

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1369H.01P  
Bill No.: Perfected HB 624  
Subject: Education, Elementary and Secondary; Elementary and Secondary Education,  
Department of; Higher Education and Workforce Development, Department of  
Type: Original  
Date: March 9, 2021

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Bill Summary: This proposal establishes programs relating to educational opportunities.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>				
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>Fully Implemented (FY 2029)</b>
General Revenue	Could exceed (\$1,434,653) to (\$7,085,449)	Could exceed (\$3,807,057) to (\$21,841,989)	Could exceed (\$4,454,085) to (\$22,695,285)	Could exceed (\$1,256,052) to (\$6,031,041)
<b>Total Estimated Net Effect on General Revenue*</b>	<b>Could exceed (\$1,434,653) to (\$7,085,449)</b>	<b>Could exceed (\$3,807,057) to (\$21,841,989)</b>	<b>Could exceed (\$4,454,085) to (\$22,695,285)</b>	<b>Could exceed (\$1,256,052) to (\$6,031,041)</b>

\*The actual impact of the changes to the MOST program (§166.400 - §166.02) 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”.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>				
<b>FUND AFFECTED</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>Fully Implemented (FY 2029)</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>				

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Missouri Children's Savings Account Program Fund	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE	0 or 2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>0 or 2 FTE</b>	<b>0 or 2 FTE</b>	<b>0 or 2 FTE</b>	<b>0 or 2 FTE</b>

- ☒ 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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **Section 160.560 Show Me Success Diploma Program**

In response to a previous version, officials from **Department of Elementary and Secondary Education (DESE)** assumed this provision would be no cost to the department but DESE believes there would be a cost to school districts and vendors to modify their programs to be able to track and report attendance of these students.

**Oversight** assumes there would be a cost to school districts that deposit state, federal and local funds into a 529 account for the student participating in the program.

**Oversight** is unable to determine how many students will participate in the Show Me Success Diploma Program and is therefore unable to accurately determine the fiscal impact of this section on local school districts or charter schools.

#### **Section 160.2700 to 160.2725 Adult High School**

**Oversight** does not anticipate a fiscal impact from this provision.

**Oversight** did not receive any responses related to the fiscal impact of this provision. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

#### **Section 161.385 Competency-Based Education Task Force**

In response to a previous version, officials from **DESE** estimated a \$25,000 annual cost for the Competency-Based Education Task Force to host meetings as needed to complete their objectives. Dependent upon their findings, the Department could have potential costs in the future.

In response to a previous version, officials from the **Office of the State Treasurer (STO)** stated they are estimating anywhere from no fiscal impact up to two FTEs. The overall impact to the State Treasurer's Office will depend on negotiation with the state's 529 program manager to implement these provisions. The STO assumed a possible need for two (2) FTE Analysts, each at \$39,708 annually plus fringe benefits and other expense and equipment.

**Oversight** notes that subsection 160.560.8 states the Office of the State Treasurer shall provide guidance and assist with the creation, maintenance, and use of an account that has been established under sections 166.400 to 166.455 (MOST program).

Oversight will range the fiscal impact “Up to” the 2 FTE estimated by the STO starting in FY 2023 depending upon the activity and complexity of additional accounts.

Officials from the **Missouri House of Representatives** assumed no fiscal impact. The House will absorb reasonable expenses of its members serving on the task force or they assume that since the task force is housed under DESE they may pay those expenses as well.

In response to a previous version, officials from the **Missouri Senate** stated they anticipate a negative fiscal impact to reimburse 2 Senators for travel to Task Force meetings. It will cost approximately \$190 per meeting if meetings are held in Jefferson City during the interim.

In response to a previous version, officials from the **Office of the Governor** assumed the proposal will not fiscally impact their office.

In response to a previous version, officials from the **High Point R-III School District** and Springfield R-XII each assumed the proposal would not fiscally impact their respective schools.

In response to a previous version, officials from **Glenwood R-VIII Schools** assumed the proposal would have an impact.

**Oversight** assumes this program is optional (may) for school districts. Oversight also assumes school districts would continue to receive state funding for students that utilize this educational path. Therefore, Oversight will assume the proposal will not materially fiscally impact local school districts.

**Oversight** assumes if a student receives a show me success diploma and enrolls in a postsecondary educational institution, the state will continue to count this student in their funding calculation, and this will not result in a material difference in state aid. Therefore, Oversight will not reflect a fiscal impact to Section 160.560.8.

#### **Section 166.410 – Missouri Education Savings Program - Definitions**

In response to a similar proposal, HB 627 (2021), officials from **Office of Administration - Budget and Planning (B&P)** stated 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 LENDEDU, 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 LENDEDU 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 provided in 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.

Bill as a Whole

Officials from the **Department of Higher Education and Workforce Development** and the **Department of Health and Senior Services** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
<b>GENERAL REVENUE FUND</b>				
<u>Costs – DESE – 161.385 Competency- Based Education Task Force</u>	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)
<u>Costs – STO</u>		Up to....	Up to....	Up to....
Personal Service	\$0	(\$80,210)	(\$81,012)	(\$85,145)
Fringe Benefits	\$0	(\$49,664)	(\$49,908)	(\$52,616)
Expense and Equip	\$0	(\$28,500)	(\$11,236)	(\$11,364)
Total Cost – STO	\$0	(\$158,374)	(\$142,156)	(\$149,125)
<u>Revenue Reduction – Section(s) 166.410 &amp; 166.435 – Subtraction From Federal Adjusted Gross Income For Contributions/Deposits Into 529/MOST Savings Accounts</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>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>Could exceed (\$1,434,653) to (\$7,085,449)</u></b>	<b><u>Could exceed (\$3,807,057) to (\$21,841,989)</u></b>	<b><u>Could exceed (\$4,454,085) to (\$22,695,285)</u></b>	<b><u>Could exceed (\$1,256,052) to (\$6,031,041)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
<b>LOCAL SCHOOL DISTRICTS</b>				
<u>Cost</u> - State, Local, Federal Student Aid Deposited into 529 MOST Account - §160.560	\$0	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<b>ESTIMATED NET EFFECT ON LOCAL SCHOOL DISTRICTS</b>	\$0	\$0	\$0 or (Unknown)	\$0 or (Unknown)

#### FISCAL IMPACT – Small Business

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

#### FISCAL DESCRIPTION

Section 160.560 - These provision establish the "Show Me Success Diploma Program" as an alternative pathway to graduation for high school students. Students may earn the Show Me Success Diploma beginning at the end of a student's tenth grade year. By July 1, 2022, the Department of Elementary and Secondary Education shall develop detailed requirements for students to become eligible for the Show Me Success Diploma.

Students who earn a Show Me Success Diploma may elect to remain in high school. Alternatively, a student having earned the diploma may instead enroll in a qualifying postsecondary educational institution. For each student enrolled in such an institution, an amount equal to 90% of the pupil's proportionate share of the state, local, and federal aid that the district or charter school receives for such pupil, shall be deposited into an account that lists the pupil as the beneficiary.

Section 160.2700 to 160.2725 - These sections make changes to the adult high school provisions.

Section 161.385 - This provison establishes the "Competency-Based Education Task Force" to study and develop competency-based education programs in public schools. The Task Force members will be appointed before October 31, 2021: two members of the House of Representatives appointed by the Speaker, two members of the Senate appointed by the President

Pro Tem, four members appointed by the Governor. The Commissioner or his or her designee shall also serve on the Task Force. The members of the Task Force will represent the geographic diversity of the state.

Section 166.400 - 166.502 and 209.610 - These provisions 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.

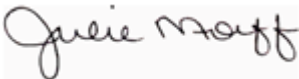
The Fund shall receive a portion of the interest derived from the investment of funds as outlined in the bill. Moneys in the Fund shall be used to provide scholarship seed money and to pay for personal service, equipment, and other expenses of the Treasurer related to administration.

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

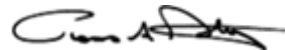
#### SOURCES OF INFORMATION

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  
Missouri House of Representatives  
Missouri Senate  
Office of the Governor  
Department of Health and Senior Services  
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  
High Point R-III School District  
Glenwood R-VIII School District  
Springfield R-XII School District



Julie Morff  
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March 9, 2021



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