PREPARED BY: Keisha Patent
DATE PREPARED: May 20, 2019
PHONE: 402-471-0059

LB 610

Revision: 02

FISCAL NOTE

LEGISLATIVE FISCAL ANALYST ESTIMATE

Revised due to adoption of amendments on Select File

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	$7,500			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$7,500			

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

As amended on Select File by AM1554, LB 610 creates three new programs, the Meadowlark Program, the Employer Matching Contribution Incentive Program, and the College Savings Plan Low-Income Matching Scholarship Program.

Meadowlark Program: As amended on Select File, LB 610 incorporates provisions of LB 544, which adopts the Meadowlark Act. The bill creates a trust fund, the Meadowlark Endowment Fund, consisting of private contributions and any amounts appropriated or transferred by the Legislature.

By March 1 each year, the Department of Health and Human Services (DHHS) must transmit the following to the State Treasurer: (1) the full name and address of each child's parent/guardian and (2) the child's birth date. Parents/guardians will be notified of the program, and unless they opt out, their child will be enrolled. The State Treasurer will open an account under the Nebraska educational savings plan trust (NEST account) for each child enrolled.

By April 1 each year, the State Treasurer must determine (1) the number of accounts opened under the program the previous year and (2) the investment income earned from the Endowment Fund, and evenly distribute the income to all of the accounts. NEST accounts are owned by the trust, and disbursements must be made before the individual reaches age 30 or unused funds are transferred back to the Endowment Fund.

Employer Program: The Employer Matching Contribution Incentive Program (Employer Program) allows employers who make matching contributions to a NEST account, 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. The program begins January 1, 2022, and will be implemented and administered by the State Treasurer.

"Employer" includes any individual, partnership, limited liability company, association, corporation, business trust, legal representative, or organized group employing one or more employees, but excludes government entities. As amended on Select File, an employer cannot receive an incentive payment if the employer claimed an income tax deduction pursuant to section 77-2716.

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 30, 2022, and each year thereafter, the State Treasurer must determine the amount needed for Employer Program incentive payments and transfer the amount from the College Savings Plan Expense Fund or the Unclaimed Property Escheat Trust Fund to the College Savings Incentive Cash Fund and distribute the incentive payments.

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 in 2009. Since, 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 $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.

Based upon the data and estimates of other similar programs, 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 Employer Program results in a Cash Fund expenditure 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: 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 program begins January 1, 2022, and will be implemented and administered by the State Treasurer.

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 College Savings Plan Expense Fund or the Unclaimed Property Escheat Trust 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.

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.

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 Low-Income Program results in Cash Fund expenditures as follows:

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.

Other Provisions: 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.

Total Expenditures: It is not possible to estimate the costs of the Meadowlark Program at this time. LB 610 does not identify intent to appropriate or transfer any state funds to the Endowment Fund at this time. The bill anticipates private contributions to the Endowment Fund, with interest on the principal disbursed to enrolled children's' accounts. There are approximately 26,000 children born in Nebraska each year. However, absent any authorized appropriations or transfers or information regarding future private contributions, it is not possible to estimate how much interest will be available from the Endowment Fund to be distributed in NEST accounts for enrolled children.

We estimate the total Cash Fund expenditures for the Employer and Low-Income Programs to be as follows:

Year	Cash Funds
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

The bill does not specify whether the transfers to the College Savings Plan Incentive Fund to fund the Employer Program and the Low-Income Matching Program will be from the Unclaimed Property Escheat Trust Fund or the College Savings Plan Expense Fund or both. As a result, we cannot determine at this time how much of the estimated cost of the program will come from either fund.

If the Unclaimed Property Escheat Trust Fund is used to fund either the Employer Program or the Low-Income Matching Program, and less is transferred to the permanent school fund as a result, there could be a reduction in the amount distributed to public schools through the temporary school fund.

The State Treasurer estimates the Meadowlark Program, the Employer Program, and the Low-Income Program can be administered by current staff and with existing resources. DHHS estimates a one-time cost of $7,500 to implement the requirements of LB 610, to be paid by the College Savings Plan Expense Fund. There is no basis to disagree with these estimates.

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

LB(1) 610, AM1771 **FISCAL NOTE**

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

Prepared by: (3) Tyson Larson **Date Prepared: (4)** 5/16/19 **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 to the State Treasurer's office. The Treasurer's office does not expect to have any fiscal impact with the implementation or administration of LB610 as amended by AM1771. Any extra work that LB610 may incur will easily be able to be absorbed by current staff.

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(1) 610 AM1771 FISCAL NOTE 2019

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

State Agency or Political Subdivision Name:(2) Department of Health and Human Services

Prepared by: (3) Mike Michalski Date Prepared 5-23-19 Phone: (5) 471-6719

	FY 2019-2020		FY 2020-2021	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS				
CASH FUNDS	$7,500			
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS	$7,500	$0	$0	$0

Return by date specified or 72 hours prior to public hearing, whichever is earlier.

Explanation of Estimate:

LB 610, as amended, creates a scholarship program that qualifies individuals based upon birth date and birth location among other conditions. LB 610 would require the Department of Health and Human Services to provide birth data to the State Treasurer's Office beginning March 1, 2020 and every year after.

The Office of Vital Records would transmit the data reports electronically from the existing vital records system. The export would be set up to automatically execute and transmit a recurring report to the State Treasurer's Office. The Department estimates the vital records system vendor NetSmart would charge approximately $7,500 to write and verify code to fulfill the requirements of LB 610.

MAJOR OBJECTS OF EXPENDITURE

PERSONAL SERVICES:

POSITION TITLE	NUMBER OF POSITIONS 19-20	NUMBER OF POSITIONS 20-21	2019-2020 EXPENDITURES	2020-2021 EXPENDITURES

	2019-2020	2020-2021
Benefits		
Operating	$7,500	
Travel		
Capital Outlay		
Aid		
Capital Improvements		
TOTAL	$7,500	$0