Approved 2/15/89
Date

MINUTES OF THE House COMMITTEE ON Taxation.

The meeting was called to order by Representative Keith Roe at
Chairperson

9:00 a.m./p.m. on February 14, 1989 in room 519-S of the Capitol.

All members were present except:
Representative Crowell

Committee staff present:
Tom Severn, Research
Chris Courtwright, Research
Don Hayward, Revisor's Office
Lenore Olson, Committee Secretary

Conferees appearing before the committee:
Representative Sughrue
Mark Tallman - ASK
Craig Grant - KNEA
Jim Turner - Kansas League of Savings Institutions
Ruth Wilkin - grandmother
Davi Anne Brewer - Ft. Hays State student

Representative Sughrue testified in support of HB 2034, stating that the main concern for introducing this legislation is for middle income families. (Attachment 1)

Mark Tallman testified in support of HB 2034, stating that his organization is naturally concerned about the costs of attending college. (Attachment 2)

Craig Grant testified in support of HB 2034, stating that this incentive could allow more of our young people to have post secondary training and be educated to their potential. (Attachment 3)

Jim Turner testified in support of HB 2034 with improvements. He stated that this bill would allow citizens of Kansas to develop savings programs to meet the ever increasing cost of higher education. (Attachment 4)

Ruth Wilkin testified in support of HB 2034, but would like to see this bill allow grandparents to qualify for the tax break.

Davi Anne Brewer testified in support of HB 2034, stating that this bill would help students who have high debts to pay upon graduation.

Chairman Roe closed the hearing on HB 2034.

A motion was made by Representative Shore and seconded by Representative Long to pass HB 2042 favorably.

A substitute motion was made by Representative Wagnon and seconded by Representative Dean to table HB 2042. The substitute motion passed with 12 yes votes and 10 no votes.

The minutes of February 13, 1989, were approved.

The meeting adjourned.

HOUSE COMMITTEE ON TAXATION

DATE 2/14/89

NAME	ADDRESS	REPRESENTING
TED BANNISTER	413 W 6th HAYS 67601	A.S.K. - FORT HAYS
Erik Schmeller	510 W. 31st Hays 67601	S.G.A. - Fort Hays
Davi Anne Brewer	501 W. 36th Apt D Hays	SGA - Fort Hays
Chris Graves	Topeka	ASK
Dave Eyl	Topeka	A.S.K.
JEFF SONNICH	TOPEKA	Ks LEAGUE OF SAVINGS INST.
Jim Turner	TOPEKA	Ks. League of Savings
Marvin Burris	Topeka	Regents
Gerhard Metz	"	KCCI
Craig Grant	Topeka	K-NEA
Ken Bahr	Topeka	Ks. Assn. of Private Career Schools
Alan Steppat	Topeka	Pete McGill & Assoc.
Jim McBride	Topeka	Observer

STATE OF KANSAS

KATHRYN SUGHRUE
REPRESENTATIVE, 116TH DISTRICT
FORD COUNTY
1809 LA MESA DRIVE
DODGE CITY, KANSAS 67801

COMMITTEE ASSIGNMENTS
MEMBER: FEDERAL AND STATE AFFAIRS
ENERGY AND NATURAL RESOURCES
RANKING MINORITY MEMBER: GOVERNMENTAL ORGANIZATION
MEMBER: MIDWESTERN CONFERENCE ON HEALTH—COMMISSIONER ON INTERSTATE COOPERATION

TOPEKA

HOUSE OF
REPRESENTATIVES

February 14, 1989

Mr. Chairman and Members of Taxation Committee

Thank you for looking into the issue of assisting families with higher education costs.

H.B. 2034 relates to savings accounts to help parents save for their childs higher education. The bill provides a saving of $1200 for each dependent under 18 years of age deposited by a taxpayer in a savings account for the payment of higher education. The savings account maybe maintained by a bank, savings & loan or credit union.

If withdrawn from such account for any other reason other than higher education there would be a tax equal to 10% of the total amount deposited.

This savings account would be tax exempt.

The main concern for introducing this legislation is for middle income families. Wealthy families can pay for their childs education and poor families have better access to scholarships or charity. Federal dollars for Pell grants and basic educational opportunities have been cut drastically.

Coupled with less federal assistance higher cost of tuition (approximately $5,000/yr.) there is a need to address this need for families.

There has been a tuition rate increase of over 100% since 1980 by our 6 Kansas Universities.

2/14/89
Attachment 1

This issue is a concern nationwide. I refer you to an article in the February State Legislators magazine on "College Tuition Rising Faster than Appropriations".

Of course families on their own can make similar investments, but many of them won't. This leaves those students with no financial alternatives but borrowing along with part-time work. College work study opportunities are down since 1980 also.

Today many college gratuates have a gigantic debt. So there are a lot of young people and their families needing financial help and incentives to save.

<u>What are other states doing on Savings Plans</u>

18 states have legislation in place

13 states have legislation pending

4 of our surrounding states have passed similar bills; Missouri, Oklahoma, Colorado and Iowa. Nebraska is considering a statewide plan.

Plans are gaining nationwide attention.

In summary it is a reality that the cost of college education will continue to increase. Families need a "Kansas plan" for an incentive to save, also with the plan families need to be informed for they do not know how much college does cost.

We need to move our state forward to show our concern for higher education for our Kansas youth.

Thank you for your consideration of H.B. 2034.

LYNN HARNER, D. D. S.
2011 CENTRAL AVENUE
DODGE CITY, KANSAS 67801

Telephone (316) 227-3381

2/8/89

Representative Kathryn Sughrue
State Capitol, Rm. 278 West
Topeka, KS 66612

Dear Representative Sughrue:

I am writing in regard to House Bill No. 2034 which I support.

I believe that passage of this bill is needed, because the expense of a child's college education can be considerable. I think that anything that the State of Kansas could do to encourage parents to save for a child's college education would be good. I believe that this bill would offer an incentive for parents to save money for their child's college education.

I understand that several other states have enacted legislation to encourage parents to save for their children's college education. I believe that the State of Kansas should follow the lead of these other states and enact this Bill.

Sincerely,

Lynn Harner

Lynn Harner

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1973 ask 1988

ASSOCIATED STUDENTS OF KANSAS

15 Years In The Student Interest

TO: House Committee on Taxation
FROM: Mark Tallman, Director of Legislative Affairs
DATE: February 14, 1989

RE: Statement on HB 2034

Position

ASK supports the enactment of programs to help families plan and save for college. We believe HB 2034 would help meet those goals, and urge its favorable consideration.

We appreciate the opportunity to appear before this committee. As an organization representing university students, we are naturally concerned about the costs of attending college, and have been studying the issue of student savings programs for two years.

Our report on college costs and the means to pay is attached. Rather than read all this material, I would simply like to note the highlights, and allow members to review the details on their own. I will then offer some comments on savings programs in general, and HB 2034 in particular.

Thank you for your consideration.

2/14/89
attachment 2

Suite 407 • Capitol Tower • 400 S.W. 8th St. • Topeka, Ks. 66603 • (913) 354-1394

The Student Governments of the Regents Institutions

Emporia State University • Fort Hays State University • Kansas College of Technology • Kansas State University • Pittsburg State University • University of Kansas • Wichita State University

I. Tuition and College Costs

For many, attending college has become the new American dream: the surest path to personal opportunity and advancement. However, as college has become even more desired, paying for it has become more difficult.

A. College Costs Impact a Significant Number of Kansans

Over 145,000 students enrolled in Kansas higher education institutions in each semester of the 1987-88 school year. This includes public universities and community colleges, and two- and four-year not-for-profit private colleges and universities. It does not include students enrolled in vocational-technical schools or for-profit private institutions. Approximately half of these students are enrolled in the six state universities.

A U.S. Department of Education survey of first-time students for the fall of 1986 indicated that only 13% of such students from Kansas attend college out-of-state, and that 81% of first-time students in Kansas institutions are residents.

B. Financing Postsecondary Education is Expensive

To compile accurate data on the cost and financing of postsecondary education, the U.S. Department of Education created the 1987 National Postsecondary Student Aid Study. The report surveyed undergraduate students on their expenses while enrolled in the fall of 1986.

As might be expected, reported costs varied significantly by type of institution attended, and whether the student lived in school-owned housing; off-campus (not with parents), or at home (with parents), as shown in Table 1 below:

Table 1 - Average Student-Reported Expenses for Undergraduates, 1986-87

	Public Institutions		Private Institutions	
Living Arrangement	Full Time	Not Full Time	Full Time	Not Full Time
School Owned Housing	$5,687	$4,118	$11,217	$6,664
Off Campus	4,037	1,607	9,041	3,021
At Home With Parents	2,878	1,650	7,879	3,396

While students taking fewer hours or attending only part of the year have lower costs per year, they require more semesters or years to complete a degree. Their total cumulative costs will be the same or even higher if costs increase over time.

Average costs for Kansas public university students are consistent with this report. Estimates used by university financial aid officers for full-time resident students living on-campus for the fall of 1987 range from slightly over $5,000 to $6,000. This suggests a minimum cost of full-time attendance at Kansas public universities of approximately $5,000.

These estimates are also consistent with those of the College Board, which projected an aveage "cost of attendance" for public universities of $4,370 for 1986-87.

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C. College Costs - Especially Tuition - are Increasing in Real Terms

In the first half of the 1980's, the Board of Regents approved a series of substancial tuition hikes to increase the fee/cost ratio, at least partially to respond to legislative concern. Although the rate of increase has moderated in recent years, the cumulative effect of these increases has been substancial. Table 2 shows the change in tuition rates for various classifications of students between 1980-81 to 1987-88. The change in the consumer price index is provided as a standard of reference.

Table 2 - Change in Tuition Rates, 1980-81 to 1987-88

		1980-81	1987-88	Change
Consumer Price Index		259.4	348.6	34.4%
KU, KSU, WSU -	Resident Undergraduate	560	1,070	91.1%
	Resident Graduate	560	1,190	112.5%
	Non-resident Undergraduate	1,640	3,240	97.6%
	Non-resident Graduate	1,640	3,360	104.9%
ESU, PSU, FHSU -	Resident Undergraduate	440	980	122.7%
	Resident Graduate	440	1,010	129.5%
	Non-resident Undergraduate	1,090	2,400	120.2%
	Non-resident Graduate	1,090	2,500	129.4%

Kansas has reflected national trends. The Chronicle of Higher Education, reporting the annual College Board review of college tuition for 1987, noted that tuition increases for both public and private institutions exceeded the inflation rate every year during the 1980s.

It seems likely that Kansas tuition will continue to increase in real terms for several reasons. First, Kansas state university budgets are also below national averages, and the Board of Regents is committed to increased funding. Tuition has been expected to contribute 25% of that funding. Second, in the past several years, tuition's share has actually exceeded 25%, and some political and education leaders believe that that share should go even higher. Third, as long as Kansas tuition rates are below the national average, Kansas tuition will be considered a "bargain" that can be increased without causing undue hardship.

The increase in tuition has fueled an increase in total costs of attending college. Table 3 compares College Board estimates for costs at public universities with Kansas median family income, and Kansas family income with the U.S. average.

Table 3 - Cost of Attendance and Family Income

YEAR	Average Cost of Attendance	Kansas Median Family Income	Cost as % of M.F.I.	Kansas M.F.I. as % of U.S.
1980-81	$2,711	$23,334	11.6%	96%
1981-82	3,079	24,842	12.4%	95%
1982-83	3,403	23,956	14.2%	87%
1983-84	3,628	27,569	13.2%	94%
1984-85	3,899	30,330	12.9%	98%
1985-86	4,170	31,114	13.4%	95%
1986-87	4,370	32,512	13.4%	93%
Increase	61.2%	39.3%		

D. Financial Aid

Trends in financial assistance have gone in reverse of tuition. While tuition declined in real terms during the 1970s, the federal government expanded its commitment to student aid, from the Basic Educational Opportunity Grant program in 1972, to in the Middle Income Student Assistance Act in 1978. However, the real increases in tuition during the 1980s coincided with efforts by the Reagan Administration to reduce spending on student aid (and other domestic programs), as well as the Gramm-Rudman-Hollings budget cuts.

As a result, federal student aid awards fell far behind college costs, as shown in Table 4.

Table 4 - Federal Financial Aid at the State Universities

	1980-81	1986-87	Change
F.T.E. Enrollment	65,341	63,484	-3%
FEDERAL			
Pell Grants	$11,467,648	$17,010,773	48%
Supplimental Grants	1,576,174	1,431,944	-9%
College Work Study	3,318,214	2,971,408	-10%
Perkins Loans	5,145,550	6,103,020	19%
Stafford Loans	37,330,402	42,405,938	14%
Health Professions Loans	296,576	301,290	2%
Total	$59,134,564	$70,224,373	19%
Per F.T.E. Enrollment	$905	$1,106	22%
Average Cost of Attendance	$2,711	$4,370	62%

Federal financial aid dollars per F.T.E. increased only about one-third as much as college costs. These programs contribute nearly 85% of all student aid dollars at the universities. Although the state has increased its own aid commitment through the Kansas Career Work Study Program, the state provides less than 2% of assistance. Institutional aid, from endowment and other sources, has also increased, but these funds may include merit scholarships not generally available on the basis of need. Even including these funds, student aid from all sources has increased only 27% per F.T.E. during this period.

These trends represent a substancial shift from student aid programs back to the student and family.

E. Concern Over Student Debt is Increasing.

A significant portion of student aid is provided in the form of loans. According to the College Board, 48.9% of aid dollars are awarded as loans. For Kansas state universities, the figure is considerably higher: approximately 64% of aid is awarded as loans. Students at these institutions borrowed $52 million to finance their education in 1986-87, mostly under federal programs.

Student borrowing has begun to raise concerns. In 1986, the Joint Economic Committee of the U.S. Congress commissioned a report entitled "Student Loans: Are They Overburdening a Generation?" by Janet Hansen, Director of Policy Analysis, Washington Office of the College Board. The report found a significant increase in student borrowing. For example, between 1978 and 1985, total student loan indebtedness in the U.S. under federally-insured programs rose by 390%. In contrast, total consumer installment debt rose only 104% over that period.

The report indicated that too little reliable data was available to fully understand the impact of student debt on the economy. However, the report noted that the burden of repaying loans is obviously greater on students whose incomes after college are lower. Women and minorities earn, on the average, lower salaries than white males, and would therefore spend a greater portion of income on loan repayment. Debt repayment is also a disincentive to enter lower-paying careers such as teaching.

The Education Commission of the States agrees, stating that "Evidence suggests that increasing student indebtedness is having negative effects both on who goes to college and on student selection of majors and careers."

An additional concern is that young parents will find it more difficult to save for their children's college expenses if they are still repaying the costs of their own education.

II. How Do Students Pay For College?

How do these students and their families finance these educational costs? This question was explored the National Postsecondary Student Aid Study, and the results are presented in Table 5.

Table 5 - How Students Finance College Expenses

	Doctoral Institutions	Other 4-Year Institutions
COLLEGE COSTS PAID BY:		
Student and Parents Only	31.3%	27.6%
Student Only	10.7%	15.2%
Parents Only	10.4%	9.1%
Family Only	52.4%	51.9%
Student, Parents and Financial Aid	27.3%	25.2%
Student and Financial Aid	10.5%	11.3%
Parents and Financial Aid	6.7%	7.4%
Family and Financial Aid	44.5%	43.9%
Financial Aid Only	3.2%	4.2%
No Student Contribution	20.3%	20.7%
No Parent Contribution	24.4%	30.7%

Traditionally, students and their families have had the primary responsibility for paying college costs. NPSAS indicates that a majority of students attending four-year public institutions receive no financial aid at all, financing the entire cost by themselves or with the help of their family. Less than 5% of students paid their entire cost with financial aid. The remaining 45% combined financial aid with personal and family contributions.

Between one-quarter and one-third of students did not receive help from their parents. This reflects in part the growing number of non-traditional students who do not receive parental help. About 80% of students at public institutions contribute to meeting their own college costs. Unless a student is already independently wealthy, the only way to finance college costs is by working, which explains why most students work during the summer, the school year, or both.

These facts have several important implications. First, not only has financial aid failed to keep pace with college costs, it fails to provide any assistance at all to over half of public university students. Second, while the family is still the largest source of paying for college, a significant number of students do not receive parental help. Third, students are overwhelmingly involved in helping finance their college expenses.

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III. Barriers to Financing College Costs

Traditionally, most college students were young; enrolling soon after high school. It was "pay as you go" - wealthly families could pay for their children; the poor depended on scholarships or charity. One way society attempted to make higher education more accessible was through tax-subsidized public institutions that could offer lower tuition. Opportunities were further extended through grants and work programs. The establishment of loan programs allowed students to "learn now, pay later," under the assumption that higher education leads to higher future income. The evidence suggests that even with these various components, the system is headed for trouble.

A. Public Concern and Confusion

A 1986 public opinion survey found that 61% of the American people believed college costs are too high. A California study found that "Californians think that college is not affordable for most people and that, in the future, the cost will become still more prohibitive." Interestingly, California has long had among the lowest tuition rates in the nation for public institutions.

Concern over higher costs has led to considerable public discussion, which may have further increased concern and confusion. A survey by The Chronicle of Higher Education (Sept. 2, 1987) showed that 24% of respondents said they didn't know what a year at a public four-year university would cost. Of those who believed they did know, the average guess was $9,120 - far above the actual national average of $5,789. Unfortunately, this confusion may lead some to believe that paying for college is farther out of reach than it actually is.

B. Limitations on Sources of Financing

If current trends continue, students and families will need more resources to finance college. These costs are significant, especially for middle-income families who cannot depend on student aid to meet costs. Costs will probably continue to rise for all students; any increase in student aid "for the truly needy" will not help most students.

Families who wish to provide their children with college education may lack information on actual or projected costs. They must either attempt to put funds aside until their children are ready to enroll, or go into debt and pay "after the fact." Non-traditional or independent students "on their own" face a similar choice. Unfortunately, there are also problems in trying to save for college expenses.

C. Barriers to Savings

Richard E. Anderson, writing in Change magazine, identified three problems which hinder saving for college. First, he notes that the vast increase in insurance and retirement programs, established by the government or encouraged through the tax code, has reduced both the need and habit to save. The need to save for college, however, has not been reduced. "Higher education, it seems, is conspicuously alone in creating a need for savings for which there is an acknowledged public value yet no public inducements for private savings."

Second, many families, especially of modest means, have neither the expertise or resources to make appropriate investments. Many families continue

2.5

to rely mainly on passbook savings accounts, which certainly do not pay returns to match recent increases in college costs. The problem is compounded if the family or individual has no real understanding of how much will be needed.

Finally, Anderson believes that the U.S. tax code, even after tax reform, discourages savings in the form of interest-bearing accounts and investments. Instead, a family is better-off putting money into housing, life insurance or retirement accounts, all of which receive favorable tax treatment.

IV. Goals of a State Program

Government action is appropriate when it can help alleviate problems individuals cannot address on their own. As we have seen, individuals face serious, growing problems in meeting college costs. If Kansas has an interest in its citizens receiving postsecondary education, it should assist individuals in doing so. Subsidizing the universities and providing some financial aid is no longer enough.

A student savings program does not reduce the family's primary responsibility to meet college costs; on the contrary, it would assist families in meeting those responsibilities. Such a program should meet the following goals:

1. To inform families about college expenses and how to plan for them.

Many different mechanisms have been proposed to assist families in college savings. Whatever mechanism is adopted, however, one of the most important elements is informational. In fact, the public good would be served if such a program <u>only</u> provided widespread information dissemination.

2. To encourage and assist in saving for college by providing one or more of the "advantages" not currently available:

a. Higher Returns. The value of savings should at least keep pace with tuition and college costs. This is difficult for families of modest means. The use of tax benefits can also encourage savings for educational purposes.

b. Simplicity. To assist families without investment experience, such a program would be a vehicle to meet a single, specific goal - paying for college - unlike life insurance, stocks and bonds, etc.

c. State Endorsement. Such a program would carry the full backing of the state government, and would be dedicated to a specific public policy objective.

3. To encourage attendance at institutions within the state.

Most Kansans students already remain in the state for college. However, some additional incentives to enroll in Kansas institutions may be desirable.

K AS-NATIONAL EDUCATION SSOCIATION / 715 W. 10TH STREE TOPEKA, KANSAS 666 86

Craig Grant Testimony Before The

House Taxation Committee

Tuesday, February 14, 1989

Thank you, Mr. Chairman. I am Craig Grant and I represent Kansas-NEA. I appreciate this chance to visit briefly about HB 2034.

I will not speak to the mechanics in the bill which establish the tax policies of this savings plan. I am not a tax bill expert, so cannot comment on whether the bill is properly written to do what is intended. I would speak to the concept of establishing a tax free savings plan so that parents could save for their childrens' college education. Many of our members are quite interested in this type of program so they can plan ahead for college costs.

With the ever-increasing cost of a college education in mind, HB 2034 would provide an incentive for Kansans to save for the future. This incentive could allow more of our young people to have post secondary training and be educated to their potential. If that happens, Kansas will get the most out of its greatest resource potential--the children of the state.

Kansas-NEA would ask that you report HB 2034 favorably for passage. Thank you for listening to the concerns of our 22,000 members.

2/14/89
Attachment 3

Telephone: (913) 232-8271

KLSI Kansas League of Savings Institutions

JAMES R. TURNER, President • Suite 512 • 700 Kansas Ave. • Topeka, KS 66603 • 913/232-8215

February 14, 1989

TO: HOUSE COMMITTEE ON TAXATION
FROM: JIM TURNER, KANSAS LEAGUE OF SAVINGS INSTITUTIONS
RE: H.B. 2034, EDUCATION SAVINGS ACCOUNT

The Kansas League of Savings Institutions appreciates the opportunity to file a statement in support of House Bill No. 2034 which would create education savings accounts.

The bill would provide that for taxable years after December 31, 1988, a taxpayer could exempt up to $1200 per year plus interest from state income tax if deposited to a college educations savings account for each dependent under age 18. The bill includes notice requirements to the State when funds are withdrawn with a 10% penalty to be imposed if withdrawn for purposes other than college.

The League supports this effort to allow citizens of Kansas to develop savings programs to meet the ever increasing cost of higher education. Among industrialized nations the United States provides the least amount of incentives for savings and thus has one of the lowest savings rates among such countries. An education savings account would provide a welcome incentive.

We would make several suggestions to further improve the bill. The measure requires financial institutions to notify the Department of Revenue of withdrawals and to collect and remit the 10% tax imposed if the funds are used for other than educational purposes. The bill provides that the Department of Revenue supply forms for the tax remittance. We would encourage the inclusion of language in H.B. 2034 for the Department of Revenue to provide a withdrawal form for the account holder to attest to the use of the funds, the identity of the post-secondary institution, and the account holders signature.

Further, the bill provides for the deposit of education savings accounts in a "bank, savings and loan institution, or credit union." The committee may want to consider on line 138 adding the words "located in Kansas." We anticipate such accounts will be extensively marketed and feel that the benefit should go to those financial institutions which invest within Kansas and pay tax to the State of Kansas.

In conclusion, the Kansas League supports H.B. 2034 as a very positive savings incentive and would request that the bill be reported favorably for passage.

James R. Turner
President

2/14/89
Attachment 4

JRT:bw