Legislative Council Staff
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HB 19-1280

REVISED FISCAL NOTE

(replaces fiscal note dated April 4, 2019)

Drafting Number: LLS 19-0914
Prime Sponsors: Rep. Herod; Becker
Sen. Fenberg
Date: April 11, 2019
Bill Status: House Appropriations
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Bill Topic: CHILD COLLEGE SAVINGS ACCOUNTS

Summary of Fiscal Impact:

- ☒ State Revenue
- ☒ State Expenditure
- ☒ State Transfer
- ☐ TABOR Refund
- ☐ Local Government
- ☐ Statutory Public Entity

This bill creates a college kickstarter program in CollegeInvest, allowing parents of children born or adopted in Colorado to claim $100 when they create a college savings account. It increases state revenue, requires transfers to private 529 college savings accounts, and increases workload for administration on an ongoing basis.

Appropriation Summary: CollegeInvest and the Department of the Treasury would require cash fund spending authority to use any received gifts, grants, or donations for the purposes identified in the bill.

Fiscal Note Status: This revised fiscal note reflects the introduced bill, as amended by the House Finance Committee.

Table 1
State Fiscal Impacts Under HB 19-1280

		FY 2019-20	FY 2020-21
Revenue*	Cash Funds	up to $1.7 million	up to $3.4 million
	Total	**up to $1.7 million**	**up to $3.4 million**
Expenditures*	**Total**	-	-
Transfers	Cash Funds	($0.1 million to $1.7 million)	($0.2 million to $3.4 million)
	Cash Funds	$0.1 million to $1.7 million	$0.2 million to $3.4 million
	Total	**$0**	**$0**
TABOR Refund		-	-

* *Omits revenue and expenditure impacts affecting private 529 college savings accounts managed by CollegeInvest, a state enterprise.*

Summary of Legislation

This bill creates the college kickstarter program in CollegeInvest, an existing state enterprise accounted under the Department of Higher Education (DHE).

Master account. The bill creates the kickstarter program master account in CollegeInvest. The bill directs CollegeInvest to deposit funds in the master account each fiscal year through FY 2044-45. The amounts to be deposited must be sufficient to pay for kickstarter funding transfers to private 529 college savings accounts, as described below. These funds are to be taken from CollegeInvest funds that would otherwise be available for scholarships via the Colorado CollegeInvest Scholarship Program, or for grants via the CollegeInvest matching grant program. CollegeInvest is directed to increase available revenue and may not reduce existing levels of scholarship or matching grant funding.

Kickstarter funding. Beginning February 15, 2020, the Department of Public Health and Environment is required to furnish monthly reports to CollegeInvest providing the name of every child born or adopted in Colorado during the prior month, and the date and location of each child's birth and adoption. CollegeInvest is required to designate kickstarter funding in the master account for each child. This amount is equal to $100 per child in 2020, adjusted by inflation in the Denver-Aurora-Lakewood consumer price index for each year thereafter.

Designated amounts are required to be invested in the CollegeInvest Stable Value Plus Plan from their date of designation. The designated amount, plus interest earned, is transferred from the master account to a CollegeInvest 529 college savings account that the child's parent(s) or legal guardian(s) open in the child's name, if and when such an account is created. An account must be opened within five years of the child's birth or adoption in order for the kickstarter amount to be claimed. After five years, designated amounts that are not claimed remain in the master account and may be designated for another eligible child.

Reporting requirements. CollegeInvest is required to prepare an annual written report including, among other required information, statistics regarding the number of eligible children and 529 account utilization rates. The report must be published online and presented to the committees of the General Assembly to which the DHE is assigned.

Marketing and outreach campaign. By November 1, 2019, CollegeInvest is required to develop, and DHE must approve, a marketing and outreach plan to make parents and guardians aware of the kickstarter program and encourage them to claim the kickstarter amounts. The marketing and outreach plan is required to include strategies to specifically target low- and middle-income families, and include enrollment and call center support.

Advisory board. The DHE is required to create an advisory board for the kickstarter program, to include at a minimum the State Treasurer or his or her designee, a CollegeInvest representative, and a department representative who is not a CollegeInvest employee. The board is required to advise CollegeInvest regarding the oversight and administration of the kickstarter program and the implementation of the marketing campaign described above.

College Kickstarter Account Program Fund. The bill creates a cash fund to collect gifts, grants, and donations made for the college kickstarter program. Subject to annual appropriation, CollegeInvest may expend money from the fund for kickstarter program purposes, including kickstarter accounts, administrative costs, marketing, and outreach, and the Department of the Treasury may expend money from the fund for the financial literacy program described below.

Financial literacy education program. If sufficient gifts, grants, and donations are received, the kickstarter program may include a free financial literacy education program for children, parents, and family members. The Department of the Treasury is responsible for development and administration of the program, and may seek to enter into a public-private partnership for this purpose.

Rulemaking. CollegeInvest is authorized to adopt rules that it deems necessary for administration of the kickstarter program.

Background

529 accounts. Section 529 of the federal internal revenue code provides a federal income tax deduction for investment income earned through a higher education savings account, commonly called a "529 account," that is created in a state-level government agency. CollegeInvest is the Colorado agency that administers 529 accounts. In addition to the federal deduction, Colorado allows a state income tax deduction for all 529 account contributions. However, 529 account disbursements are subject to income tax recapture if they are not made for qualified higher education expenses as defined in federal law.

Because CollegeInvest is an enterprise, 529 account contributions and other revenue it receives is exempt from the state TABOR limit.

Stable Value Plus Plan. The CollegeInvest Stable Value Plus Plan guarantees a 2 percent minimum rate of return before an annual administrative fee. The current annual rate of return for calendar year 2019 is 2.49 percent, net of all fees.

Colorado CollegeInvest Scholarship Program and matching grant programs. The Colorado CollegeInvest Scholarship Program was created pursuant to Senate Bill 05-003. Under current law, the scholarship and associated matching grant programs are funded from the Colorado CollegeInvest Scholarship Trust Fund, which consists of moneys deposited in the fund by CollegeInvest, appropriations by the General Assembly, and gifts, grants, and donations. Base resources in this fund are estimated to total $9.9 million entering FY 2019-20, and the existing level of scholarship and matching grant funding from the fund averages $1.9 million annually.

Assumptions

Participation. The bill's fiscal impact will depend on the degree to which parents of eligible children create 529 accounts in order to claim their child's share of kickstarter funding from the master account. Table 2 presents lower bound and upper bound estimates for program participation in 2020. The lower bound estimate assumes a 2.5 percent participation rate, based on a two-city pilot program for SeedMA Baby, a Massachusetts program providing $50 using similar eligibility criteria to those in the bill. The upper bound estimate assumes a 52.5 percent participation rate based on CollegeBound Baby, a statewide Rhode Island program providing $100 using similar eligibility criteria to those in the bill. The program in this bill more closely resembles the Rhode Island program; however, participation rates for programs in other states more closely resemble those for the Massachusetts program, and the Rhode Island program did not achieve its participation rate until parents were presented an opportunity to participate in the program when submitting birth certificate information for their children.

The Massachusetts and Rhode Island programs both allow kickstarter funding for adopted children as well as newborns; however, these states report their participation rates as a percentage of the number of children born in the state. Accordingly, the number of participating accounts in Table 2 is assumed to include those for children born and adopted in Colorado, even though the participation rate is expressed as a percentage of births only.

CollegeInvest reports that an average of 1,365 accounts are opened annually for children under five years old under current law. These accounts are assumed to be opened under both current law and the bill, and are assumed to qualify for kickstarter funding under the bill.

Table 2
Estimated 2020 College Kickstarter Program Participation under HB 19-1280

	Lower Bound Estimate	Upper Bound Estimate
Births	65,513	65,513
Participation Rate	2.5%	52.5%
Participating Accounts	1,637	34,394
Assumed New Accounts *current law*	1,365	1,365
Assumed New Accounts *induced under HB 19-1280*	272	33,029
Kickstarter Funding Claimed	$0.2 million	$3.4 million

Master account. The bill requires CollegeInvest to make deposits in the master account in amounts sufficient to fund transfers to private 529 accounts for children for whom kickstarter funding is claimed. This fiscal note assumes that CollegeInvest will generate sufficient contributions and make sufficient deposits, though the specific amounts may vary across fiscal years. In other states, seeded 529 programs have attracted financial support from investment firms.

State Revenue

The bill is expected to increase revenue to the kickstarter program master account by up to $1.7 million in FY 2019-20 and up to $3.4 million in FY 2020-21, grown by inflation and the state birth rate in subsequent years. Revenue impacts are explained below.

Gifts, grants, and donations. The bill potentially increases state revenue from gifts, grants, and donations to two cash funds as described below. Gifts, grants, and donations are exempt from the TABOR limit.

Kickstarter program master account. CollegeInvest is authorized to seek increased revenue for deposit in the kickstarter program master account, such that sufficient deposits can be made in the kickstarter program master account without reducing current levels of funding available for scholarships and grants. CollegeInvest is expected to seek revenue sufficient to offset kickstarter funding claimed, estimated at up to $3.4 million in 2020 and grown by inflation and the state birth rate in subsequent years.

College Kickstarter Account Program Fund. The Department of the Treasury is authorized to seek gifts, grants, and donations for deposit into the fund, including from a private partner to fund and develop a financial literacy program for kickstarter program participants. No sources of gifts, grants, and donations have been identified for this purpose at this time.

529 account contributions. The bill increases revenue to private 529 accounts managed by CollegeInvest to the extent that it incentivizes parents who would not otherwise contribute to these accounts to do so. CollegeInvest reports that accounts for beneficiaries under the age of five receive an annual average of $201 per account. Assuming the current average contribution, the bill is expected to increase annual revenue to private 529 accounts by between $55,000 in the lower bound scenario and $6.6 million in the upper bound scenario. These contributions are omitted from Table 1 because private 529 accounts fall outside the state budget as private accounts for individuals.

Income taxes. Kickstarter amounts deposited in a 529 account do not qualify for the state income tax deduction for 529 account contributions; however, amounts contributed by parents will qualify. For example, parents contributing $201 will qualify for an income tax deduction equal to this amount, reducing their state income tax liability by about $9 based on the 4.63 percent state income tax rate.

While the income tax deduction for 529 account contributions has a significant impact on state revenue under current law, the impact of this bill is assumed to be minimal. Taxpayers who are willing and able to make sufficiently large 529 account contributions to access a significant state income tax benefit are assumed to do so under current law. Parents who are induced to open a 529 account under the bill are not expected to access significant state income tax benefits, and it is assumed that most will not claim the income tax deduction for such a small amount. Under the upper bound scenario, if all parents contribute $201 and claim the deduction, the bill would reduce state income tax revenue by $0.3 million in 2020, grown by inflation and the state birth rate in subsequent years. Income tax revenue is subject to TABOR.

State Transfers

The bill is expected to increase transfers within CollegeInvest, from the college kickstarter master account to private 529 accounts, by between $0.1 million and $1.7 million in FY 2019-20 and between $0.2 million and $3.4 million in FY 2020-21, grown by inflation and the state birth rate in subsequent years. The estimates for FY 2019-20 represent a half-year impact as kickstarter funding is available to children born or adopted beginning in 2020. The range of estimates represents different possibilities for the program's participation rate, as presented in Table 2.

To the extent that CollegeInvest is unable to raise sufficient gifts, grants, and donations to support the kickstarter program, transfers from the Colorado CollegeInvest Scholarship Trust Fund to the college kickstarter master account will increase correspondingly. The amount of these transfers is estimated at up to $1.7 million in FY 2019-20 and up to $3.4 million in FY 2020-21, grown by inflation and the state birth rate in subsequent years.

State Expenditures

Beginning in FY 2019-20, the bill increases state agency workload and disbursements from private 529 accounts administered by CollegeInvest, and increases cash fund expenditures for administration of a financial literacy program at an indeterminate future date, as discussed below.

CollegeInvest. Workload in CollegeInvest will increase to administer the kickstarter program. Workload associated with the solicitation of outside funding and management of 529 accounts is within the enterprise's core functions and can be accomplished within existing appropriations. The bill requires CollegeInvest to implement a marketing and outreach campaign to inform parents of the kickstarter program; the enterprise is expected to use its current marketing resources to publicize the kickstarter program and can accomplish this function within existing appropriations. To the extent that additional marketing and outreach funds are required, costs are assumed to be paid from the College Kickstarter Account Program Fund. Finally, workload associated with service on the kickstarter program advisory board and the production and presentation of annual reports is assessed as minimal.

529 account disbursements. The bill is expected to increase disbursements from 529 accounts when participating children attend college. These impacts are expected to occur beginning in FY 2038-39, and are omitted from Table 1 because private 529 accounts fall outside the state budget as private accounts for individuals.

Department of Higher Education. The bill minimally increases department workload beginning in FY 2019-20. Workload is expected to increase for department staff to serve on the kickstarter program advisory board and approve the marketing plan. It is assumed that this workload increase can be accomplished within existing appropriations.

Department of the Treasury. The bill increases department workload beginning in FY 2019-20. Workload is expected to increase to search for a private partner to fund and implement the financial literacy program, and to serve on the kickstarter program advisory board. It is assumed that this workload increase can be accomplished within existing appropriations.

The bill also requires the department to develop and administer the financial literacy program if and when it deems that adequate gifts, grants, and donations have been received for this purpose. Once adequate revenue is received, department expenditures are expected to increase by $130,000 and 1.0 FTE for a program administrator and associated operating costs. These expenditures will be paid from the College Kickstarter Account Program Fund at an undetermined future date.

Department of Public Health and Environment. The bill minimally increases department workload beginning in FY 2019-20. It is estimated that Vital Records Section staff will require four hours per month to query, format, and transmit state birth data to CollegeInvest. It is assumed that this workload increase can be accomplished within existing appropriations.

Department of Revenue. To the extent that the bill increases the number of taxpayers claiming the state income tax deduction for contributions to a 529 account, department workload will increase to process tax returns and communicate with taxpayers. This workload increase is assessed as minimal and can be accomplished within existing appropriations.

Department of Law. The bill may minimally increase department workload for rulemaking associated with the kickstarter program. Any workload increase is assumed to be minimal and can be accomplished within existing appropriations.

Effective Date

The bill takes effect August 2, 2019, if the General Assembly adjourns on May 3, 2019, as scheduled, and no referendum petition is filed. The kickstarter funding in the bill is available to children born or adopted in Colorado beginning January 1, 2020.

State Appropriations

For FY 2019-20, CollegeInvest and the Department of the Treasury would require cash fund spending authority to use any gifts, grants, or donations received in the College Kickstarter Account Program Fund for the purposes identified in the bill, and CollegeInvest would require cash fund spending authority to use any amounts deposited in the kickstarter program master account for purposes other than providing kickstarter funding. These amounts are not estimated. The General Assembly may also choose to appropriate gifts, grants, or donations received via supplemental appropriations for FY 2019-20 or appropriations for FY 2020-21 during the 2020 legislative session.

State and Local Government Contacts

Higher Education	Information Technology	Law
Public Health and Environment	Revenue	Treasury