

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3568-06
Bill No.: HCS for SCS for SB 1038
Subject: Education, Higher; Banks and Financial Institutions
Type: Original
Date: April 26, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue *	(Unknown)	(\$20,640 to Unknown)	(\$28,779 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	(Unknown)	(\$20,640 to Unknown)	(\$28,779 to Unknown)

* unknown expected to exceed \$100,000.

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTIONS

In response to a previous version of this proposal, officials from the **Office of the State Auditor** (SAO) assumed an audit of this program would require additional audit hours every year for ongoing review of the program and a semi-annual audit. SAO estimates one additional FTE would be needed for this program.

Oversight assumes SAO can complete the required program audit with existing resources.

Officials from the **Office of Administration, Division of Budget and Planning**, assume this proposal would have no impact on their organization.

Officials from the **Department of Higher Education** assume the proposal would have no direct impact on their organization.

ASSUMPTIONS (continued)

Officials from the **Office of the State Treasurer** (STO) noted that the proposal would extend the Missouri income tax deduction to all states' Internal Revenue Code (IRC) 529 programs. STO assumes the MOST program would likely no longer be in existence after 2005 should this bill become law since financial managers would likely market other states' existing IRC 529 programs.

The STO estimates significant tax losses to the state based on projected contributions to other states' tuition savings programs. These projected contributions were extrapolated from data showing the historical and projected growth of other states' IRC 529 savings programs. The STO has calculated a range of negative fiscal impact based on that data. Data for the IRC 529 programs is compiled based on tax years (calendar years) rather than fiscal years. As such, the STO estimates show calendar year figures.

2005 Lower Range

\$434.66 Million in tax deductible contributions to all states' IRC 529 plans.
\$26.08 Million gross revenue loss to Missouri.
Less \$6.7 Million anticipated reduction in income tax losses from the MOST program
\$19.38 Million net revenue loss to Missouri

2005 Higher Range

\$719.66 Million in tax deductible contributions to all 529 plans.
\$43.18 Million revenue loss to Missouri.
Less \$6.7 Million anticipated reduction in income tax losses from the MOST program
\$36.48 Million net revenue loss to Missouri

STO estimates the certificate of deposit tuition savings program would have the following fiscal impact to general revenues (each year assumes only a 25% growth):

ASSUMPTIONS (continued)

2006 Lower Range

\$551.66 Million in tax deductible contributions to all 529 plans.
\$33.10 Million revenue loss to Missouri.

2006 Higher Range

\$885 Million in tax deductible contributions to all 529 plans.
\$53.1 Million revenue loss to Missouri.

2007 Lower Range

\$699.41 Million in tax deductible contributions to all 529 plans.
\$41.96 Million revenue loss to Missouri.

2007 Higher Range

\$1,090 Million in tax deductible contributions to all 529 plans.
\$65.3 Million revenue loss to Missouri.

Oversight assumes this proposal could result in more Missouri taxpayers investing in qualified education savings programs but is not able to estimate the rate of growth for this program. According to the website for the Federal Reserve Board the national savings rate for all households in 2000 was 1.3 percent, with a substantially increasing higher savings rate for households with higher incomes. Oversight will show the revenue impact of this proposal as a negative unknown.

ASSUMPTIONS (continued)

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** assumed the proposal would create the Missouri Higher Education Deposit Program and the Missouri Higher Education Deposit Program Board to administer a program for tax free education savings deposits. The Director of the Division of Finance would be chairman of the board. In addition to the deposits, the board will develop and implement educational programs. The board of the Missouri Higher Education Deposit Program, the Department of Higher Education, and the Department of Revenue may promulgate rules to enact this legislation. SOS estimates these rules could require as many as 16 pages in the Code of State Regulations. These rules would be published in both the Missouri Register and Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in Code. SOS indicated that the cost of a page in the Missouri Register is \$23 and the cost of a page in the Code of State Regulations is \$27. $((24 \times \$23) + (16 \times \$27) = \$984)$

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Revenue (DOR)** assumed Personal Tax would need to verify the documentation on each subtraction and handle additional correspondence. DOR estimates that Personal Tax will need one Tax Processing Tech for every 30,000 additional deductions claimed and one Tax Processing Tech for every 3,000 additional pieces of correspondence received on this legislation. DOR deferred to the estimated revenue impact prepared by the State Treasurers Office or the Office of Administration, Division of Budget and Planning. DOR estimated a total of two new FTE would be required, and provided an estimate of the total cost for their salaries, benefits, additional equipment and expense, and office space for the new staff.

ASSUMPTIONS (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the Tax Processing Technician to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also reduced the amounts for equipment and expenses in accordance with Office of Administration budget guidelines, and Oversight assumes that the limited number of new staff for this proposal could be accommodated in existing office space. If additional proposals requiring new staff are approved, the space needed for the new staff could be addressed under the normal state budget process.

In response to a previous version of this proposal, officials from the **Office of Administration, Division of Accounting**, assumed the proposal would not have a direct impact on their organization.

In response to a similar proposal, officials from the **Department of Economic Development, Division of Finance**, and the **Department of Economic Development, Division of Credit Unions**, assumed this proposal would not have a direct impact on their organization.

In response to a similar proposal, officials from the **State Highway Patrol** assumed the proposal would not have a direct impact on their organization.

In response to a previous version of this proposal, officials from the **Office of the Attorney General** assumed that any additional cost resulting from this proposal could be absorbed with existing resources.

In response to a previous version of this proposal, officials from the **Office of State Courts Administrator** and the **Office of State Public Defender** assume that any additional costs resulting from the proposal would be addressed in future state budget requests.

Officials from the **Office of Prosecution Services** assume that any additional cost resulting from this proposal could be absorbed with existing resources.

Officials from the **Department of Public Safety** did not respond to our request for information.

ASSUMPTIONS (continued)

The Oversight Subcommittee met on March 4, 2004, and voted to reflect an unknown loss of revenue from this proposal beginning in FY 2006, and to reflect an administrative impact to the Department of Revenue of one-half FTE for FY 2006 and one FTE for FY 2007.

Officials from the **Department of Corrections** (DOC) assumed DOC cannot predict the number of new commitments which may result from the multi-tiered enhancement of the offenses(s) outlined in this proposal. An increase in commitments depends on the utilization by prosecutors and the actual sentences imposed by the court. The probability exists that offenders could already be criminally charged under existing statute, but this new language may make it easier to prosecute and/or convict. Since 2000, there have been 5 offenders in the DOC with identity theft charges. This translates into an annual rate of 1.67 individuals per year. The average time served for a class C felony is 15 months. From indications of potential future trends, identity theft is a growing area of crime.

If additional persons are sentenced to the custody of the DOC due to the provisions of this legislation, the DOC will incur a corresponding increase in operational cost either through incarceration (FY03 average of \$38.10 per inmate, per day or an annual cost of \$13,907 per inmate) or through supervision provided by the Board of Probation and Parole (FY03 average of \$3.15 per offender, per day or an annual cost of \$1,150 per offender). Supervision by the DOC through probation or incarceration would result in additional unknown costs to the department. Eight (8) persons would have to be incarcerated per fiscal year to exceed \$100,000 annually. It is assumed the impact would exceed \$100,000 per year for the DOC for the three years of this fiscal note period, but the long-range impact is unknown.

This proposal would decrease Total State Revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Loss - General Revenue</u>			
Reduced revenue due to higher contributions to IRC 529 programs.	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total revenue reduction - GR	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Cost - Department of Revenue</u>			
Personal Service (0, 0.5, 1.0 FTE)	\$0	(\$10,168)	(\$20,844)
Fringe Benefits	\$0	(\$3,599)	(\$7,379)
Equipment and Expense	<u>\$0</u>	<u>(\$6,873)</u>	<u>(\$556)</u>
Total Costs - DOR	<u>\$0</u>	<u>(\$20,640)</u>	<u>(\$28,779)</u>
<u>Cost - Department of Corrections</u>			
Increase in incarceration or probation costs *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
Total costs - DOC *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE *	<u>(Unknown)</u>	<u>(\$20,640 to Unknown)</u>	<u>(\$28,779 to Unknown)</u>

* expected to exceed \$100,000.

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could have a fiscal impact to small businesses involved in investments or banking.

DESCRIPTION

This proposal would create the "Missouri Higher Education Deposit Program". Which would be overseen by the Missouri higher education savings program board, with the addition of a member having demonstrable experience and knowledge in banking or deposit investments. Additional provisions in the proposal address deferred payment advance fees, financial institution advertising, and security interests.

The proposal would expand the deductibility of educational savings programs to include all states' IRC 529 plans, and would create criminal penalties for identity theft.

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 the Attorney General
Office of the State Auditor
Office of the State Treasurer
Office of the Secretary of State
Office of State Courts Administrator
Office of State Public Defender
Office of Administration
 Division of Budget and Planning
 Division of Accounting
Department of Corrections
Department of Higher Education
Department of Revenue
Department of Economic Development
 Division of Finance
 Division of Credit Unions
State Highway Patrol
Office of Prosecution Services

NOT RESPONDING

Department of Public Safety



Mickey Wilson, CPA
Director
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