PREPARED BY: Keisha Patent
DATE PREPARED: April 17, 2019
PHONE: 402-471-0059

LB 610

Revision: 01

Revised due to adoption of amendments on General File

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)

	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

Any Fiscal Notes received from state agencies and political subdivisions are attached following the Legislative Fiscal Analyst Estimate.

Amendments AM917 and AM1365 replace the original provisions of LB 610. As amended, LB 610 creates two new programs, the Employer Matching Contribution Incentive Program and the College Savings Plan Low-Income Matching Scholarship Program. Both programs begin January 1, 2022, and will be implemented and administered by the State Treasurer.

The Employer Matching Contribution Incentive Program (Employer Program) allows employers who make matching contributions to an account established under the Nebraska educational savings plan trust, matching all or part of a contribution made to the same account by an employee, to receive an incentive payment. Employers must apply to the State Treasurer between January 1 and June 1 for contributions made the preceding year. The incentive payment equals 25% of the total matching contributions made, not to exceed $2,000 per employee.

"Employer" includes any individual, partnership, limited liability company, association, corporation, business trust, legal representative, or organized group employing one or more employees, but excludes federal, state, and local government entities.

The State Treasurer can approve up to $250,000 in Employer Program incentive payments each year. LB 610 creates the College Savings Incentive Cash Fund. The fund must be used to provide Employer Program incentive payments. On or before June 20, 2022, and each year thereafter, the State Treasurer must determine the amount needed for Employer Program incentive payments and transfer the amount from the General Fund to the College Savings Incentive Cash Fund and distribute the incentive payments.

The State Treasurer can adopt and promulgate rules and regulations for the Employer Program.

The College Savings Plan Low-Income Matching Scholarship Program (Low-Income Program) provides matching state funds for contributions made by participants whose household income is not more than 250% of the federal poverty level. The provisions are substantially similar to the provisions introduced in LB 547. The matching funds equal:

- 100% of the contribution if the beneficiary is part of a family whose household income from the most recent taxable year is between 200% and 250% of the federal poverty level, not to exceed $1,000 each year; or
- 200% of the contribution if the beneficiary is part of a family whose household income from the most recent taxable year is below 200% of the federal poverty level, not to exceed $1,000 each year.

Participants must apply to the State Treasurer, who can approve up to $250,000 in matching funds each year. Between January 1 and 31 each year, the State Treasurer must transfer from the General Fund to the College Savings Incentive Cash Fund the amount necessary to meet the matching obligations of the Low-Income Program of the preceding year, minus any private contributions received during the preceding calendar year. The State Treasurer must then transfer the necessary amount from the College Savings Incentive Cash Fund to the College Savings Plan Program Fund to be distributed in the appropriate accounts of participants making contributions under the program.

TECHNICAL NOTE: The language creating the College Savings Incentive Cash Fund authorizes the fund to be used to provide incentive payments under the Employer Program only. However, fund is also used for matching contributions for purposes of the Low-Income Program under the bill without including language authorizing the fund to be used for such purpose.

Finally, LB 610 clarifies that a distribution from an account to pay costs of attending kindergarten through grade twelve is a nonqualified withdrawal for purposes of the Nebraska educational savings plan trust.

Employer Program: There are a handful of states that have incentive programs for employers who make matching contributions to an employee's college savings account. In most states these incentive programs operate as a credit against corporate income tax or payroll tax, and most states have enacted the provision recently, to begin with tax years 2017, 2018, or 2019. As a result, there is little data on the actual cost of matching programs structured in this manner.

Illinois enacted its tax credit first, in 2009. Since then, the program has had seven employers contribute $2,000 to $6,000 per employee to 77 employees' accounts. Nevada enacted a program in 2015. As of 2018, no employer has used the credit. Colorado recently enacted legislation to create a tax credit and estimated 10 employers would contribute $2,500 each to 100 employees' accounts for a total fiscal impact of approximately $50,000 per year. All three of these states allow a credit of 20-25% of the contribution, but have a cap of $500 per employee.

The State Treasurer estimates no fiscal impact for this program, and the Department of Revenue estimates the statutory maximum of $250,000 will be achieved in the first year. However, we disagree with both agencies. Based upon the data and estimates of other states who have enacted similar provisions, we estimate 5 employers will use the Employer Program and contribute an average of $4,000 per employee for 10 employees each, resulting in an incentive payment of $1,000 per employee.

The transfer to the College Savings Incentive Cash Fund for Employer Program incentive payments results in a General Fund revenue loss as follows:

FY 19-20	$0
FY 20-21	$0
FY 21-22	($50,000)
FY 22-23	($50,000)
FY 23-24	($50,000)
FY 24-25	($50,000)

Low-Income Program: About a dozen states have a low-income matching program. For comparison, we look at two states, Kansas and North Dakota, which have had a program for many years and have data available on usage rates and matching funds required.

Kansas has had a low-income matching contribution program since 2007. The program is available to applicants with income 200% of the federal poverty level or below and is capped at 1,200 applicants per year and $600 matching funds per applicant. In its first year, total matching funds were $43,278 for 93 beneficiaries. Since then, average annual matching funds have been $372,547 for an average of 736 beneficiaries. The average matching contribution has consistently been about $520 per year per beneficiary.

North Dakota has had a low-income matching contribution program since 2010. The program is available to applicants with adjusted gross income up to $120,000 if married filing jointly, or up to $80,000 if single, and is a one-time $300 match. Until 2018, applicants could receive the match for 3 years. In its first year, the income threshold was lower, at $40,000, and total matching funds were $37,110. Since then, average annual matching funds have been $306,169.

While both states' programs vary somewhat from the provisions of LB 610, it is reasonable to assume that the rate of usage will be at least as high as in these states. The income threshold in LB 610 falls between those in Kansas and North Dakota. The program in LB 610 allows for over 30% of Nebraska families to be eligible according to the 2017 American Community Survey. The program in LB 610 also allows for higher caps on the matching funds than in either Kansas or North Dakota of $1,000 per beneficiary.

The State Treasurer estimates no fiscal impact for this program, and the Department of Revenue estimates the statutory maximum of $250,000 will be achieved in the first year and each year thereafter. However, we disagree with both agencies.

Based upon the number of Nebraska families eligible, rates of usage in other states, and average contribution amounts, we estimate the impact will be more limited the first year of implementation and will increase substantially the second year. We estimate approximately 80 applicants will use the program the first year, requiring matching funds averaging $500 each, and usage will increase to approximately 525 applicants the second year, requiring matching funds averaging $500 each to exceed the maximum available.

The transfer to the College Savings Incentive Cash Fund for the Low-Income Program matching contributions results in a General Fund revenue loss as shown on the following page:

FY 19-20	$0
FY 20-21	$0
FY 21-22	($40,000)
FY 22-23	($250,000)
FY 23-24	($250,000)
FY 24-25	($250,000)

The bill provides that private contributions can be used for matching funds for this program. However, it is not possible to estimate the extent of any future private contributions, and therefore, such are not included here.

Revenue: We estimate total revenue to the General Fund as a result of both the Employer Program and the Low-Income Program is as follows:

FY 19-20	$0
FY 20-21	$0
FY 21-22	($90,000)
FY 22-23	($300,000)
FY 23-24	($300,000)
FY 24-25	($300,000)

Expenditures:

The State Treasurer estimates both the Employer Program and the Low-Income Program can be administered by current staff and with existing resources. The Department of Revenue estimates no cost to implement the bill.

There is no basis to disagree with these estimates.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE		
LB: 610	AM: 917, 1365	AGENCY/POLT. SUB: State Treasurer
REVIEWED BY: Lee Will	DATE: 4/25/2019	PHONE: (402) 471-4175
COMMENTS: No basis to disagree with the State Treasurer’s assessment of fiscal impact.		

Please complete **ALL** (5) blanks in the first three lines. **2019**

LB(1) 610, AM1365 REVISED **FISCAL NOTE**

State Agency OR Political Subdivision Name: (2) State Treasurer

Prepared by: (3) Tyson Larson Date Prepared: (4) 4/24/19 Phone: (5) (402) 471-1234

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	FY 2019-20		FY 2020-21	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS				

Explanation of Estimate:
No Fiscal Impact.

The Treasurer's office does not expect to have any fiscal impact with the implementation of LB610 as amended by AM917. Any extra work that LB610 may incur will easily be able to be absorbed by current staff.

Based on information from other states that have a similar incentive for employers such as Wisconsin, Illinois, Nevada and Colorado, we expect the number of employers initially utilizing the program to be very limited, therefore not requiring a significant amount of general funds to sustain the program or staff time to administer the credits.

The Treasurer's office does not expect to have any fiscal impact with the adoption of AM1365 to LB610. Any extra work that LB610 may incur will easily be able to be absorbed by current staff.

Based on information from other states that have a similar incentive programs to be very limited, therefore not requiring a significant amount of funds to sustain the program or staff time to administer.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

POSITION TITLE	NUMBER OF POSITIONS 19-20	20-21	2019-20 EXPENDITURES	2020-21 EXPENDITURES
Benefits				
Operating				
Travel				
Capital outlay				
Aid				
Capital improvements				
TOTAL				

LB 610 AM 1365 AM 917 Fiscal Note 2019

State Agency Estimate

State Agency Name: Department of Revenue		Date Due LFA:
Approved by: Tony Fulton	Date Prepared:	Phone: 471-5896

	FY 2019-2020		FY 2020-2021		FY 2021-2022	
	Expenditures	Revenue	Expenditures	Revenue	Expenditures	Revenue
General Funds	$0	$0	$0	$0	$0	($500,000)
Cash Funds						
Federal Funds						
Other Funds						
Total Funds	$0	$0	$0	$0	$0	($500,000)

AM 1365 establishes the College Savings Plan Low-Income Matching Scholarship Program (the "Scholarship Program"), beginning January 1, 2022. AM 917 establishes the College Savings Incentive Cash Fund (the "Incentive Fund"), Section 8, and Employer Matching Contribution Incentive Program (the "Incentive Program"), Section 9. AM 1365 retains all the provisions of AM 917.

AM 917 establishes the Incentive Fund and the Incentive Program. These new provisions are harmonized with the other existing provisions relating to the Nebraska Educational Savings Plan Trust including incorporation of the definitions in Neb. Rev. Stat. § 85-1802. The Incentive Fund is administered by the State Treasurer and is used to provide "incentive payments" under the Incentive Program. The Incentive Fund is not considered an asset of the Nebraska educational savings plan trust. Any money available for investment in the Incentive Fund will be invested by the State investment officer according to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.

Under the Incentive Program, beginning on January 1, 2022, an "employer" is eligible to receive an "incentive payment" if the "employer" made a "matching contribution" during the immediately preceding calendar year. Employer includes individuals, partnerships, limited liability companies, associations, corporations, business trusts, legal representatives, or organized groups of persons that employ one or more employees at any one time, excluding the United States, the state, or any political subdivision of the state. Matching contribution means a contribution made by an employer to an account established under the Nebraska educational savings plan trust in an amount matching all or part of a contribution made to that same account by an employee of the employer.

The employer must submit an application for the "incentive payment" that includes the number of employees for whom matching contributions were made and the amount of matching contributions made in the immediately preceding year. The State Treasurer accepts applications from January 1 to June 1 of each year, beginning in 2022. If the State Treasurer determines the employer qualifies for the "incentive payment", then the State Treasurer approves the application and notifies the employer of the approval. Employers may receive an "incentive payment" equal to twenty-five percent of the total matching contribution made during the immediately preceding calendar year, not to exceed two thousand dollars per contributing employee per year. There is a two hundred fifty thousand dollar cap on incentive payments per year, not to be exceeded. On or before June 30, 2022 and on or before June 30 of each year thereafter, the State Treasurer determines the total amount of "incentive payments" approved for the year, transfers this amount from the General Fund to the Incentive Fund and distributes the "incentives payments" to the approved employers.

The State Treasurer may adopt and create rules and regulations to carry out the Employer Matching Contribution Incentive program.

AM 1365 establishes the Scholarship Program under which participants are eligible to receive matching contributions for contributions made to accounts under the Nebraska educational savings plan trust for beneficiaries that are a part of a family whose household income for the most recently completed taxable year is not more than two hundred fifty percent of the federal poverty level. The State Treasurer will implement and administer the program. Upon application and approval, the State of Nebraska will provide matching scholarship funds equal to one hundred percent of the participant's contribution if the beneficiary for whom the contribution is made is part of family whose household income for the most recently completed taxable year is more than two hundred percent, but not more than two hundred fifty percent of the federal poverty level; and two hundred percent of the participants contribution if the beneficiary for whom the contribution is made is part of a family whose household income for the most recently competed taxable year is not more than two hundred percent of the federal poverty level. In either case, the matching contribution must not exceed one thousand dollars annually. Between January 1 and January 31 of each year the State Treasurer will transfer from the General Fund to the College Saving Incentive Cash Fund (the "Cash Fund") the amount necessary to meet the matching contributions of this section minus private contributions under AM 917 Section 8. The amounts will then be transferred to the College Savings Plan Program Fund to be deposited into the appropriate accounts of the participants making contributions under the Scholarship Program. There is a two hundred fifty thousand dollar cap on the matching scholarship funds available for each calendar year under the Scholarship Program.

AM 1365 also adds to the definition of "nonqualified withdrawal", under Neb. Rev. Stat. § 85-1802, "a distribution from an account to pay the costs of attending kindergarten through grade twelve." Lastly, it adds to Section 8 of AM 917 that an additional purpose of the Cash Fund is to provide matching scholarships under the Scholarship Program. The State Treasurer will accept contributions from private individuals and entities and credit contributions received to the Cash Fund for the purpose of providing ongoing funding for the Scholarship Program. As written, any private contributions will be in addition to the two hundred fifty thousand dollar cap on the matching scholarship funds.

It is assumed that these programs will be fully utilized resulting in an estimated total reduction to the General Fund as follows:

FY 2019-2020	$ 0
FY 2020-2021	$ 0
FY 2021-2022	$ 500,000
FY 2022-2023	$ 500,000
FY 2023-2024	$ 500,000

Since these programs are administered by the State Treasurer's office, there is no cost to the Department to administer these amendments.

Major Objects of Expenditure

Class Code	Classification Title	19-20 FTE	20-21 FTE	21-22 FTE	19-20 Expenditures	20-21 Expenditures	21-22 Expenditures
Benefits……							
Operating Costs……							
Travel……							
Capital Outlay……							
Capital Improvements……							
Total……							