

March 2, 2000 * *Note: Both versions of the bill are in the Senate.* *

Senate Bill 332 and Assembly Bill 654

Changes to EdVest and Creation of a College Savings Program

Summary of Bill --

This bill makes a number of changes to EdVest designed to make the program more attractive and useful. It also creates a new board charged with establishing a new college savings program.

The Assembly and Senate versions are identical, as are the amendments offered in each house. Substitute amendments are being drafted (not received as of 1:30 p.m. Wednesday) that make technical changes.

Staff Comments --

EdVest has never performed as expected. There is no known controversy about these efforts to improve to program, and create a new program to encourage college savings.

Standing Committee and Assembly Action --

AB 654 was approved 10-0 by the Assembly Committee on Colleges and Universities on January 26, 2000. The bill, as amended, passed the Assembly 96-0 on Feb. 2, 2000.

SB 332 passed the Senate Committee on Education 11-0 on Feb. 9, 2000.

Recommended JFC Action --

Introduction and adoption of SSA (you need to introduce this for Sen. Grobschmidt. It makes the Senate version identical to the engrossed Assembly version)

Introduction and adoption of the Senate and Assembly simple amendments (Again, you're introducing at the request of Sen. Grobschmidt. The amendments reflect technical changes necessary to the bills.)

Concurrence on AB 654.

Unanimous Consent that all of our action also be applied to SB 332.

Bob



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March 2, 2000

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Assembly Bill 654 and Senate Bill 332: Changes to the EdVest Program and Creation of a College Savings Program and Board

Assembly Bill 654 was introduced on January 11, 2000. On January 26, 2000, the Assembly Committee on Colleges and Universities adopted Assembly Amendment 1 to Assembly Bill 654 on a vote of 10 to 0 and recommended the bill, as amended, for passage on a vote of 10 to 0. On February 2, 2000, the Assembly tabled AA 1 and adopted AA 2 and AA 3 to AB 654 and passed the bill, as amended, on a vote of 96 to 0.

Senate Bill 332, which is identical to AB 654, was introduced on January 21, 2000 and referred to the Committee on Education. On February 9, 2000, that Committee adopted Senate Amendments 1 and 2 to SB 332, and recommended the bill, as amended, for passage on a vote of 11 to 0. SA 1 is identical to AA 3 to AB 654 and SA 2 is identical to AA 2 to AB 654.

BACKGROUND

The EdVest program was created in 1995 Act 403 to provide an alternative means for parents and others to save for a child's future college costs by "prepaying" all or a portion of their tuition and fees. The program, which is administered by the Office of the State Treasurer, began operating in July, 1997. Under the program, an individual, a trust or a legal guardian may contract with the State Treasurer to purchase "tuition units" on behalf of a beneficiary named in the contract. The tuition units, which are placed in the beneficiary's account, may be redeemed when the beneficiary enrolls in college and applied toward the payment of undergraduate tuition and mandatory student fees at any public or private postsecondary institution in the country. The statutes require the Treasurer to charge a nonrefundable \$50 enrollment fee for each contract.

If the purchaser of an EdVest account is an individual, either the purchaser or the beneficiary named in the contract must be a Wisconsin resident at the time the contract is executed. If the purchaser is not an individual and the beneficiary is not a state resident, then the legal guardian or trust must be organized or created under Wisconsin law. An individual may enter into a contract on behalf of his or her: (a) child; (b) grandchild; (c) niece or nephew; or (d) self. An individual may also purchase tuition units for a child who is under his or her legal guardianship. A change of beneficiary is allowed if the benefits would be transferred to a member of the current beneficiary's immediate family or the spouse of such a family member.

The price of a tuition unit is based on the estimated weighted average tuition charged at bachelor's degree-granting institutions within the University of Wisconsin (UW) System. The price is determined jointly by the UW Board of Regents and the State Treasurer and varies depending on the anticipated year of enrollment. Current law requires that, to the extent possible, the price must be set so that the value of the tuition unit in the anticipated academic year of its use will be equal to 1% of the estimated average annual tuition cost at a UW campus in the expected year of use.

Under current law, tuition units can be redeemed to pay tuition and fees at any public or private institution of higher education in the United States that is accredited by an accrediting association recognized by the State Treasurer or a proprietary school that is approved by the Educational Approval Board. Each semester, when the beneficiary enrolls in an eligible postsecondary institution, the State Treasurer makes a payment directly to that institution, not to the beneficiary, in an amount equal to the lesser of: (a) the total redemption value of the tuition units purchased on his or her behalf; or (b) the institution's tuition and mandatory fees for that semester. Tuition and fees in excess of the amount accumulated in the account, as well as other expenses, such as supplies and room and board, are the responsibility of the student.

Current law limits the number of tuition units that can be purchased on behalf of a single beneficiary to the amount necessary to pay for four years of full-time tuition and mandatory student fees for a resident undergraduate at the UW campus with the highest tuition rate. As such, the current maximum number of tuition units is 520; the amount needed to cover estimated tuition and mandatory student fees for a resident undergraduate student at UW-Madison or UW-Milwaukee. While tuition units can be redeemed at any eligible public or private postsecondary institution in the country, the value of 520 tuition units is not likely to be sufficient to cover tuition at private institutions or nonresident tuition at public colleges and universities.

Monies used to purchase tuition units are placed in the state's tuition trust fund, which was established for this purpose and is managed by the State of Wisconsin Investment Board (SWIB). Under current law, SWIB is required to invest these funds in investments with maturities and liquidity that are appropriate for the needs of the trust fund. SWIB has adopted investment guidelines for the program that restrict investments to U.S. government and municipal obligations and corporate bonds. While tuition units are purchased with "after tax" dollars, the investment earnings on funds in a beneficiary's account are exempt from state income tax. Because EdVest meets the criteria of a qualified state tuition program under federal law, federal income tax on the earnings is deferred until the tuition units are redeemed. As the tuition units are withdrawn for the

payment of tuition and fees, the beneficiary, rather than the purchaser, is liable for the federal income taxes.

As of January 2000, 1,307 EdVest accounts had been established with contributions totaling \$5,073,100.

SUMMARY OF BILLS AS INTRODUCED

Changes to EdVest Program

Assembly Bill 654 and Senate Bill 332 would make the following modifications to current law relating to the EdVest program:

Enrollment Fee. The bills would repeal the current law requirement that a purchaser pay a nonrefundable \$50 enrollment fee when establishing an EdVest account. Instead, the State Treasurer would be permitted, but not required, to charge an unspecified amount as an enrollment fee.

Redemption of Tuition Units. The bills would expand the costs toward which tuition units accumulated in a beneficiary's account could be applied to include room and board, books, supplies and equipment required for enrollment or attendance. Under current law, tuition units may only be applied toward the payment of tuition and mandatory student fees. Correspondingly, the bills would increase the limit on the total number of tuition units that can be purchased on behalf of a single beneficiary to the number necessary to pay for four years of full-time attendance, including tuition, fees and these additional costs, as a resident undergraduate at the UW campus with the highest resident undergraduate tuition, as determined by the State Treasurer, in the anticipated academic years of their use.

At the time the tuition units are redeemed, the bills would require the State Treasurer to pay a specified amount to either the postsecondary institution or the beneficiary, whichever is appropriate. Under current law, funds are always paid directly to the institution, rather than the beneficiary. However, since the bills would allow tuition units to be applied toward expenses other than tuition and fees, the bills would permit payments to be made to the student, depending on the purpose for which the units are to be used.

Residency Requirements. The bills would repeal the current requirement that either the beneficiary or the purchaser, if the purchaser is an individual, be a Wisconsin resident at the time the contract is executed. The bills would also repeal the requirement that a legal guardian or trust which contracts for the purchase of tuition units must be organized or created under Wisconsin law if the beneficiary is not a state resident.

Effective Date. The changes to the EdVest program would take effect on the first day of the 10th month following publication of the act.

Creation of College Savings Program and Board

AB 654 and SB 332 would create a new college savings program that would be administered by a newly-created College Savings Program Board attached for administrative purposes to the Office of the State Treasurer.

Board Membership. The College Savings Program Board would consist of the following 11 members: the State Treasurer or a designee; the President of the Board of Regents of the UW System or a designee; a representative of private colleges in the state; the Chairperson of the Investment Board or a designee; the President of the Wisconsin Technical College System Board or a designee; and six other members. The private college representative and the six other members would be appointed by the Governor, with Senate confirmation. These members would serve four-year terms, except that the terms of the members initially appointed as the private colleges representative and two of the other representatives would expire on May 1, 2003, and the terms of four of the other members would expire on May 1, 2005.

The Governor would be authorized to appoint initial members of the College Savings Program Board. The provisional appointments would be in force until withdrawn by the Governor or confirmed by the Senate. If confirmed by the Senate, an appointment would continue for the remainder of the unexpired term, if any, and until a successor is chosen and qualifies. A provisional appointee would have all the powers and duties of Board membership to which the person is appointed during the time in which the appointee qualifies. A provisional appointment that is withdrawn by the Governor would lapse and create a vacancy for the provisional appointment of another initial Board member. A provisional appointment that is rejected by the Senate would lapse and create a vacancy for nomination and appointment of another initial Board member.

Responsibilities of Board. The College Savings Program Board would be required to do all of the following:

1. Establish and administer a college savings program that would allow an individual or other eligible entity to establish a college savings account to cover tuition, fees and the costs of room and board, books, supplies and equipment required for the enrollment or attendance of a beneficiary at an eligible educational institution.
2. Ensure that the college savings program meets the requirements of a qualified state tuition plan under federal law. (A program's designation as a qualified state tuition program permits federal income taxes on program earnings to be deferred.)
3. Invest the contributions to college savings accounts and pay distributions to beneficiaries and eligible institutions.
4. Provide to each account owner and to persons who are interested in establishing an account, information about current and estimated future higher education costs, levels of

participation in the college savings program that will help achieve educational funding objectives and availability of and access to financial aid.

5. Promulgate rules to implement and administer the college savings program, including rules that determine whether a withdrawal from an account is a qualified or nonqualified withdrawal, as defined in federal law, and rules that impose more than a de minimus penalty, as defined in federal law, for nonqualified withdrawals.

6. Seek rulings and guidance from the U.S. Treasury Department, the Internal Revenue Service and the Securities and Exchange Commission to ensure the proper implementation and administration of the program.

7. Ensure that if the Department of Administration (DOA) changes the manager of the program, the balances in the savings accounts are promptly transferred into investment instruments as similar as possible to the original investment instruments.

8. Keep personal and financial information pertaining to an account owner or beneficiary closed to the public.

9. Establish a minimum initial contribution to a college savings account that could be waived if the account owner agrees to contribute to the account through a payroll deduction or automatic deposit plan. Any such deposit plan would have to permit the adjustment of scheduled deposits due to a change in the account owner's economic circumstances or a beneficiary's educational plans.

Eligible Account Owners. The bills would permit an individual, trust or legal guardian to establish a college savings account on behalf of a named beneficiary. In addition, a state or local government, an agency or instrumentality thereof, or a nonprofit, tax exempt organization could establish an account as part of a scholarship program. Under the bills, an account owner would be permitted to do all of the following:

1. Contribute to a college savings account.
2. Select a beneficiary of the account.
3. Change the beneficiary of the account provided that the new beneficiary is a family member of the previous beneficiary, defined by federal law as the previous beneficiary's: (a) spouse; (b) child, stepchild or descendant of the child; (c) sibling or stepsibling; (d) parent, stepparent or ancestor of the parent; (e) niece or nephew; (f) aunt or uncle; or (g) son- or daughter-in-law, father- or mother-in-law, brother- or sister-in-law.
4. Transfer all or a portion of the account to another college savings account whose beneficiary is a member of the family.

5. Designate an individual other than the beneficiary as an individual to whom funds may be paid from the account.

6. Receive distributions from the account if no other individual is designated.

[Note: A technical amendment to the bills would be required to reflect the intent that the account owner could designate a higher education institution to receive distributions from the account.]

Eligible Beneficiaries. An account owner may select an individual as the beneficiary of the account or may open an account on his or her own behalf. An individual could be the beneficiary of more than one college savings account.

AB 654 and SB 332 specify that nothing in the bills would guarantee a beneficiary's admission to, retention by, or graduation from any higher education institution. Further, nothing in the bills would guarantee a particular interest rate or return on a college savings account or the payment of principal, interest or return on a college savings account.

Account Termination. An account owner could terminate his or her account under any of the following circumstances:

1. The beneficiary dies or is permanently disabled.
2. The beneficiary graduates from high school but is unable to gain admission to an institution of higher education after a good faith effort.
3. The beneficiary attended an institution of higher education but involuntarily failed to complete the program in which he or she was enrolled.
4. The beneficiary is at least 18 years old and: (a) has not graduated from high school; (b) has decided not to attend an institution of higher education; or (c) attended an institution of higher education but voluntarily withdrew without completing the program in which he or she was enrolled.
5. Other circumstances as determined by the Board to be grounds for termination.

The Board would be required to terminate an account if any portion of the balance remains unused 10 years after the anticipated academic year of the beneficiary's initial enrollment in an eligible institution of higher education.

Financial Aid Calculations. State agencies, UW System campuses and WTCS institutions would be prohibited from including the balance of a college savings program account in the calculation of a beneficiary's eligibility for state financial aid for higher education.

Program Manager. The Department of Administration would be required to select and contract with a private entity to serve as manager of the college savings program. The manager would be selected from sealed proposals received under a competitive process. While DOA would be required to determine the factors to be considered in selecting the manager, the factors would have to include the following:

1. The person's ability to satisfy record-keeping and reporting requirements.
2. The fees, if any, that the person proposes to charge account owners.
3. The person's plan for promoting the college savings program and the investment that the person is willing to make to promote the program.
4. The minimum initial contribution or minimum contributions that the person will require.
5. The ability and willingness of the person to accept electronic contributions.
6. The ability of the person to augment the college savings program with additional, beneficial services related to the program.

The contract between DOA and the manager would have to ensure that: (a) the manager reimburses the state for all administrative costs of the program that are incurred by the state; (b) a firm of certified public accountants selected by the manager annually audits the program and provides a copy of the audit to the College Savings Program Board; and (c) each account owner receives a quarterly statement identifying the contributions to the account in the preceding quarter, the total contributions to the account and the value of the account through the end of the preceding quarter and any distributions made in the preceding quarter.

All monies received, program revenue appropriation would be established under the Office of the State Treasurer's budget for monies received from the manager for the reimbursement of any administrative costs incurred by the state. No monies from the appropriation could be encumbered on or after the first day of the 25th month after the effective date of the bills.

Contracts for Other Services. The College Savings Program Board would be permitted to enter into a contract for the services of accountants, attorneys, consultants and other professionals to assist in the administration and evaluation of the college savings program.

Annual Report. The College Savings Program Board would be required to annually submit a report to the Governor and Legislature on the performance of the college savings program, including any recommended changes to the program.

Other Provisions. A beneficiary's right to qualified withdrawals from a college savings account for eligible expenses would not be subject to garnishment, attachment, execution or other process of law. Interest on a college savings account could not be pledged as security for a loan.

Effective Dates. The creation of the College Savings Program Board would take effect on the day after publication. The provisions establishing the college savings program would take effect on the first day of the 10th month following publication.

Assembly Amendment 2 and Senate Amendment 2

Assembly Amendment 2 to AB 654 and Senate Amendment 2 to SB 332 include provisions regarding individual income tax exemptions and deductions related to EdVest and the college savings account program that would be created in the bills.

Exempt Program Earnings. Under current law, Wisconsin exempts earnings from the EdVest program. The amendments would specify that amounts refunded because the contract has been terminated would not be eligible for the exemption. In addition, the amendments would exempt the earnings from a college savings account, unless the individual has made an unqualified withdrawal.

Deduction for Program Contributions. The amendments would create an income tax deduction of up to \$3,000 per beneficiary per year for amounts paid into a college savings account or EdVest account. The beneficiary would have to be the taxpayer or the taxpayer's dependent child. The deduction would be limited to the amount of income that is taxable to Wisconsin. In addition, the deduction would be prorated for nonresident and part-year resident taxpayers based on the ratio of income that is taxable to Wisconsin to total income.

Higher Education Tuition Expense Deduction. Current law allows a deduction of up to \$3,000 for tuition expenses for taxpayers with federal adjusted gross income below \$80,000 if married filing a joint return, \$50,000 if single and \$40,000 if married-separate. The amount of the deduction is reduced as income increases until eliminated when income exceeds \$100,000 if married-joint, \$60,000 if single and \$50,000 if married-separate. The amendments would specify that the higher education tuition expense deduction could not be claimed for amounts paid from the college savings account or EdVest programs.

Initial Applicability. These provisions would first apply to taxable years beginning on January 1 of the year in which the bills generally take effect, except that if the bills take effect after July 31, the provisions related to the college savings account and the higher education tuition expense deduction limitation would first apply to taxable years beginning on January 1 of the year following the year in which the bills take effect (the modifications related to the EdVest program would continue to take effect on January 1 of the year in which the bills take effect). The general effective date of the bills is the first day of the 10th month following publication.

Two points should be noted regarding AA 2 and SA 2. First, under current law, contributions made to an EdVest account are subject to state income tax at the time the contribution is made. A deduction is then allowed at the time the funds are used to pay tuition. The amendments would modify the timing of the deduction so that the deduction would be taken at the time the contribution is made rather than at the time the tuition is paid. However, as a result of this change, the amounts in the EdVest accounts at the time the bills take effect would never become eligible for the deduction. There is approximately \$5.0 million in 1,300 prepayment accounts at this time.

Second, the higher education tuition expense deduction is limited to taxpayers with income below certain thresholds, while the proposed deduction for contributions made to the EdVest and college savings account programs would not have any income limitations.

Assembly Amendment 3 and Senate Amendment 1

Assembly Amendment 3 to AB 654 and Senate Amendment 1 to SB 332 would make the following modifications to the EdVest program:

Program Title. Change the title of the program from the college tuition prepayment program to the college tuition and expenses program.

Definition of Institution of Higher Education. Change the definition of "institution of higher education" to mean an eligible institution as defined under federal law. The statutes currently define institution of higher education to mean "a public or private institution of higher education that is accredited by an accrediting association recognized by the State Treasurer, and a proprietary school approved by the Educational Approval Board.

Maximum Number of Tuition Units. Specify that the number of tuition units that may be purchased on behalf of a beneficiary could not exceed the number necessary to cover tuition, fees and the costs of room and board, books, supplies and equipment required for enrollment or attendance of the beneficiary at an institution of higher education. The bills would retain current law language limiting the number of tuition units that can be purchased to the amount necessary to pay for four years of full-time attendance as a resident undergraduate at the highest-cost institution within the UW System.

Financial Aid Calculations. Specify that the value of a beneficiary's tuition units would not be included in the calculation of his or her eligibility for state financial aid for higher education if the beneficiary notifies HEAB and the institution that he or she is planning to attend of the EdVest account and the purchaser agrees to release information necessary for the calculation.

Effective Date. Specify that the modifications to the EdVest program would take effect on the first day of the fourth month following publication of the act.

AA 3 to AB 654, and SA 1 to SB 332, would make the following changes to the proposed College Savings Program Board and college savings program:

Board Membership. Eliminate the Board member who would serve as a representative of private colleges in the state and instead, specify that the president of the Wisconsin Association of Independent Colleges and Universities, or a designee, would serve on the Board.

Financial Aid Calculations. Specify that if an individual notifies HEAB and the institution that he or she is planning to attend that he or she is a beneficiary of a college savings account and the account owner agrees to release information necessary for the calculation of the beneficiary's eligibility for state financial aid for higher education, the account balance would not be included in the calculation. In addition, allow the College Savings Program Board to release to the appropriate state agency information necessary to determining a beneficiary's eligibility for state financial aid.

Program Manager. Refer to the nongovernmental entity with which the state would contract to operate the program as the "vendor" rather than the "manager." In addition, specify that the contract with the vendor ensure that the vendor communicate to the beneficiary and account owner the requirements relating to the exclusion of the balance of a college savings account in the calculation of the beneficiary's eligibility for financial aid.

[Note: a technical correction to the amendments would be necessary to change all references in the amendments from "manager" to "vendor."]

FISCAL EFFECT

Program Administration

Department of Administration. AB 654 and SB 332 would require DOA to select a manager for the college savings program through a competitive proposal process. In its fiscal notes to the bills, the agency indicates that, while some costs would be incurred in developing specifications and evaluating the proposals, DOA would be able to absorb these costs.

Office of the State Treasurer. The State Treasurer is currently authorized a staff of 3.0 FTE employees to administer the EdVest program. The administrative costs of the program are currently funded primarily through fees charged to participants and deposited in a segregated tuition trust fund established for that purpose. Contributions to EdVest accounts are also deposited in the tuition trust fund. When the program was first established in 1996, \$721,900 GPR in one-time monies was provided for start-up costs. The 1999-01 state budget provided an additional \$85,000 GPR annually for administrative expenses. The law requires that all GPR funds provided for administration of the program be repaid to the general fund when it is determined that sufficient funds are available in the tuition trust fund. Including the GPR funds, a total of \$232,000 in 1999-00 and \$235,000 in 2000-01 is budgeted for administration.

In its fiscal notes to the bills, the State Treasurer's Office estimates that \$75,000 in additional administrative costs would be incurred under the bills. These costs are associated with: (a) staff assistance to the College Savings Program Board; (b) administration of the vendor contract; and (c) administration of the new college savings accounts and additional EdVest accounts. The estimate is based on the assumption that the bills would result in an additional 1,000 accounts, under both the current and new programs. The fiscal notes state that the additional costs would be recovered through enrollment fees from the new accounts, investment income and reimbursements by the private vendor. The agency suggests increasing expenditure authority from the EdVest program's appropriation for administrative expenses paid from the tuition trust fund by \$75,000 SEG to cover the initial costs of the bills.

The fiscal impact of the bills as estimated by the State Treasurer's Office takes into consideration both the expansion of the EdVest program and the new college savings program and assumes that EdVest program staff would also provide staff services to the College Savings Program Board. However, without modifications to the statutes, the GPR and SEG funding currently used to support the administrative costs of EdVest, as well as the positions, could not properly be used to support any costs associated with the College Savings Program Board or program, because it is not appropriated for that purpose. Similarly, the tuition trust fund, from which the SEG monies for administration are derived, could not be used for the new program.

The bills would require that the private entity selected to serve as the manager of the college savings program reimburse the state for all administrative costs that the state incurs for the program, and the bills would create a new all monies received PR appropriation for such repayments. However, no additional funding or expenditure authority would be provided to initially cover these costs, and as previously noted, current law would not permit the State Treasurer's Office to expend any funds for the program.

While the creation of the College Savings Program Board would take effect immediately after enactment of the bills, the provisions regarding implementation of the program would not take effect until ten months after enactment. Although it is assumed that there would be some start-up costs associated with the program, as well as costs that would be incurred by the Board prior to implementation of the program, the bills would not provide any mechanism for funding such costs nor any staff positions for the Board. These concerns were also expressed in a December 20, 1999, drafter's note to AB 654.

One option, which would address these issues, would be to modify the statutes to allow the initial administrative expenses associated with the college savings program and Board to be funded from the existing GPR and SEG appropriations for the administrative costs of the EdVest program. While the bills would require the manager of the college savings program to reimburse the state for any administrative costs incurred for the college savings program, until such reimbursements are made, fees paid by EdVest account holders would be used to pay the start-up costs of the new program. In addition, current law requires that the GPR funds used for administrative expenses be repaid from the tuition trust fund which, under the bills, would not include fees and contributions to the college savings program.

A second alternative would be to provide \$75,000 GPR in a new appropriation to fund the initial costs of the Board and program implementation. Since the fiscal note prepared by the State Treasurer's Office assumes that any administrative duties associated with the new Board and program could be assumed by current EdVest staff, 1.50 FTE EdVest positions (1.0 SEG position and 0.5 GPR position) could be transferred to the new program and funded through the new GPR appropriation. Fees charged to EdVest account holders would have to be lowered to reflect the reduced administrative costs. The bills already include a PR appropriation for the reimbursement of administrative costs from the manager of the program.

Alternatively, a new segregated fund, similar to the tuition trust fund, could be established as well as a new SEG appropriation from which the administrative expenses associated with the new program could be paid. However, this option would not address the issue of start-up costs since no funds could be deposited into the new segregated fund until the program would be implemented, which would be ten months after enactment of the bills. Further, it is uncertain how revenues would be generated to pay the administrative costs of the new program, as the bills would leave this to the discretion of the manager and the College Savings Board.

A fourth option would be to modify the PR appropriation in the bills to be sum certain and provide \$75,000 PR in 2000-01. This would establish clear spending authority for the new program. However, initially this appropriation would overspend its revenues and on a cash basis, borrow from the general fund, because revenues would not accrue to the appropriation until payments from the vendor would be received.

Treatment of EdVest and College Savings Accounts for Financial Aid Purposes

The bills would prohibit state agencies, UW System institutions and WTCS institutions from including the balance of a college savings program account in the calculation of a beneficiary's eligibility for state financial aid for higher education. Assembly Amendment 3 to AB 654 and SA 1 to SB 332 would modify the provision to specify that the balance of a college savings account would be excluded from the financial aid calculation only if: (a) the beneficiary notifies HEAB and the institution he or she plans to attend of the savings account; and (b) the account owner agrees to release information necessary for the recalculation. The amendments would also extend this exclusion to the value of tuition units in an EdVest account.

Under current practice, a student submits a single financial aid application to the U.S. Department of Education, which uses a needs analysis system referred to as the "federal methodology" to determine the student's expected family contribution (EFC), the amount that the student and his or her family are expected to contribute towards the cost of the student's education. Financial aid officers typically use the EFC to determine the amount of federal, state and institutional aid for which a student is eligible. The federal methodology takes into account the student's earnings and savings as well as family income, assets and liabilities, the number of children in the household and in college and any unusual financial circumstances. The EFC

calculation excludes retirement plan balances, the value of the family's principal residence and an additional lump sum amount that increases with the age of the oldest parent. While the balance of a college savings account must be disclosed in the student's application, the amount may be included as part of the lump sum exemption.

UW System institutions currently use the EFC calculated at the federal level to determine a student's eligibility for financial aid. In its fiscal notes to the bills, the University estimates that the bills would increase costs by \$140,000 on a one-time basis and by an additional \$210,000 on an ongoing basis. These costs would be associated with modifying the institutions' financial aid computer programs and software, creating separate state financial aid forms and mailing the forms to all Wisconsin residents who apply for financial aid, and hiring additional staff to administer a separate state financial aid formula and process. While the fiscal notes have not been updated to reflect AA 3 and SA 1, UW System staff indicate that the estimated costs would be significantly reduced since the amendments would eliminate the need for the separate form and mailings and would reduce the additional staff time that was included in the original estimate. Since it is not known how many of the new savings accounts would be established, it is difficult to estimate the number of students whose aid amount would be affected by the provision. However, University staff indicate that, since the costs associated with the new program would be delayed, institutions may be able to absorb these costs.

The University notes that the financial aid provision in the bills could increase the number of students who are eligible for state financial aid that would, in turn, reduce the amount of individual awards. Further, UW System staff indicate that an increase in an individual's state aid award could result in a corresponding decrease in federal assistance, although the increase in state aid would likely be in the form of grants while federal loans would decrease.

In its fiscal notes to the bills, the State WTCS Board indicates that no additional state or local costs are expected as a result of the bills. According to WTCS Board staff, it is expected that very few, if any, students enrolling at a technical college would have a college savings account. Therefore, any costs associated with recalculating financial aid eligibility for those students would be minimal and could be absorbed within the college's budget. WTCS staff indicate that there would be no change in the agency's fiscal notes as a result of AA 3 and SA 1.

Similar to postsecondary institutions, HEAB uses federally determined EFC data to calculate applicants' eligibility for state financial aid. In its fiscal notes to AB 654 and SB 332, HEAB estimates that 1.0 FTE additional grant specialist and a 0.25 FTE computer systems specialist would need to be hired due to the financial aid provision in the bills. Annual compensation costs for the 1.25 new positions are estimated at \$48,624. In addition, the agency notes that it would have to mail inquiries to each of the 170,000 individuals from whom it receives applications annually to determine the balance, if any, in an applicable account. HEAB estimates the annual cost of these mailings at \$192,780, bringing the total estimated annual cost of the bills to \$247,404.

According to HEAB staff, the agency's costs under the bills as amended by AA 3 and SA 1 would be significantly reduced. Computer software and programming costs would be approximately \$6,000 and since HEAB would not have to notify each applicant of the exemption, the estimated \$192,780 cost of the mailings would be eliminated. The agency's need for an additional grant specialist position would depend on the number of applicants whose aid amounts would have to be recalculated. HEAB estimates that 1.0 FTE would need to be hired for every 500 affected applicants. No additional funding or positions would be provided to HEAB under the bills.

Individual Income Tax Provisions

The individual income tax modifications contained in AA 2 and SA 2 would have no fiscal impact during the 1999-01 biennium since these provisions would not take effect until tax year 2001. However, it is estimated that the deduction for program contributions and the proposed college savings account program would reduce income tax revenues by approximately \$120,000 on an annualized basis in the initial years of program operation (beginning in the 2001-02 fiscal year). This estimate is based on information on existing college tuition prepayment program accounts and the assumption that participation would increase by 50% from current levels. The cost would be reduced in later years as the beneficiaries of the college tuition prepayment and college savings account programs enroll in college and do not claim the deduction for higher education tuition expenses at the time the tuition is paid.

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