



Enhanced Michigan Education Savings Program (E-MESP)

Legislation Overview

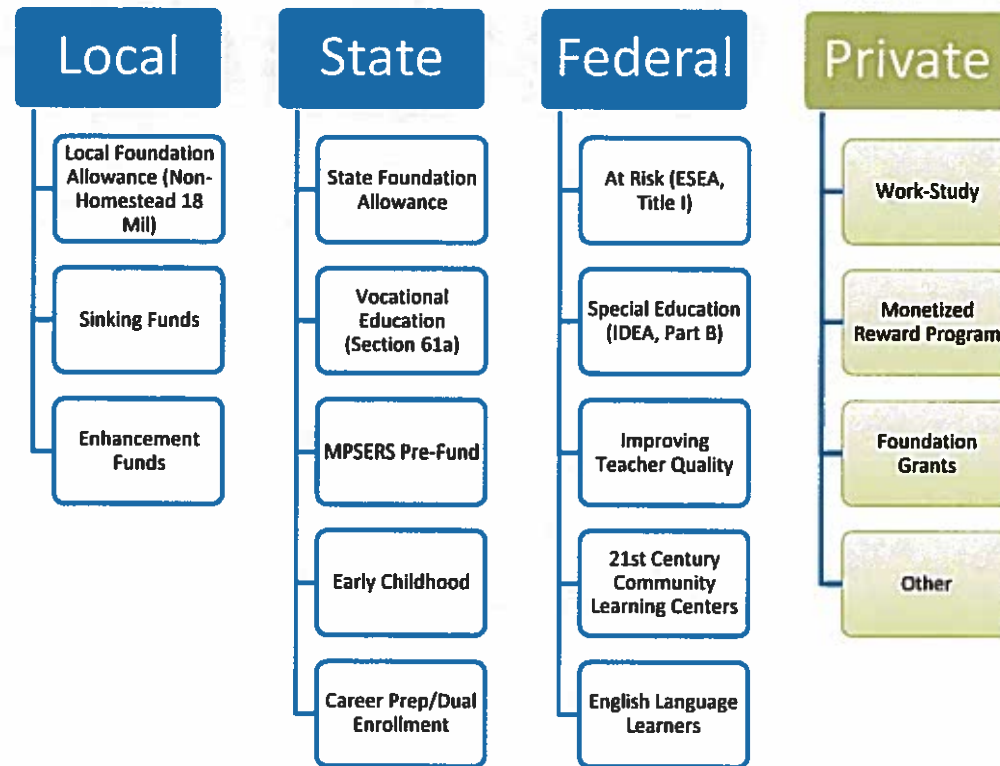
Goals

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- Enable additional funding for K-12 public education
 - Enhance ability to collect student-specific revenue from 3rd party sources
 - Provide fiscal stability for school districts facing debt crises
 - Maintain existing tax-based revenue collection mechanisms and levels
- Provide means of reducing cost of post-secondary education
 - Higher education
 - Vocational education
 - Job training
- Promote quality and cost controls by putting education customers in control over how public education dollars are spent

Funding Building Blocks



Private Funding Sources

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- Today, some businesses contribute \$7K for student-specific work-study programs (9th -12th Grade)
- Monetized rewards programs can yield \$1K per student (K-12)
- Foundation grants (K-12)

DPS Example

47,000 Students

*E-MESP could make \$3036/yr/pupil
in additional funding
available...without raising taxes*

Current Michigan Education Savings Programs

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Michigan Education Trust

- MET is a 529 Prepaid Tuition Plan which allows for the pre-purchase of tuition based on today's rates and then paid out at the future cost when the beneficiary is in college. Performance is often based upon tuition inflation.

Michigan Education Savings Program

- The Michigan Education Savings Program (MESP) is a state-sponsored, tax-advantaged 529 college savings plan that's helping families and individuals plan for the cost of higher education and K-12 tuition. It's available to any citizen or tax payer. *And just about anyone can help contribute including Grandparents, other family members and friends.*

Education Savings Programs in Other States

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Arizona

- America's first education savings accounts program
- 3,129 participating students (Fall 2016)
- 22 percent of students eligible statewide
- 134 participating schools (2014–15)
- Average account value: \$12,209 (2016–17 projected)
- Value as a percentage of public school per-student spending: 162 percent

Florida

- America's second education savings accounts program
- 7,463 participating students (Fall 2016)
- 12 percent of students eligible statewide
- 1,276 participating schools (2016–17)
- Average account value: \$8,840 (2015–16)
- Value as a percentage of public school per-student spending: 101 percent

Mississippi

- America's third education savings accounts program
- 204 participating students (2016–17)
- 13 percent of students eligible statewide
- 21 participating schools (2016–17)
- Annual award value: \$6,637 (2016–17)
- Value as a percentage of public school per-student spending: 80 percent

Tennessee

- America's fourth education savings accounts (ESA) program
- 2 percent of students eligible statewide
- Average account value: ~\$6,200
- Average base account value as a percentage of public school per-student spending: 72 percent

Nevada

- America's fifth education savings accounts (ESA) program and first universal ESA
- 96 percent of students eligible statewide
- Average base account value: \$5,139 (2015–16)
- Average base account value as a percentage of public school per-student spending: 61 percent
- Legal issues
 - The program was upheld in September 2016, but the Nevada Supreme Court ruled that there was no proper appropriation to go along with it

North Carolina

- Passed ESA law in 2017, so it will take effect in the 2018-2019 school year
- Maximum of \$9,000 (104% of per pupil public school spending)
- For special needs children defined under the Individuals with Disabilities Education Act (IDEA)
- Can be spent on private schools
- Can be combined with other vouchers

Federal Education Savings Programs

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529 Plans

- A plan operated by a state or educational institution, with tax advantages and potentially other incentives to make it easier to save for college and other post-secondary training for a designated beneficiary, such as a child or grandchild.
- Earnings on up to \$10,000 in contributions per year are not subject to federal tax and generally not subject to state tax when used for the qualified education expenses of the designated beneficiary, such as tuition, fees, books, as well as room and board.
- As of 2018, account funds may also be used for K-12 tuition. Contributions to a 529 plan, however, are not deductible.

Coverdell Education Savings Account

- In 2002, the Education IRA was renamed the Coverdell Education Savings Account.
- These accounts work very much like a 529 plan, offering tax-free investment growth and tax-free withdrawals when the funds are spent on qualified education expenses. However, in addition to college expenses, certain K-12 purchases are also considered qualified when using a Coverdell ESA.

HR 1 Federal Tax Reform

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TREATMENT OF ELEMENTARY AND SECONDARY TUITION

“Any reference in this subsection to the term “qualified higher education expense” shall include a reference to expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school.”

- Section 11032.529 Account Funding for Elementary and Secondary Education

E-MESP Bill Package Summary

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- Enables student-specific E-MESP accounts which allow parents to pay for educational services
- Accounts hosted by Treasury or 3rd party vendor on contract with Treasury
- Accounts only available for students enrolled in public schools
- Student participation is optional
- School participation is optional
- MDE determines which education services are eligible (subject to Constitutional restrictions)
- Interested schools must post education services pricing online
- Parents would have online or offline access to account information
- Payments from E-MESP to education service providers controlled by parents
- Any money left over after a student graduates can be used for post-secondary education
- Accounts can receive money from private sources
- Contributions, interest on balance, and qualified withdrawals are exempt from Michigan Income Tax
- Federal income tax exemption requested separately

MESP vs. E-MESP

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Feature	MESP	E-MESP
State Tax Exemption for Contributions & Investment Earnings	Yes	Yes
Federal Tax Exemption for Contributions	No	No*
Federal Tax Exemption for Investment Earnings	Yes	No*
Higher Education Expenses	Yes	Yes
K-12 Expenses	No	Yes
Vocational Education Expenses	No	Yes
Skill Trades Training Expenses	No	Yes
Professional Development	No	Yes

* Senate Concurrent Resolution 25 formally requests a change. Pending federal approval.

Proposed Legislation

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Enhanced MESP (SB 544)	MDE (SB 545)	Parents (SB 546)	MESP Fix (SB 547)	Schools (SB 548)	Income Tax (SB 549/HB 5428)	Resolution (SCR 25)
<ul style="list-style-type: none"> • New Act based on MESP • Creates the E-MESP • Leftover amount can be used for college/post-secondary education 	<ul style="list-style-type: none"> • MDE determines eligible services at schools and other organizations • Divide eligible services into Core Instruction, Noncore Instruction, Extracurricular Activities, Support Activities, & Course Materials • Create a website with info about E-MESP Accounts and Eligible Services offered by public schools 	<ul style="list-style-type: none"> • Can set up an account for their children • Can make contributions to E-MESP or receive contributions from other 3rd parties • Can spend money from E-MESPs on eligible services and college/post-secondary education • Pay directly to the entity providing the service 	<ul style="list-style-type: none"> • Technical fix for the MESP Act to reflect that the original MESP is going to be Part 1 and the new E-MESP is going to be Part 2 	<ul style="list-style-type: none"> • Require a list of educational services offered if the school wants to receive money from E-MESPs • Provide prices for educational services if the school wants to receive money from E-MESPs • Make sure parents have access to information on costs and eligible services 	<ul style="list-style-type: none"> • Ensure that ALL contributions to and qualified withdrawals from E-MESPs are Michigan tax exempt • Allow up to \$5,000 deduction for single filers and up to \$10,000 for joint filers 	<ul style="list-style-type: none"> • Ask the federal government to give federal income tax breaks for student-specific education savings accounts

Implementation Costs

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Line Item	Description	Type	Cost Estimate	Remarks
Create Treasury E-MESP Portal	Hosts E-MESP accounts	1-Time	\$50K	Replicate MESP features. Do not create from scratch.
Create MDE E-MESP Portal	Static web page with list of services eligible for E-MESP payments	1-Time	\$50K	Simple website design
Create School E-MESP Template	Configurable website featuring a list of E-MESP education services and the costs for these services. Enable transfers from E-MESP accounts to school to pay for eligible services.	1-Time	\$100K	Leverage existing systems at community colleges or universities
Configure Each School E-MESP Site	Schools opting to participate would need to configure an instance of School E-MESP template specific to their institution.	1-Time per school	\$100K	Assumes a consultant(s) works with school to configure website.
Administration	Prepare and analyze reports pertaining to E-MESP status	Ongoing	\$0	Leverage existing MESP oversight personnel
Auditing	Provide periodic auditing services of E-MESP accounts and active school E-MESP sites	Ongoing	\$50K	Assume annual audit with 3 personnel for 1 quarter
Security	Provide data security for Treasury, MDE and school websites	Ongoing	\$0	Should be facet of existing Treasury, MDE and school website security
Data Storage	Provide data storage for Treasury, MDE and school websites	Ongoing	\$0	Should be facet of existing Treasury, MDE and school website storage
Tax Savings	Funds that would otherwise have been taxable if not deposited into an E-MESP.	Ongoing	\$13.7M	Function of adoption rate