year	Cost
2022	\$ 7,060,449
2023	\$ 21,658,615
2024	\$ 22,528,129
2025	\$ 23,397,644
2026	\$ 24,267,158
2027	\$ 25,136,672
2028	\$ 26,006,186
2029	\$ 5,856,916
2030	\$ 5,856,916

For purposes of this fiscal note, since B&P and DOR used what appears to be a term of repayment (10 years) less than what may sources suggest (20 – 25 years), and since STO's impacts are calculated using a participation rate based on current experience, Oversight will range the fiscal impact(s) of this section from the STO's estimates to amounts that "Could exceed" the impacts estimated by Oversight, depending upon utilization of these changes.

Section 166.461 – Show Me Child Development Account Act

Officials from the **Office of the State Treasurer (STO)** state the proposed bill requires the STO to operate a the Missouri Children's Savings Account Program, which requires the STO to create and deposit funds into a 529 education savings account for each qualified child as determined in the bill.

The STO does not currently have the resources to absorb these duties and anticipates the following costs from this proposal:

1. A minimum of two (2) FTEs, being required to perform the functions noted in the bill, one (1) FTE Director at \$84,925 annually and one (1) FTE Analyst at \$39,708 annually, plus \$17,900 one-time EE for equipment;
2. A qualified CDA facilitator to maintain the accounts (\$30,000 one-time setup and a monthly fee of an estimated \$50,000 annual);
3. Up to \$7,625,800 each year for initial savings account deposits for each qualified child (76,258 5 year live birth average X \$100 initial deposit).

The proposed bill allows for the STO to pay for the costs to implement the bill from the investment earnings of funds in the state treasury, not to exceed 35 basis points which will be split as follows:

39% GR - Year 1 - \$1,551,814; Every Year After \$3,067,540

61% All other interest earning funds that are part of the general pool – Year 1 \$2,427,195; Every

Year After \$4,799,976

The STO stated the estimated live births

2015 79,061

2016 79,819

2017 74,438

2018 78,938

2019 69,034

Avg. $76,258 \times \$100 = \$7,625,800$ per year (50% in FY 2022 since born on or after 1/1/22)

Officials from the **Department of Health and Senior Services (DHSS)** state Section 166.461.4 of the proposed legislation would require the Department of Health and Senior Services (DHSS) to notify the State Treasurer of any live birth in Missouri after January 1, 2022, and transmit relevant data as deemed necessary by the treasurer to determine qualification for the program. DHSS would be required to expend staff time to provide data to the treasurer, estimated at 1.75 hours per week or 91 hours per year (1.75 hours x 52 weeks). The calculation for this time was determined on previous provisions of data to the treasurer's office on a weekly basis. Time will be spent on the following tasks: pull in the appropriate data, subset the data to provide only the necessary variables, and check the data for accuracy before providing it to the State Treasurer.

The estimated cost would be \$2,041.13 (a Research/Data Analyst at an average of \$46,651 in the Division of Community and Public Health as on January 2021, \$22.43 per hour, 91 hours/year). An existing FTE would be utilized to provide this data, and the department anticipates zero fiscal impact.

The department anticipates being able to absorb these costs. However, until the FY22 budget is final, the department cannot identify specific funding sources.

Officials from **B&P** state section 166.461, the Show Me Child Development Account Act, creates the Missouri Children's Development Account Program which provides scholarship grants of up to \$100 to each qualifying child in the state born after January 1, 2022. The program and the Missouri Children's Development Account Program Fund will be administered by the State Treasurer. B&P defers to the State Treasurer's Office for the fiscal impact of these provisions.

Officials from **DOR** state this proposal requires the Office of the State Treasurer to establish a scholarship account for qualified higher education expenses for each child born in Missouri after January 1, 2022. The amount of the scholarship grant to be deposited into the individual scholarship accounts is \$100 per qualified child. These accounts are subject to appropriations.

Upon the birth of a child the Department of Health and Senior Services is to notify the Office of the State Treasurer of the birth so the Treasurer's Office can open the account and transfer in the scholarship money. The Department of Revenue does not anticipate any fiscal impact from this program as it is handled by the Treasurer's Office. The Department of Revenue assumes the

Department of Health and Senior Services along with the Treasurer's Office will be able to estimate a fiscal impact from the grants.

Officials from **Department of Higher Education and Workforce Development** assume the proposal would not fiscally impact their agency.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
GENERAL REVENUE FUND				
<u>Transfer Out - to the Missouri Children’s Savings Account Program Fund - STO - \$100 deposit for each live birth after January 1, 2022 (39%) p. 7</u>	(\$1,487,031)	(\$2,974,062)	(\$2,974,062)	(\$2,974,062)
<u>Transfer Out - to the Missouri Children’s Savings Account Program Fund - STO - proportion of STO expenses (39%) p. 7</u>	(\$64,783)	(\$98,608)	(\$99,867)	Could exceed (\$99,867)
<u>Revenue Reduction – Section(s) 166.410 & 166.435 – Subtraction From Federal Adjusted Gross Income For Contributions/Deposits Into 529/MOST Savings Accounts pages 4-7</u>	<u>Could exceed (\$1,409,653) to (\$7,060,449)</u>	<u>Could exceed (\$3,623,683) to (\$21,658,615)</u>	<u>Could exceed (\$4,286,929) to (\$22,528,129)</u>	<u>Could exceed (\$1,081,927) to (\$5,856,916)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$2,961,467) to (\$8,612,263)</u>	<u>Could exceed (\$6,696,353) to (\$24,731,285)</u>	<u>Could exceed (\$7,360,858) to (\$25,602,058)</u>	<u>Could exceed (\$4,155,856) to (\$8,930,845)</u>
OTHER STATE FUNDS				
<u>Transfer Out - to the Missouri Children’s Savings Account</u>	(\$2,325,869)	(\$4,651,738)	(\$4,651,738)	(\$4,651,738)

Program Fund - STO - \$100 deposit for each live birth after January 1, 2022 (61%) p. 7				
Transfer Out - to the Missouri Children's Savings Account Program Fund - STO - proportion of STO expenses (61%) p. 7	<u>(\$101,326)</u>	<u>(\$154,232)</u>	<u>(\$156,202)</u>	<u>Could exceed (\$156,202)</u>
ESTIMATED NET FISCAL IMPACT TO OTHER STATE FUNDS	<u>(\$2,427,195)</u>	<u>(\$4,805,970)</u>	<u>(\$4,807,940)</u>	<u>(\$4,807,940)</u>
MISSOURI CHILDREN'S SAVINGS ACCOUNT PROGRAM FUND				
Transfer In from General Revenue - STO - \$100 deposit for each live birth after January 1, 2022 p. 7	\$1,487,031	\$2,974,062	\$2,974,062	\$2,974,062
Transfer In from Other State Funds - STO - \$100 deposit for each live birth after January 1, 2022 p. 7	\$2,325,869	\$4,651,738	\$4,651,738	\$4,651,738
Transfer In - From General Revenue for portion of STO expenses (39%) p. 7	\$64,783	\$98,608	\$99,867	Could exceed \$99,867
Transfer In - From Other State Funds -	\$101,326	\$154,232	\$156,202	

STO - portion of STO expenses (61%) p. 7				Could exceed \$156,202
<u>Costs – STO</u>				Could exceed..
Personal Service (2 FTE) p. 7	(\$62,317)	(\$125,879)	(\$127,138)	(\$127,138)
Fringe Benefits	(\$25,590)	(\$64,845)	(\$65,263)	(\$65,263)
Expense & Equipment	(\$23,202)	(\$10,866)	(\$11,137)	(\$11,137)
CDA facilitator	(\$55,000)	(\$51,250)	(\$52,531)	(\$52,531)
<u>Total Costs – STO</u>	(\$166,109)	(\$252,840)	(\$256,069)	(\$256,069)
FTE Change – STO	2 FTE	2 FTE	2 FTE	2 FTE
ESTIMATED NET FISCAL IMPACT TO THE MISSOURI CHILDREN’S SAVINGS ACCOUNT PROGRAM FUND	<u>\$3,812,900</u>	<u>\$7,625,800</u>	<u>\$7,625,800</u>	<u>\$7,625,800</u>
Estimated Net FTE Change for the Missouri Children’s Savings Account Program Fund	2 FTE	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

RAS:LR:OD

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill changes the name of the "Missouri Education Savings Program" to the "Missouri Education Program".

This bill provides to parents of any "qualified children", as defined in the bill as; born or adopted after January 1, 2021 and a Missouri resident at time of birth, and at the time of grant application, a scholarship grant of \$100 in a savings account established under Sections 166.400 to 166.456, RSMo known as the "Missouri Education Savings Program".

The bill establishes the "Show Me Child Development Account Program" (MCSAP) and creates the "Missouri Children's Development Account Program Fund". The fund shall receive from the State Treasurer a portion of the interest derived from the investment of funds as outlined in the bill not to exceed .35% of the total of the average daily fund balance in the State Treasury.

The Department of Health and Senior Services will notify the Treasurer's office upon certification of live birth in the state and provide relevant information as outlined. The Treasurer's office will notify parents about this program and provide opportunity for the parent to exclude any child.

The bill allows the State Treasurer to receive contributions from any person or legal entity on behalf of, and make grants to, eligible children to pay for qualified higher education expenses.

The Treasurer shall establish a separate savings account for each qualified child under this bill and shall deposit scholarship seed money, contributions, and interest earnings as specified. Any amount in such a savings account that is not expended for qualified higher education expenses by the qualified child's 30th birthday will revert back to the Program Fund.

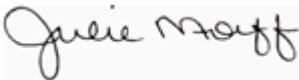
The Fund shall receive a portion of the interest derived from the investment of funds as outlined in the bill. Moneys in the Fund shall be used to provide scholarship seed money and to pay for personal service, equipment, and other expenses of the Treasurer related to administration.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

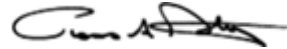
SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division
Missouri Department of Elementary and Secondary Education
Missouri Department of Higher Education and Workforce Development

Missouri Department of Natural Resources
Missouri Department of Revenue
Missouri Department of Social Services
Missouri Secretary of State's Office
Missouri State Public Defender's Office
University of Missouri System
Fordland R-III School District
High Point R-III School District
Missouri State University
Northwest Missouri State University
State Technical College of Missouri
University of Central Missouri
St. Charles Community College
St. Louis Community College
Missouri State Treasurer's Office
Joint Committee on Administrative Rules
Missouri Office of Prosecution Services



Julie Morff
Director
March 22, 2021



Ross Strobe
Assistant Director
March 22, 2021