

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3568-03
Bill No.: SB 1038
Subject: Education, Higher; Banks and Financial Institutions
Type: Original
Date: January 23, 2004

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUNDS | | | |
|---|----------------------------------|----------------------------------|----------------------------------|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| General Revenue * | (\$57,625 to Unknown) | (\$57,171 to Unknown) | (\$58,605 to Unknown) |
| | | | |
| Total Estimated Net Effect on General Revenue Fund * | (\$57,625 to Unknown) | (\$57,171 to Unknown) | (\$58,605 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>All</u> State Funds | \$0 | \$0 | \$0 |

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

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| ESTIMATED NET EFFECT ON FEDERAL FUNDS |
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| 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

ASSUMPTION

Officials of the **Office of the State Auditor (SAO)** assume 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 but that it may decrease total state revenue depending on usage of the Missouri Higher Education Deposit Program.

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

ASSUMPTION (continued)

Officials from the **Office of the State Treasurer** (STO) note that this proposal would allow direct deductions from state employees' pay to any number of bank and/or savings & loan deposit accounts. STO will defer to OA for an estimate of this cost. The second portion of this bill creates a certificate of deposit tuition savings program.

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):

FY 2005

\$2.88 million tax loss

[\$48 million estimated tax deductible contributions to the cd program * 6% Missouri tax rate = \$2.88 million]

FY 2006

\$3.6 million tax loss

[\$60 million estimated tax deductible contributions to the cd program * 6% Missouri tax rate = \$3.60 million]

FY 2007

\$4.5 million tax loss

[\$75 million estimated tax deductible contributions to the cd program * 6% Missouri tax rate = \$4.50 million]

The above calculations are based on an estimate that 40,000 accounts will be opened during the first year with an average account size of \$2,000.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** (SOS) assume this 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 Board, 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) assume 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.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the two Tax Processing Technicians 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.

According to the website for the Federal Reserve Board the national savings rate for households in 2000 was 1.3 percent. Oversight assumes the estimate calculated by STO could be reduced to better reflect the actual savings rate of Missourians. However, Oversight has not been able to obtain information to better determine the percentage of growth for this program and will show the revenue impact of this proposal as a negative unknown, expected to exceed \$100,000 annually.

Officials from the **Office of Administration**; the **Department of Economic Development, Division of Finance** and **Division of Credit Unions**; and the **State Highway Patrol**, assumed the proposal would not have a direct impact on their organizations.

Officials from the **Office of the Attorney General** assumed that any additional cost resulting from this proposal could be absorbed with existing resources.

Officials from the **Office of State Courts Administrator** and the **Office of State Public Defender** assume that any additional costs resulting from this proposal would be addressed in future state budget requests.

Officials from the **Office of Prosecution Services**, the **Department of Public Safety**, and the **Department of Corrections** did not respond to our request for information.

This proposal will 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. * | (Unknown) | (Unknown) | (Unknown) |
| Administrative cost of deposit program | <u>(Unknown)</u> | <u>(Unknown)</u> | <u>(Unknown)</u> |
| Total revenue reduction - GR * | (Unknown) | (Unknown) | (Unknown) |
| <u>Cost - Department of Revenue</u> | | | |
| Personal Service (2 FTE) | (\$33,066) | (\$39,680) | (\$40,672) |
| Fringe Benefits | (\$13,689) | (\$16,428) | (\$16,838) |
| Equipment and Expense | <u>(\$10,870)</u> | <u>(\$1,063)</u> | <u>(\$1,095)</u> |
| Total Costs - DOR | <u>(\$57,625)</u> | <u>(\$57,171)</u> | <u>(\$58,605)</u> |
| TOTAL ESTIMATED NET EFFECT ON GENERAL REVENUE * | <u>(\$57,625 to Unknown)</u> | <u>(\$57,171 to Unknown)</u> | <u>(\$58,605 to Unknown)</u> |

* unknown 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". This proposal would enable an annual income tax deduction of up to \$8,000 for contributions made to qualified savings programs and IRC 529 plans. The proposal would also establish a Missouri Higher Education Deposit Program overseen by a seven-member Missouri Higher Education Deposit Program Board. Additional provisions in the proposal address banking equity investments, deferred payment advance fees, financial institution advertising, security interests, and 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 Higher Education
Department of Revenue
Department of Economic Development
 Division of Finance
 Division of Credit Unions
State Highway Patrol

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NOT RESPONDING

**Office of Prosecution Services
Department of Public Safety
Department of Corrections**

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 23, 2004

SS:LR:OD (12/02)