

FISCAL NOTE
LEGISLATIVE FISCAL ANALYST ESTIMATE

ESTIMATE OF FISCAL IMPACT – STATE AGENCIES (See narrative for political subdivision estimates)				
	FY 2018-19		FY 2019-20	
	EXPENDITURES	REVENUE	EXPENDITURES	REVENUE
GENERAL FUNDS		(\$2,840,000)		(\$4,140,000)
CASH FUNDS				
FEDERAL FUNDS				
OTHER FUNDS				
TOTAL FUNDS		(\$2,840,000)		(\$4,140,000)

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

LB 804 amends Nebraska Revised Statutes regarding the educational savings plan.

The bill adds to the definition of qualified education expenses to now include tuition in connection with enrollment or attendance at an elementary or secondary school, either public, private, or religious, for purposes of the Nebraska educational savings plan trust. The definition excludes any amounts over \$10,000 per beneficiary per taxable year. This section is operative beginning January 1, 2020.

The College Savings Plan Program Fund, the College Savings Plan Expense Fund, and the College Savings Plan Administrative Fund are all renamed by striking “College” and inserting “Education.”

Sections 4 through 16 and Section 18 of the bill have an operative date of January 1, 2020. The other sections of the bill become operative on their effective date.

The Department of Revenue estimates the following fiscal impact to the General Fund as a result of the provisions of LB 804:

FY2018-19:	(\$ 2,840,000)
FY2019-20:	(\$ 4,140,000)
FY2020-21:	(\$ 5,480,000)
FY2021-22:	(\$ 6,880,000)

The Department of Revenue indicates minimal costs to implement LB 804.

The Department indicates that the bill is the legislation for incorporating additions to the definition of qualified education expenses made at the federal level (529 plans). They also indicate that even though funds in a 529 plan cannot be used for primary and secondary education expenses until 2020, they anticipate an increase in participation and deposits to 529 plans prior to 2020. They assume that the participation rate will increase immediately as awareness of the expanded use of this tax program grows and that by tax year 2022 will be approximately 50% of those eligible for the program. This percentage is in alignment with the Joint Committee on Taxation report of the fiscal impact of the 529 withdrawals for primary and secondary education.

We have no basis to disagree with the Department of Revenue’s estimate of fiscal impact and cost.

The State Treasurer’s Office estimated a loss to the General Fund of \$1,344,570 for calendar year 2020. They also indicated no cost to the State Treasurer’s Office.

We disagree with the State Treasurer’s Office estimate of loss to the General Fund and agree with the estimate of cost to the State Treasurer’s Office.

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE				
LB: 804	AM:	AGENCY/POLT. SUB: Nebraska State Treasurer		
REVIEWED BY:	Gary Bush	DATE:	01/10/18	PHONE: (402) 471-4161
COMMENTS: Concur.				

ADMINISTRATIVE SERVICES STATE BUDGET DIVISION: REVIEW OF AGENCY & POLT. SUB. RESPONSE				
LB: 804	AM:	AGENCY/POLT. SUB: Dept. of Revenue		
REVIEWED BY:	Lyn Heaton	DATE:	1/25/2018	PHONE: (402) 471-4181
COMMENTS: It is conceivable that at least 50% of the taxpayers who are currently paying or who are willing to contribute to the payment of tuition for children to attend elementary and secondary school will channel those payments as contributions to an educational savings plan and take advantage of the state income tax deduction. While the participation rate is lower for the existing college savings plan, the cost of higher education tuition and other expenses are aided by a federal student loan system.				

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

2018

LB⁽¹⁾ 804

FISCAL NOTE

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

Prepared by: ⁽³⁾ Jason Walters Date Prepared: ⁽⁴⁾ January 8, 2018 Phone: ⁽⁵⁾ 402-471-2793

ESTIMATE PROVIDED BY STATE AGENCY OR POLITICAL SUBDIVISION

	<u>FY 2018-19</u>		<u>FY 2019-20</u>	
	<u>EXPENDITURES</u>	<u>REVENUE</u>	<u>EXPENDITURES</u>	<u>REVENUE</u>
GENERAL FUNDS	_____	_____	_____	_____
CASH FUNDS	_____	_____	_____	_____
FEDERAL FUNDS	_____	_____	_____	_____
OTHER FUNDS	_____	_____	_____	_____
TOTAL FUNDS	=====	=====	=====	=====

Explanation of Estimate:

No fiscal impact to the State Treasurer's office. Please see attached letter to Tax Commissioner Fulton regarding loss of tax revenue to the State of Nebraska.

BREAKDOWN BY MAJOR OBJECTS OF EXPENDITURE

Personal Services:

<u>POSITION TITLE</u>	<u>NUMBER OF POSITIONS</u>		<u>2018-19 EXPENDITURES</u>	<u>2019-20 EXPENDITURES</u>
	<u>18-19</u>	<u>19-20</u>		
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
Benefits.....	_____	_____	_____	_____
Operating.....	_____	_____	_____	_____
Travel.....	_____	_____	_____	_____
Capital outlay.....	_____	_____	_____	_____
Aid.....	_____	_____	_____	_____
Capital improvements.....	_____	_____	_____	_____
TOTAL.....	_____	_____	_____	_____



COPY

STATE OF NEBRASKA

Don Stenberg, State Treasurer

State Capitol, Suite 2005 | PO Box 94788 | Lincoln, NE 68509 | 402-471-2455 | treasurer.nebraska.gov

January 5, 2018

Tax Commissioner Tony Fulton
Nebraska Department of Revenue
P.O. Box 94818
Lincoln, NE 68509-4818

RE: Fiscal Note For LB 804 – A Bill to Include Elementary and Secondary Schools in the Nebraska Educational Savings Plan Trust

Dear Commissioner Fulton:

I am writing to you concerning the preparation of a Fiscal Note for LB 804, a bill to include elementary and secondary schools in the Nebraska Educational Savings Plan, Nebraska's state sponsored 529 College Savings Plan.

Since we now have 17 years of experience with Nebraska's College Savings Plan, I wanted to share with you some facts about the Plan as an assistance to you and your staff in preparing a Fiscal Note for LB 804.

Currently, we have a 15.7% penetration rate in Nebraska. This means that of all the Nebraska children age newborn to college age, 15.7% of them have had a Nebraska Educational Savings Trust Account created for them.

There are approximately 40,000 students in private and parochial schools in the State of Nebraska. Taking 15.7% times those 40,000 students suggests that 6,280 taxpayers would take advantage of LB 804 for K-12 students. (The 6,280 student figure likely overstates the usage in the first couple of years. For one thing, of the 40,000 students, some are members of the same family. More importantly, it took 17 years to reach a 15.7% penetration rate with our College Savings Program. As recently as 2010, the penetration rate was 11.1% after the program had been effect for ten years.)

The average annual contribution to a college savings account by a Nebraska taxpayer was \$3,054 in 2014, \$2,984 in 2015, \$2,849 in 2016 and \$3,039 in 2017.

Stenberg

It is reasonable to assume that the average contribution by a Nebraska taxpayer for K-12 purposes would be similar. If we take the 2017 number, \$3,039 times 6,280 students, the result would be that the total contributions in a calendar year for K-12 purposes would be \$19,084,920. If we take that amount times Nebraska's maximum tax rate of 6.84%, the total of the revenue loss as a result of claiming deductions for K-12 students would be \$1,305,408 per year.

Concerning loss of revenue as a result of earnings on the money placed in trust, that number can be calculated as follows. To be most conservative, we will assume that all \$19,084,920 is contributed on January 1, 2020, that all of it stays in the trust all year and earns 3% annually. Taking \$19,084,920 times 3% would show income earned on the plan assets of \$572,547. Taking that times Nebraska's maximum tax rate of 6.84% would equal a revenue loss on the trust earnings for the first year of \$39,162. So the total loss of revenue in calendar year 2020 (the first year the bill would be in effect) would equal a revenue loss of \$1,305,408 (tax loss as a result of deducting contributions from adjusted gross income) plus \$39,162 (loss of tax revenue on Plan earnings) for a total first year (calendar year 2020) loss of revenue of \$1,344,570.

Please provide a copy of this letter to the persons who will be preparing the Fiscal Note on behalf of the Department of Revenue for LB 804.

Thank you for your consideration.

Yours truly,



Don Stenberg
Nebraska State Treasurer

DS:mm

CC: Governor Pete Ricketts
Senator Lydia Brasch
Senator Jim Smith
Legislative Fiscal Office