FIRST REGULAR SESSION

HOUSE BILL NO. 773

99TH GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVE DOGAN.

1319H.01I

D. ADAM CRUMBLISS, Chief Clerk

AN ACT

To amend chapter 135, RSMo, by adding thereto fifteen new sections relating to the education savings account program.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Chapter 135, RSMo, is amended by adding thereto fifteen new sections, to

- 2 be known as sections 135.2005, 135.2010, 135.2015, 135.2020, 135.2025, 135.2030, 135.2035,
- 3 135.2040, 135.2045, 135.2050, 135.2055, 135.2060, 135.2065, 135.2067, and 135.2070, to read
- 4 as follows:

2

3

5 6

7

8

135.2005. Sections 135.2005 to 135.2070 shall be known and may be cited as the "Education Savings Account Program".

135.2010. For purposes of sections 135.2005 to 135.2070, the following terms mean:

- (1) "Account-granting organization", a private, nonprofit organization that complies with the requirements of the program, receives contributions to fund education savings accounts, and administers and allocates funds to education savings accounts in accordance with sections 135.2005 to 135.2070;
- (2) "Curriculum", a complete course of study for a particular content area or grade level including, without limitation, any required supplemental materials and associated online instructions;
- 9 (3) "Education savings account", the account to which funds are allocated by an account-granting organization to the parents of eligible students in order to pay for qualified education expenses in accordance with the requirements and conditions of the program;

13 (4) "Education service provider", a person or organization that receives payments from an education savings account in exchange for authorized expenditures. An education 14 15 service provider includes:

- 16 (a) A private school;
- 17 (b) A private online learning program or course;
- (c) A state institution of higher education; 18
- 19 (d) A community college;
- 20 (e) A technical college;
- 21 (f) A private tutor; or

23

24

25

26

27

28

29

30

31

32

33

34

3

4

- 22 (g) A provider of educational materials, curriculum, therapies, or services;
 - (5) "Eligible student", any elementary or secondary school student who is a resident of this state and who attended any public school, including any public charter school, at any time within one year immediately before the student's initial participation in the program;
 - (6) "Parent", a resident of this state who is a parent, guardian, custodian, or other person with the authority to act on behalf of the child;
 - (7) "Private tutoring", tutoring services provided by state-certified teachers or a person or institution accredited as a tutor or tutoring facility by a state, regional, or national accrediting organization;
 - (8) "Program", the education savings account program as established under sections 135.2005 to 135.2070;
- (9) "Resident school district", the public school district in which the student 35 resides:
- 36 (10) "Taxpayer", an individual subject to the state income tax imposed in chapter 143; an individual, firm, partner in a firm, corporation, or shareholder in an S corporation 37 38 doing business in this state and subject to the state income tax imposed by chapter 143; or 39 an express company that pays an annual tax on its gross receipts in this state under chapter 40 153, which files a Missouri income tax return and is not a dependent of any other taxpayer.
- 135.2015. 1. Parents participating in the program shall agree to use the funds deposited in their eligible student's account only for the following qualifying expenses to 2 educate the eligible student:
 - (1) Tuition and fees at a private school;
 - (2) Tuition and fees for private online learning programs;
- 6 (3) Textbooks, curriculum, or instructional materials including, without limitation, 7 any supplemental materials, required by a private school or private online learning program;

(4) Private tutoring;

- **(5)** Computer hardware or other technological devices that are used to help meet 11 a participating student's educational needs and that are approved by an account-granting 12 organization;
 - (6) Fees for nationally standardized assessments, examinations for advanced placement courses or similar courses, state-recognized industry certification examinations, and any examination related to college or university admission;
 - (7) Fees for summer education programs and specialized after-school education programs;
 - (8) Services provided by a public school district including, without limitation, extracurricular programs and individual classes;
 - (9) Contributions to a college savings account including, but not limited to, a Coverdell education savings account, as established under 26 U.S.C. Section 530, for the benefit of the participating student;
 - (10) Educational services and therapies that are approved by the account-granting organization including, but not limited to, occupational, behavioral, physical, speech-language, and audiology therapies;
 - (11) Tuition and fees at a state institution of higher education, community college, or technical college;
 - (12) Textbooks, curriculum, or instructional materials, including without limitation any supplemental materials, required for college or university courses;
 - (13) Fees for transportation paid to a fee-for-service transportation provider for the participating student to travel to and from an education service provider not exceeding seven hundred fifty dollars each school year; and
 - (14) Fees for management of the account by financial firms authorized by the state treasurer.
 - 2. The amount an account-granting organization may deposit into an education savings account for a participating student shall not exceed the statewide average spent by the state on each public school student; except that, for a student with a disability, the amount shall not exceed the statewide average spent by the state on each public school student with an individualized education program.
 - 3. (1) Funds in an education savings account shall not be refunded, rebated, or shared with a parent or student in any manner. Funds in an education savings account shall be used only for educational purposes in accordance with subsection 1 of this section.
 - (2) Any refund or rebate for services under sections 135.2005 to 135.2070 shall be credited directly to the eligible student's education savings account.

48

49

50

3

7

8

9

10

11 12

13

14

1516

17

5

8

10

45 4. Parents may make payments for the costs of educational programs and services 46 not covered by the funds in their accounts. Personal deposits into an education savings 47 account are prohibited.

- 5. Funds in an education savings account used on qualifying expenses, as described under subsection 1 of this section, do not constitute taxable income to the parent or the participating student.
- 135.2020. 1. A parent may apply to an account-granting organization to establish an education savings account for an eligible student.
- 2. An account-granting organization may approve an application for an education savings account only upon:
- 5 (1) Verifying that the student on whose behalf the parent is applying is an eligible student; and
 - (2) Entering into the agreement with the parent under subsection 4 of this section.
 - 3. An account-granting organization shall approve an application only if funds are available.
 - 4. As part of the application process, a parent shall enter into an agreement with the account-granting organization:
 - (1) To use the funds in the education savings account only for qualifying expenses as established under sections 135.2005 to 135.2070;
 - (2) To provide, at a minimum, an education for the eligible student in at least the subjects of reading, grammar, mathematics, social studies, and science; and
 - (3) Not to enroll his or her eligible student in a public school without notification as required under section 135.2045.
- 5. Upon notice by a parent, the account-granting organization shall annually renew an eligible student's education savings account if funds are available.
 - 135.2025. 1. For all tax years beginning on or after January 1, 2018, a taxpayer who makes a contribution to an account-granting organization may claim a credit against the tax otherwise due under chapter 143, other than taxes withheld under sections 143.191 to 143.265, and chapter 153, in an amount equal to the amount the taxpayer contributed during the tax year for which the credit is claimed.
 - 2. (1) A taxpayer may carry forward any unused tax credits under this program for three consecutive tax years following the tax year in which the tax credit was earned.
 - (2) A taxpayer that seeks to carry forward an unused amount of the tax credit under this subsection shall submit an application for allocation of tax credits or carryforward credits in the year that the taxpayer intends to use the carryforward.

(3) A taxpayer shall not convey, assign, or transfer the tax credit under this section to another entity or person unless all of the assets of the taxpayer are conveyed, assigned, or transferred in the same transaction.

- 3. The credit allowed by this section is in lieu of any deduction for a contribution made to an account-granting organization under 26 U.S.C. Section 170 taken for state tax purposes.
- 4. The cumulative amount of tax credits that may be claimed under this section in a tax year shall not exceed thirty million dollars. Tax credits shall be issued in the order applications under this section are received.
- 5. For the purposes of this section, a contribution for which a credit is claimed that is made on or before the fifteenth day of the fourth month following the close of the tax year may be applied to either the current or preceding tax year and is considered to have been made on the last day of that tax year.
- 6. (1) A taxpayer may rescind all or part of the taxpayer's allocated tax credit under this section.
- (2) The amount rescinded shall become available for purposes of the cap described under subsection 4 of this section as approved by the state treasurer if the taxpayer receives notice from the state treasurer that the rescission has been accepted by the state treasurer and the taxpayer has not previously rescinded any or all of the taxpayer's allocated tax credit under this section more than one time in the previous three tax years.
- (3) Any amount rescinded under subdivision (2) of this subsection shall become available to a taxpayer on a first-come, first-served basis based on tax credit applications received after the date the rescission is accepted by the state treasurer.
- 7. An application for a tax credit under this section shall be submitted to the state treasurer on forms established by rule of the state treasurer.
- 8. The state treasurer and the department of economic development shall develop a cooperative agreement to assist in the administration of this section.
- 135.2030. 1. An organization that seeks to become an account-granting organization shall apply for initial certification or renewal of certification from the state treasurer by March first before the school year for which the account-granting organization intends to fund education savings accounts.
 - 2. An application for initial certification shall include:
 - (1) A copy of the organization's incorporation documents under chapter 355;
- 7 (2) A copy of the organization's Internal Revenue Service determination letter as a Section 501(c)(3) nonprofit organization;

11

16

17

19

22

23

29

33

34

35

3637

38 39

40

41

9 (3) A description of the methodology the organization will use to evaluate whether 10 a student is eligible to establish an education savings account;

- (4) A description of the application process the organization will use;
- 12 (5) A description of the methodology the organization will use to establish and fund 13 education savings accounts; and
- 14 (6) A description of how the organization will comply with requirements for account-granting organizations as set forth in sections 135.2005 to 135.2070.
 - 3. (1) An application for renewal of certification shall include:
 - (a) The organization's completed Internal Revenue Service Form 990, submitted no later than November thirtieth of the year before the school year that the organization intends to fund education savings accounts;
- 20 **(b)** A copy of any audit that may be required by the state treasurer under section 21 135.2040; and
 - (c) An annual report that includes:
 - a. The number of applications the organization received, by county and by grade;
- b. The names and addresses of all eligible students that received an allocation to their education savings accounts in accordance with the program;
- 26 c. The number of education savings accounts the organization established on behalf
 27 of eligible students;
- d. The amount of funds the organization:
 - (i) Received for the purposes of sections 135.2005 to 135.2070;
- 30 (ii) Distributed into education savings accounts;
- (iii) Has remaining after the distribution into education savings accounts and the obligation of those funds; and
 - (iv) Spent on administrative funds and an accounting thereof; and
 - e. A description of how the organization has complied with section 135.2035.
 - (2) The annual report described under paragraph (c) of subdivision (1) of this subsection shall comply with uniform financial accounting standards established by the state treasurer, and all financial information shall be certified by a certified public accountant that it is free of material misstatements.
 - 4. Within sixty days after receipt of the application under this section, the state treasurer shall certify the organization as an account-granting organization if the organization meets the requirements established by sections 135.2005 to 135.2070.
 - 135.2035. 1. All account-granting organizations shall ensure that at least ninety percent of their revenue from tax-credit-eligible contributions is allocated to education savings accounts. An account-granting organization shall maintain separate accounts for

4 education savings account funds and funds for operating or administrative expenses. Any 5 interest accrued from tax-credit-eligible contributions shall be allocated to education 6 savings accounts.

- 2. Each account-granting organization shall create a standard application process for parents of eligible students to establish their student's eligibility for the program. Each account-granting organization shall ensure that the application is readily available to interested families through various sources, including the internet.
- 3. Account-granting organizations shall provide parents of participating students with a written explanation of the allowable uses of education savings accounts, the responsibilities of parents, and the duties of the account-granting organization.
- 4. (1) With prior notification to the state treasurer, an account-granting organization may transfer funds to another account-granting organization if additional funds are required to meet demands for education savings accounts at the receiving account-granting organization or if the transferring account-granting organization determines it cannot continue to operate due to any reason.
- (2) All transferred funds shall be deposited by the receiving account-granting organization into its account for education savings accounts.
- (3) All transferred amounts received by an account-granting organization shall be separately disclosed in the annual report for certification renewal in accordance with section 135.2030.
- (4) An account-granting organization that receives a transfer of funds from an account-granting organization that has determined it cannot continue to operate shall agree to fund the education savings accounts established by the transferring account-granting organization to the extent funds are available.
- 135.2040. 1. The state treasurer shall maintain a public registry of currently certified account-granting organizations on its website.
- 2. The state treasurer may bar an education service provider from the program if the state treasurer establishes that the education service provider has:
- (1) Routinely failed to provide participating students with the educational services funded by the education savings accounts; and
- (2) Intentionally and substantially misrepresented information or failed to refund any overpayments in a timely manner.
- 9 3. If the state treasurer bars an education service provider from the program, it shall notify all account-granting organizations of this decision as quickly as possible.

4. The state treasurer shall have the authority to make any parent of an eligible student ineligible for the program in the event of substantial misuse of funds in the account.

- 5. The state treasurer shall have the authority to conduct or contract for the auditing of accounts and shall, at a minimum, conduct random audits of accounts on an annual basis.
- 6. The state treasurer shall have the authority to refer cases of substantial misuse of funds to law enforcement agencies for investigation if evidence of fraudulent use of an account is obtained.
- 7. The state treasurer shall promulgate rules to allow participating students to return to their zoned public schools in their resident school districts at any time, providing the least disruptive process.
- 8. (1) The state treasurer shall adopt rules and procedures as necessary for the administration of the program, including the process by which violations of the program by a parent, education service provider, or account-granting organization can be reported.
- (2) In the event that the state treasurer determines that there has been a violation of the program by an account-granting organization, the state treasurer shall send written notice to the account-granting organization.
- (3) An account-granting organization that receives notice under subdivision (2) of this subsection has sixty days to correct the violation identified by the state treasurer in the notice.
- (4) If an account-granting organization fails or refuses to comply after sixty days, the state treasurer may revoke the account-granting organization's certification to participate in the program.
- (5) (a) An account-granting organization may request an administrative hearing on the revocation of the account-granting organization's certification.
- (b) A final decision of the state treasurer under this subdivision is subject to judicial review.
- (6) (a) An account-granting organization whose certification has been revoked under this subsection shall not accept any further contributions for the purpose of funding education savings accounts.
- (b) If the account-granting organization received any contributions for the purpose of funding education savings accounts after the date of notice of the revocation of its certification, the account-granting organization shall refund the contributions.
- 135.2045. 1. Account-granting organizations may contract with private financial institutions to manage education savings accounts.

10

11 12

13

14

17

18

19

24

25

26

29

30

31

32

33

34

35

2. Each account-granting organization shall develop a system for payment of services from education savings accounts by electronic funds transfer including, but not limited to, debit cards, electronic payment systems, or any other means of electronic payment that the account-granting organization determines to be commercially viable, cost-effective, and parent-friendly. The account-granting organization shall not adopt a system that relies exclusively on requiring parents to be reimbursed for out-of-pocket expenses.

- 3. Account-granting organizations may deduct up to three percent from each education savings account to pay reasonable fees to private financial institutions to manage education savings accounts.
- 4. Account-granting organizations shall roll over any unused funds in an education savings account to the following year.
- 5. An account-granting organization shall continue making transfers into an education savings account until:
 - (1) The parent does not apply to renew the education savings account;
 - (2) The account-granting organization determines that the student is no longer an eligible student;
- 20 (3) The parent of the eligible student fails to comply with the agreement entered 21 into with the account-granting organization;
- 22 (4) The eligible student enrolls in his or her resident school district or other public school;
 - (5) The student graduates from high school; or
 - (6) The state treasurer bars a student from the program for substantial misuse of education savings account funds.
- 6. (1) If a student does enroll in his or her resident school district or other public school:
 - (a) The parent shall immediately notify the account-granting organization; and
 - (b) The account-granting organization shall place the education savings account in inactive status for a maximum period of one school year, during which the funds in the education savings account shall be frozen in place.
 - (2) After the one school year described under subdivision (1) of this subsection, the account-granting organization shall return the education savings account to active status if:
- 36 (a) The parent notifies the account-granting organization that the student is no 37 longer enrolled in a resident school district or other public school; and

- 38 **(b)** The student continues to meet the eligibility requirements under sections 39 135.2005 to 135.2070.
- 40 (3) After the one school year described under subdivision (1) of this subsection, the account-granting organization shall close the education savings account if:
 - (a) The parent does not notify the account-granting organization that the student is no longer enrolled in a resident school district or other public school; or
- 44 (b) The student ceases to meet the eligibility requirements under sections 135.2005 45 to 135.2070.
 - 7. Education savings accounts shall remain active and useful until:
 - (1) A student graduates from a postsecondary institution;
- 48 **(2)** Four consecutive years after high school graduation in which the student is not enrolled in a postsecondary institution;
 - (3) A student turns twenty-five years of age; or
 - (4) Two consecutive years of account inactivity,

5152

3

4

50

42

43

46

- 53 whichever occurs first.
- 8. If at any time education savings account funds are revoked or returned, the funds shall revert to the account-granting organization that established the education savings account and be allocated to fund education savings accounts.
- 135.2050. The state treasurer shall produce an annual report, accessible via a state website, that aggregates the data obtained from the annual reports submitted by account-granting organizations for renewal of certification described under section 135.2030.
 - 135.2055. 1. To ensure that students are treated fairly and kept safe, all participating private schools shall:
 - (1) Comply with all health and safety laws or codes that apply to private schools;
 - (2) Hold a valid occupancy permit if required by a municipality;
- 5 (3) Certify that they comply with the nondiscrimination policies set forth in 42 6 U.S.C. Section 1981; and
- 7 (4) Conduct criminal background checks on employees. Each participating private 8 school shall:
- 9 (a) Exclude from employment anyone not permitted by state law to work in a 10 private school; and
- 11 **(b)** Exclude from employment anyone that might reasonably pose a threat to the safety of students.
- 2. To ensure that funds are spent appropriately, each participating private school shall:

19

20

21

22

23

24

25

26

27

28

29

30

31

32

33

34

35

36 37

38

39

40

41

42

45

47

- 15 (1) Provide parents with a receipt for all qualifying expenses at the school; and
- 16 (2) Demonstrate its financial viability by showing that the school can repay any funds that might be provided from education savings accounts, if the school is to receive 17 fifty thousand dollars or more during the school year, by: 18
 - (a) Filing with the state treasurer before the start of the school year a surety bond payable to the state in an amount equal to the aggregate amount of funds from education savings accounts expected to be paid during the school year from students admitted to the participating school; or
 - (b) Filing with the state treasurer before the start of the school year financial information that demonstrates the school has the ability to pay an aggregate amount equal to the amount of the funds from education savings accounts expected to be paid during the school year to students admitted to the participating school.
 - 3. In order to allow parents and taxpayers to measure the achievements of the program:
 - (1) Parents shall ensure that:
 - (a) Their eligible student takes, each school year:
 - a. The statewide assessments described under section 160.518; or
 - b. Nationally norm-referenced assessments that measure learning gains in math and language arts and provide for value-added assessment;
 - (b) The results of the assessments described in paragraph (a) of this subdivision are provided to the state or an organization chosen by the state on an annual basis, beginning with the first year of testing;
 - (c) The results of the assessments are reported in a way that allows the state to aggregate data by grade level, gender, family income level, and race; and
 - (d) The state or an organization chosen by the state is informed of the eligible student's graduation from high school; and
 - (2) The state or an organization chosen by the state shall:
 - (a) Ensure compliance with all student privacy laws;
- 43 (b) Collect all results from the assessments described under subdivision (1) of this 44 subsection;
- (c) Provide the results from the assessments, associated learning gains, and 46 graduation rates to the public via a state website after the third year of collection of results and graduation-related data. The findings shall be aggregated by grade level, gender, family income level, number of years of participation in the program, and race;

(d) Provide rates for high school graduation, college attendance, and college graduation for participating students to the public via a state website after the third year of testing and test-related data collection; and

- (e) Administer an annual parental satisfaction survey that asks parents of students receiving education savings accounts to state the number of years their child has participated in the program and express:
 - a. Their satisfaction with the program; and
- b. Their opinions on other topics, items, or issues that the state finds would elicit information about the effectiveness of the program.
- 4. A participating private school is autonomous and not an agent of the state or federal government and therefore:
- (1) Neither the state treasurer nor any other state agency shall, in any way, regulate the educational program of a participating private school or education service provider that accepts funds from an education savings account;
- (2) The creation of the program does not expand the regulatory authority of the state, the state's officers, or any school district to impose any additional regulation of private schools or education service providers beyond those necessary to enforce the requirements of the program; and
- (3) Participating private schools and education service providers shall be given the maximum freedom to provide for the educational needs of participating students without governmental control; except that, participating private schools and education service providers shall comply with the requirements set forth in sections 135.2005 to 135.2070.
- 5. In any legal proceeding challenging the application of sections 135.2005 to 135.2070 to an education service provider, the state bears the burden of establishing that the law is necessary and does not impose any undue burden on the education service provider.

135.2060. The resident school district shall provide an education service provider
that has admitted an eligible student under this program with a complete copy of the
student's school records in a manner that complies with the Family Educational Rights and
Privacy Act of 1974 (20 U.S.C. Section 1232g).

135.2065. If any part of the education savings account program, established under sections 135.2005 to 135.2070, is challenged in state court as violating either the state or federal constitutions, parents of eligible and participating students shall be permitted to intervene in such lawsuit for the purposes of defending the program's constitutionality.

5 However, for purposes of judicial administration, a court may limit the number of parents

2

4 5

8

10

6 permitted to intervene or require that all parents file a joint brief, so long as they are not 7 required to join any brief filed on behalf of any named state defendant.

135.2067. Under section 23.253 of the Missouri sunset act:

- (1) The program authorized under sections 135.2005 to 135.2070 shall automatically sunset on December thirty-first six years after the effective date of sections 135.2005 to 135.2070 unless reauthorized by an act of the general assembly; and
- (2) If such program is reauthorized, the program authorized under sections 135.2005 to 135.2070 shall automatically sunset on December thirty-first twelve years after the effective date of the reauthorization of sections 135.2005 to 135.2070; and
- (3) Sections 135.2005 to 135.2070 shall terminate on September first of the calendar year immediately following the calendar year in which the program authorized under sections 135.2005 to 135.2070 is sunset.

of sections 135.2005 to 135.2070. Any rule or portion of a rule, as that term is defined in section 536.010, that is created under the authority delegated in this section shall become effective only if it complies with and is subject to all of the provisions of chapter 536 and, if applicable, section 536.028. This section and chapter 536 are nonseverable, and if any of the powers vested with the general assembly pursuant to chapter 536 to review, to delay the effective date, or to disapprove and annul a rule are subsequently held unconstitutional, then the grant of rulemaking authority and any rule proposed or adopted after August 28, 2017, shall be invalid and void.

✓