SB10-202

Colorado Legislative Council Staff Fiscal Note

STATE FISCAL IMPACT

Drafting Number:	LLS 10-1038	**Date:**	May 4, 2010
Prime Sponsor(s):	Sen. Whitehead	**Bill Status:**	Senate Education
		Fiscal Analyst:	Ron Kirk (303-866-4785)

TITLE: CONCERNING SAVINGS ACCOUNTS FOR JOB RETRAINING.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012	FY 2012-2013
State Revenue			
General Fund	(up to $13,300)	(up to $33,000)	(up to $33,000)
Cash Funds			
Gifts, Grants, and Donations	unknown	unknown	unknown
Transfers and Diversions			
Transfer from the Job Retraining Cash Fund to the General Fund	($33,000)	($33,000)	($33,000)
Transfers to the Job Retraining Cash Fund from loan proceeds	($100,000)		
FTE Position Change			
Effective Date: Upon signature of the Governor, or upon becoming law without his signature.			
Appropriation Summary for FY 2010-2011: None required.			
Local Government Impact: None.			

Summary of Legislation

This bill directs CollegeInvest to promote and encourage the use of 529 savings plans by adults already in the workforce (lifelong learners) and creates a new state income tax deduction. CollegeInvest is required to develop procedures to allow an employer to make a matching contribution to a lifelong learner's account for any contribution made by the lifelong learner. Adult lifelong learners may deduct any amount received as employer matching contributions from state income taxes. The bill uses proceeds from the sale of student loans held by the Department of Higher Education (DHE) to offset the revenue impact of the new deduction.

Background. Under current law, adults that contribute or make payments to CollegeInvest 529 plans can claim a state income tax deduction as long as the contributions are included in their federal taxable income. For purposes of this deduction, a qualified state tuition program is a 529 Colorado Savings Plan administered by CollegeInvest and includes the Direct Portfolio College Savings Plan, Scholars Choice College Savings Program, Stable Value Plus College Savings Plan, and Prepaid Tuition Fund. This bill establishes a new state income tax deduction for matching contributions made by employers to lifelong learner accounts.

State Revenue

State revenue will decrease up to $13,300 in FY 2010-11 and up to $33,000 in FY 2011-12 and FY 2012-13. Proceeds from the sale of student loans held by DHE are to be transferred first into the Job Retraining Cash Fund and then subsequently transferred to the General Fund to pay for the expanded state income tax deduction in the bill.

Given the new marketing efforts by CollegeInvest, the number of lifelong learner accounts is expected to increase by up to 100 new accounts in FY 2010-11 and up to 250 in FY 2011-12. The average annual contribution from lifelong adult learners to these plans will be about $2,300 per year, or about $192 per month. Thus, assuming a full year of contributions to these plans, state revenue will decrease because more lifelong learners would be deducting these payments from state income taxes.

The new state income tax deduction for matching contributions made by employers to lifelong learner accounts will further decrease state income tax revenue. Assuming that on average, employers make matching contributions in an amount of up to 25 percent of the amount contributed by the employee, this change would further decrease state revenue. This fiscal notes estimates that 100 new lifelong learner accounts would decrease state revenue by $13,300 in FY 2010-11; and that 250 new accounts would decrease revenue by $33,000 in FY 2011-12 and FY 2012-13.

Transfers and Diversions

This bill creates the Job Retraining Cash Fund and authorizes $100,000 in proceeds from the sale of loans to be transferred into the fund in FY 2010-11. Fund money will be transferred to the General Fund to offset the revenue decrease from the new state income tax deduction. Money in the cash fund will be transferred as follows:

- $33,000 on or before October 1, 2010;
- $33,000 on of before July 1, 2011; and
- $33,000 or the balance of the fund before July 1, 2012.

The bill also authorizes CollegeInvest to seek gifts, grants, or donations to fund the provisions in the bill.

Proceeds from the sale of student loans. Under recently passed federal legislation, guaranteed student loans are now centralized in the U.S. Department of Education. **HB 10-1428** repeals the authority of the student loan division (CollegeInvest) in DHE to originate, issue, or guarantee any new student loans after July 1, 2010. The DHE must prepare a restructuring plan to deal with changes in administering student loans.

The federal legislation requires CollegeInvest to sell student loans held by the department. Sales from the proceeds of the loans are expected to net between $25.0 million and $30.0 million. The bulk of the loans will are expected to be sold by June 30, 2010, and the sale will be consummated no later than September 30, 2010.

State Expenditures

No additional expenditures will be incurred to implement the provisions of this bill because CollegeInvest is already marketing 529 plans to lifelong learners. CollegeInvest does not receive appropriations from the General Assembly. Any costs incurred by CollegeInvest to implement provisions of this bill will be absorbed by 529 plan participants.

Departments Contacted

Higher Education Revenue Treasury