

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1164S.01I  
 Bill No.: SB 107  
 Subject: Education, Elementary and Secondary; Education, Higher; Teachers  
 Type: Original  
 Date: April 17, 2023

Bill Summary: This proposal provides a student loan forgiveness program for students who become teachers in high needs public or charter schools.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue	Up to (\$66,584,954)	Up to (\$66,511,071)	Up to (\$66,570,037)
<b>Total Estimated Net Effect on General Revenue</b>	<b>Up to (\$66,584,954)</b>	<b>Up to (\$66,511,071)</b>	<b>Up to (\$66,570,037)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Advantage Missouri Teachers Trust	\$0	\$0	\$0 to Unknown
Colleges and Universities	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0 to Unknown</b>	<b>\$0 to Unknown</b>	<b>\$0 to Unknown</b>

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
General Revenue	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>Up to 4 FTE</b>	<b>Up to 4 FTE</b>	<b>Up to 4 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>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §§173.775 - 173.796 – Student loan forgiveness for students who become teachers in high-need public/charter schools

Officials from the **Department of Higher Education and Workforce Development (DHEWD)** state §173.784 establishes a program to award a loan for students in educator prep programs, that converts into a grant if they have four qualifying years teaching in a high-needs public school. The maximum a participant may borrow is \$3,500 per semester for eight semesters (\$28,000) as an undergraduate, or \$3,000 per semester for four semesters (\$12,000) for graduate/master's programs. Borrowers may then be eligible for loan forgiveness by agreeing to be employed full time as a teacher in a high-needs school.

DHEWD's data shows, on average, approximately 2,750 undergraduates complete educator prep programs (EPP) per year, and around 3,580 graduate students complete an EPP. Looking at IPEDS and NCES data, DHEWS know that about 46 percent of undergrads and 60 percent of graduate students take out loans.

$0.46 \times 2,750$  undergraduates = 1,266 undergrads at \$7,000 a year would equal \$8,862,000/year, multiplied by four (since, potentially four cohorts could be borrowing at the same time) equals \$35,448,000 annually.  $0.60 \times 3,580$  graduate students = 2,147 graduate students at \$6,000 a year would equal \$12,882,000/year, multiplied by two (since, potentially two cohorts could be borrowing at the same time) and the total amount equals \$25,764,000 annually, for a grand total of \$61,212,000.

It is estimated that no loans would be forgiven in FY 2025. It is estimated in FY 2026 that 25% of the FY 2024 borrowers at both the graduate and undergraduate levels would agree to be employed full time as a teacher in a high-needs school. This will result in  $0.25 \times \$8,862,000 = \$2,215,000$  in undergraduate loans and  $0.25 \times \$12,882,000 = \$3,220,500$  being forgiven in FY 2026. The total amount forgiven in FY 2026 will be \$5,435,500 ( $\$2,215,000 + \$3,220,500$ ).

In order to implement the program, DHEWD will require the services of a Program Specialist at an initial salary of \$41,000 annually. This position will serve as the lead in DHEWD in developing and managing the ongoing program as well as serving as a liaison with ITSD and borrowers.

In addition to one FTE within DHEWD, the program will be implemented through a contract. It is estimated that a one-time set up fee will cost \$20,000. Servicing costs are estimated to be \$10 per loan. The actual cost can be much higher if the loan requires extra work, becomes delinquent or goes into default, but the \$10 per loan is a recommended starting point. It is assumed these

fees would begin in FY 2026. The 3,413 loans (1,266 undergraduates + 2,147 graduates) annually will have an annual servicing cost of \$34,130 (total contract – loan administration \$54,130).

Lastly, there will be an impact for ITSD work. Updates will be needed to the FAMOUS system to accommodate this program. The costs of initial consulting work to make the modifications and ongoing maintenance are as follows: FY 2024 - \$100,548; FY 2025 - \$20,612; FY 2026 - \$21,127.

**Oversight** does not have any information to the contrary. Therefore, Oversight will reflect the fiscal impact provided by DHEWD. Oversight notes that forgiveness of student loans includes the forgiveness of any accrued interest associated with those loans while the individual is employed full-time as a teacher is a high-needs school and otherwise meets the eligibility requirements for loan forgiveness (§173.790.1(6)). Oversight assumes DHEWD estimates include any interest forgiven.

Students failing to comply with the employment requirements established by DHEWD shall be required to repay with interest any or all loans received (§173.787). **Oversight** assumes some students will not comply with the employment requirements and will be required to repay loans made under this program. Therefore, beginning in FY2026, Oversight will present a \$0 to Unknown positive impact to the Advantage Missouri Teachers Trust Fund for loans and interest repaid by students as §173.775.2 provides that all funds generated by loan repayments will be credited to the fund.

**Oversight** notes the Advantage Missouri Program (fund 0856, originally implemented in 1998) is being replaced by the Advantage Missouri Teachers Program. Per DHEWD's 2020 budget book, funding for students was terminated in 2004-2005 and the last participating student graduated in August 2007. The loan repayment and forgiveness process continued in order to permit the department to accept loan payments from graduates and to make any necessary refunds to those graduates if they overpaid their loan account. Servicing of repayment and loan forgiveness under this program concluded in FY 2018.

Review of the State Treasurer's Year End Fund Activity Report shows that at the end of FY2017, the fund balance of the Advantage Missouri Program was \$7,763; at the end of FY2018, the fund balance was \$7,653; and, at the end of FY2019 was \$0.

Officials from the **Department of Revenue (DOR)** state this proposal changes the name of the Advantage Missouri Program to the Advantage Missouri Teachers Program and changes the name of the fund for this program. These changes will not have a fiscal impact on the DOR.

This proposal would increase the loan amount that may be awarded, under the Advantage Missouri Teachers Program but would restrict the program from incentivizing employment in a number of occupational areas of high demand to instead incentivize teachers to teach at high-

needs schools. The loans offered under this program are eligible for forgiveness if certain criteria are met.

It should be noted that under current federal law IRC Section 108(f)(1)-(2) that income from the discharge/forgiveness of a student loan from December 31, 2020 to January 1, 2026 is not taxable. However, after January 1, 2026, they may potentially be taxable. At this time, DOR cannot determine how many students may receive these loans, how much of these loans will be distributed, or if any of the loans received will be discharged/forgiven or when and, therefore, the DOR is unable to determine an impact from this portion of the proposal. Any loss would be unknown and would be considered foregone revenue.

This proposal would also re-institute the tax credit under §173.796 for contributions made to the Advantage Missouri Teachers Program that would be used for making the loans. This credit is for 50% of the taxpayer's contribution amount and provides for a taxpayer cap of \$100,000 and a cumulative cap for the program of \$5,000,000 annually. This credit is not refundable but can be carried forward up to 10 years.

This proposal would not be effective until August 28, 2023 and, therefore, would not be claimed on the tax returns until January 1, 2024 (FY 2024).

Fiscal Year	Loss to General Revenue
2024	(\$5,000,000)
2025	(\$5,000,000)
2026+	(Unknown greater than \$5,000,000)

This proposal requires that the taxpayer claiming the credit file an application for the credit with their tax return. Therefore, the DOR would need to verify that the taxpayer met the requirements of this proposal. Additionally, it requires DOR to hand-out the credits on a first-come, first-serve basis. Verification and certification processes are usually handled by other agencies. In this case the Department of Higher Education and Workforce Development is accepting the donations, therefore, they should verify the receipt of the donation.

Once another agency verifies a person's qualifications, they are given a receipt that is attached to the tax return for DOR to process. Requiring DOR to do the verification and certification is outside the department's normal administrative scope. The DOR assumes, in order to do this verification, it will need 1 Auditor (\$49,685) and 2 Associate Customer Service Representatives (\$31,200) to do the necessary verifications.

This will be a new credit that will need to be added to the MO-TC form, DOR's website and its individual income tax computer system. These changes are estimated at \$7,193.

**Oversight** does not have any information to the contrary. Oversight assumes the Advantage Missouri Tax credit amount distributed will be "up to" \$5,000,000 annually. Oversight will

reflect the estimated fiscal impact provided by DOR except Oversight assumes loans discharged as grants have already been accounted for in the transfer from General Revenue to the Advantage Missouri Trust Fund.

Officials from the **Office of Administration - Budget and Planning (B&P)** state:

173.775: This legislation modifies the "Advantage Missouri Program" into the "Advantage Missouri Teachers Program". The Advantage Missouri Teachers Trust Fund will provide loans under the program. All funds generated by loan repayment and all penalties received shall be credited to the fund.

173.784: An eligible student may be awarded a loan of up to \$3,500 per undergraduate semester or \$3,000 per graduate semester, not to exceed an annual maximum of \$7,000 for undergraduate students and \$6,000 for graduate students.

173.787: Eligible students who are in compliance may qualify for forgiveness of a loan.

173.790: No interest shall be assessed while the student is enrolled full time or part time with the approval of the board and meets eligibility requirements. Interest accrued on any loan will be forgiven with the loan amount if the applicant meets eligibility requirements for loan forgiveness.

173.796: This reauthorizes a tax credit that has a sunset. There is a cap of \$5M annually, which may decrease TSR in an amount up to \$5M.

This legislation may impact TSR and the calculation pursuant to 18(e).

Officials from the **University of Missouri** state the proposed legislation could have a positive impact for the University of Missouri. The University currently has 1,527 students which would qualify for this program. The impact amount cannot be determined.

Officials from the **University of Central Missouri (UCM)** state this proposal has the potential to increase revenue to UCM if it leads to increased enrollment.

**Oversight** does not have any information to the contrary. Oversight assumes the provisions of this proposal may have a positive impact on colleges and universities if enrollment increases due to this additional loan/grant program and will present a \$0 to Unknown impact for fiscal note purposes.

Officials from the **St. Charles Community College** assumes no fiscal impact.

Officials from the **Office of the State Treasurer (STO)** did not respond to Oversight's request for a statement of fiscal impact. Oversight assumes, for fiscal note purposes, this proposal will have no fiscal impact on the STO.

**Oversight** only reflects the responses received from state agencies and political subdivisions; however, other colleges and universities were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>GENERAL REVENUE FUND</b>			
<u>Revenue reduction</u> – Advantage Missouri Tax credit (§173.796) p. 4-6	Up to (\$5,000,000)	Up to (\$5,000,000)	Up to (\$5,000,000)
<u>Transfer-out</u> – to Advantage Missouri Teachers Trust Fund (§§173.775 to 173.796) – Loans to students p. 3-4	Up to (\$61,212,000)	Up to (\$61,212,000)	Up to (\$61,212,000)
<u>Costs</u> – DHEWD (§§173.775 to 173.796) p. 3-4			
Personal service	(\$34,167)	(\$41,820)	(\$42,656)
Fringe benefits	(\$25,770)	(\$31,231)	(\$31,544)
Equipment and expense	(\$8,590)	(\$906)	(\$924)
IT consultants	(\$100,548)	(\$20,612)	(\$21,127)
Contract – Loan administration	\$0	\$0	(\$54,130)
<b>Total Costs – DHEWD</b>	<b>(\$169,075)</b>	<b>(\$94,569)</b>	<b>(\$150,381)</b>
FTE Change – DHEWD	1 FTE	1 FTE	1 FTE
<u>Costs</u> – DOR (§173.796) p.4-6	Up to...	Up to...	Up to...
Personal service	(\$93,404)	(\$114,327)	(\$116,613)
Fringe benefits	(\$73,039)	(\$88,464)	(\$89,298)
Equipment and expense	(\$37,436)	(\$1,711)	(\$1,745)
<b>Total Costs – DOR</b>	<b>(\$203,879)</b>	<b>(\$204,502)</b>	<b>(\$207,656)</b>
FTE Change – DOR	3 FTE	3 FTE	3 FTE
<b>ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND</b>	<b>Up to (\$66,584,954)</b>	<b>Up to (\$66,511,071)</b>	<b>Up to (\$66,570,037)</b>
Estimated Net FTE Change on the General Revenue Fund	Up to 4 FTE	Up to 4 FTE	Up to 4 FTE

<u>FISCAL IMPACT – State Government</u> (continued)	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>ADVANTAGE MISSOURI TEACHERS TRUST FUND</b>			
<u>Transfer-in – from General Revenue Fund (§§173.775 to 173.796) – Forgivable loans p.3-4</u>	\$61,212,000	\$61,212,000	\$61,212,000
DHEWD – Loans/grants to students*	(\$61,212,000)	(\$61,212,000)	(\$61,212,000)
Loan repayments/penalties**	<u>\$0</u>	<u>\$0</u>	<u>\$0 to Unknown</u>
<b>ESTIMATED NET EFFECT ON THE ADVANTAGE MISSOURI TEACHERS TRUST FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0 to Unknown</u></b>
*If students meet the requirements of the proposal (working full-time as a teacher in a qualifying high-needs school district), the loan becomes a grant that does not need to be repaid. DHEWD estimates \$5,435,500 will be forgiven annually beginning in FY2026.			
** Loan repayments/penalties made by students who did not meet the requirements for the loan to be forgiven.			
<b>COLLEGES AND UNIVERSITIES</b>			
<u>Income – Colleges and Universities – Increased tuition and fees p.6</u>	\$0 to Unknown	\$0 to Unknown	\$0 to Unknown
<b>ESTIMATED NET EFFECT ON COLLEGES AND UNIVERSITIES</b>	<b><u>\$0 to Unknown</u></b>	<b><u>\$0 to Unknown</u></b>	<b><u>\$0 to Unknown</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>



FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Current law contains a program entitled the "Advantage Missouri Program" which provides loans to, and establishes a loan forgiveness program for, students in approved educational programs who become employed in occupational areas of high demand in Missouri. This act modifies this program by applying it specifically to students who become teachers in high needs public or charter schools.

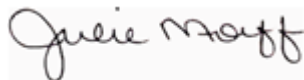
Under the program, an eligible student may participate for up to either eight undergraduate semesters or four graduate semesters, but not both, whether consecutive semesters or not. The eligible student may additionally be awarded a loan of up to \$3,500 per undergraduate academic semester or \$3,000 per graduate academic semester by the board, not to exceed an annual maximum of \$7,000 for undergraduate students, and \$6,000 for graduate students toward an initial teacher certification.

The act reauthorizes until January 1, 2030, a tax credit for contributions made by taxpayers to the renamed "Advantage Missouri Teachers Trust Fund" which is used to provide loans under this act.


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 and Planning  
Department of Higher Education and Workforce Development  
Department of Revenue  
University of Missouri  
University of Central Missouri  
St. Charles Community College



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