

Approved: March 31, 1997
Date

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS.

The meeting was called to order by Chairperson Ray Cox at 3:30 p.m. on March 24, 1997 in Room 527-S of the Capitol.

All members were present except: Representative Tom Bradley
Representative Larry Campbell
Representative Dennis Wilson

Committee staff present: Dennis Hodgins, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Maggie Breen, Committee Secretary

Conferees appearing before the committee: Chuck Engel, Washburn Endowment Fund

Others attending: See attached list

The chairman presented the minutes of the March 19, 1997 and March 20, 1997 meetings for approval. Representative Grant pointed out that page 2, paragraph 3, of the March 19th minutes should read "Representative Grant agreed with both Representatives Humerickhouse and *Samuelson*." Representative Burroughs moved to approve the minutes as corrected, seconded by Representative Geringer. The motion carried.

The chairman opened the hearing on;

SB 302 - An act concerning the uniform management of institutional funds act; relating to appropriation of appreciation

Proponent appearing in favor of **SB 302**:

Chuck Engel, Washburn Endowment Association, urged the committee's favorable consideration of **SB 302**. The current statute limits cash allocation to the amount of the net **realized** appreciation in the value of the endowment fund, regardless of the fact that there may be **unrealized** gains also available for distribution. This bill adds "**or unrealized**" to the statute and places Kansas in conformity with the Uniform Management of Institutional Funds Act, along with 39 other states which have adopted it. It also creates the opportunity for endowment organizations operated exclusively for education, religious, and charitable purposes to distribute more money to institutions for much needed use. (Attachment 1)

There were no opponents to **SB 302**.

The chairman closed the hearing and opened discussion and final action on **SB 302**.

Representative Correll moved to pass **SB 302** and place it on the consent calendar, seconded by Representative Burroughs.

The chairman opened discussion and final action on:

HB 2330 - Individual development accounts for certain expenses, earnings income tax exempt

Representative Grant moved to pass out **HB 2330** favorably, seconded by Representative Dillon.

Representative Samuelson pointed out that SRS suggested medical expenses not be included in the bill until

CONTINUATION SHEET

MINUTES OF THE HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS, Room 527-S
Statehouse, at 3:30 p.m. on March 24, 1997.

they had more time to study them. She said she'd like to make a substitute motion.

Representative Dillon withdrew his second to the original motion and Representative Grant withdrew his motion, so that she could just make a new motion.

Representative Samuelson moved that the bill be amended by taking out the words "medical expenses or" on line 34 of page 1, seconded by Representative Burroughs.

Representative Geringer stated he was not opposed to the concept but voiced concern that everyone could take advantage of the development accounts. He supports the SRS recipients use of them; but not their use by the whole state of Kansas.

The motion carried.

Representative Ray moved to amend the bill to specify that the account holder must be an SRS recipient, and to grandfather in the people who have already established educational development accounts under current law, seconded by Representative Geringer.

Representative Humerickhouse said he had a problem with allowing only people who were on SRS to establish an account. He is of the opinion that sometimes people don't stay on SRS a long time; if we want to encourage people to start a savings program, maybe they should be allowed to participate once they are off SRS.

Representative Burroughs said his thoughts run parallel with Representative Humerickhouse's comments. He is concerned about class action suits from the citizenry who could view this as an avenue for creating another class of saver and alienating others who have a potential to save who may be of limited means, but aren't allowed to under state statute.

Representative Samuelson asked if her memory was correct in thinking that the SRS had testified that there were not many development accounts in place? And are there really that many people in that higher income group that we think this is going to affect?

Jack Gumb, SRS, said that when he checked with the department of revenue, there had not been any since the law went in effect in 1994. He doesn't know if it's an education problem of people not being aware of the law or not. The law is now open to educational development accounts only.

Representative Ray stated that this bill expands the accounts to include other purposes and we really don't know how many may want to use them. She said she was open to other ideas on her amendment.

Representative Grant said that if we don't have anybody using the educational development account we don't have to grandfather anybody in. Can the amendment be to include SRS recipients and can we put a threshold?

Someone stated that there was \$25,000 used as earned income credit and the same amount was used for the property tax rebate program. If you want to use a threshold, put in a cap of \$25,000 and make no mention of SRS recipients.

Representative Ray withdrew her motion and Representative Geringer withdrew his second.

Representative Ray moved to amend the bill to put in a \$25,000 income cap, seconded by Representative Gilbert. The motion carried.

Representative Grant moved to pass out **HB 2330**, as amended, favorable for passage, seconded by representative Dillon. The motion carried.

The meeting adjourned at 3:53 p.m.

Representative Cox announced that this was the last meeting this year.

The minutes for this meeting were distributed to the committee members for review on March 27, 1997, with the understanding that minutes would be considered approved if no additions, deletions, or corrections were received by 5:00 p.m. on March 31, 1997. None were received.

**Testimony
in Support of 1997 S.B. 302
before the Kansas State House
Financial Institutions Committee**

Monday, March 24, 1997

Mr. Chairman and members of the Committee, I am Chuck Engel, a trustee of the Washburn Endowment Association. I appear in support of Senate Bill 302, which amends the Uniform Management of Institutional Funds Act. This bill accomplishes two purposes. First, it adds only two words, "or unrealized", to the statute and places Kansas in conformity with the Uniform Act, along with the 39 other states which have adopted it. Second, it creates the opportunity for endowment organizations operated exclusively for educational, religious, charitable or other eleemosynary purposes to distribute more money to institutions for much needed use.

Our current statute focuses solely on endowed funds and not the total market value of endowed assets of the endowment institution. It limits our cash allocations to the amount of the net **realized** appreciation in the value of the endowment fund, regardless of the fact that there may be **unrealized** gains also available for distribution. The statute allows for the investment of funds on a total return basis, but it limits distributions to only realized gains. An endowment with securities which have not been sold may find the time, when market value may not be sufficient to meet the institution's needs. Trustees would be forced to sell some of the endowed assets with net **unrealized**

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Attachment 1*

appreciation, and therefore convert the assets into net **realized** appreciation in order to provide distributions at a level needed by the institution. However, a forced sale which may limit the potential to generate more earnings in the future should not be required in order to comply with the statute.

I urge your favorable consideration of Senate Bill 302. I will answer any of your questions.