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Date

MINUTES OF THE SENATE COMMITTEE ON EDUCATION

The meeting was called to order by Chairperson Barbara Lawrence at 9:00 a.m. on February 20, 1998 in Room 123-S of the Capitol.

All members were present except: Senator Emert

Committee staff present: Ben Barrett, Legislative Research Department
Carolyn Rampey, Legislative Research Department
Avis Swartzman, Revisor of Statutes
Jackie Breymeyer, Committee Secretary

Conferees appearing before the committee: Ted Miller, Treasurer's Office
Dr. Stephen M. Jordan, Board of Regents

Others attending: See attached list

SB 402--Kansas postsecondary education expense program

Chairperson Lawrence called the meeting to order and called on Ted Miller, Treasurer's Office to give his testimony on the bill.

Mr. Miller stated that the Committee's approval of this bill only puts the feasibility study in motion, not the program itself. Only after the feasibility study is implemented and the Committee approves its recommendations would a college savings plan be implemented. The Governor, Board of Regents and Board of Education would also have to approve the study's recommendations. (Attachment 1)

Mr. Miller asked the Committee to consider the features of portability, flexibility and that participants would receive a tax incentive. It would be a self-funded program in that after the start-up period the program could pay for itself. The savings plan could evolve into a fee fund in which participant's fees would supply the fund's operating costs.

In ending his testimony, Mr. Miller stated that the Treasurer's office has estimated that this in-house study would cost \$30,000. This figure was arrived at after consulting other states' savings programs. If the study is approved, the Treasurer's office would report at the beginning of the next legislative session the findings of the study. The long term advantages of a college savings program has been acknowledged by counterparts throughout the country; Kansas should explore a similar concept's feasibility.

The Chairperson asked Mr. Miller what the fiscal note for the entire bill was. He responded that for the entire bill it was \$150,000. The \$30,000 cost is for the feasibility study and \$120,000 for the system needed.

Mr. Miller was asked if there would be money in the Treasurer's budget to fund this study. He said the Treasurer would support appropriating the money for the study. The Treasurer was in another meeting and could better answer that question. It has been discussed internally.

One of the Committee asked Mr. Miller if he could provide copies of college savings programs.

A member of the Committee stated that college savings plans have been looked at in the past. There are a variety of ways a division or office could administer those. It was found that the more successful ones were actually administered by treasurers. That was why the interim committee decided to go this way in a step process. Things have changed since the Treasurer is leaving and a new one coming in and there will be an election. The feasibility study can be done whenever the next treasurer comes in. This piece doesn't bother her as much as to be sure to have the new treasurer be apprised of this piece of legislation.

Mr. Miller replied that Mr. Graeber has visited the office and has been made aware of this legislation in discussion. Peggy Hannah, Assistant State Treasurer, will remain on staff through Mr. Graeber's term. The transition should be a smooth one.

The Chairperson commented that if the Committee did not feel comfortable with a time frame for this, they could choose not to do this.

CONTINUATION SHEET

MINUTES OF THE SENATE COMMITTEE ON EDUCATION, ROOM 123-S-Statehouse, at 9:00 a.m. on February 20, 1998.

Mr. Miller commented that if the feasibility study goes ahead, the findings would be reported back to Committee at the beginning of the 1999 session. All 50 states are at some point and level of studying this plan. The tax break makes it appealing to parents.

Senator Oleen asked if the bill needed to be amended to take out the part that did not relate to the feasibility study.

Senator Oleen moved to amend the bill to another appropriate committee so that preliminary update information can be looked at prior to January 15.

The Chairperson stated she would feel more comfortable amending the bill to include only the study.

Steve Jordan, Board of Regents, stated that his office had spent a fair amount of time in studying the issue and working with the Governor's budget office. The Board has endorsed the concept of a tax-free education savings plan to be established by the State of Kansas, but not a guaranteed expense or guaranteed tuition program.

The Board recommends an oversight board appointed by the Governor which would be responsible for policy, program oversight and audit. This board might include the State Treasurer, Chair of the Pooled Money Investment Board, Trustee representation from all postsecondary education sectors; a public representative with investment background and one or two more appointees by the Governor.

It is likely the private sector can provide flexible investment options at the lowest possible cost to program and participants; section 3 does not provide for engaging the services of the investment community.

The Board strongly supports section 6 (b) which directs the investment income to be tax free at state level.

The Board strongly recommends that section 4 (a) extend beyond tuition to include the entire cost of education, not just tuition. Of the \$9,223 total budget for a Regent's campus student, only \$2,199 is for tuition/fees; the remainder goes for books/supplies, living expenses, two round-trips home and social and personal expenses.

The Board encourages any legislation be crafted in order to be complementary to the federal tax credits and IRA programs that were created by the Taxpayer Relief Act of 1997. (Attachment 2)

Dr. Jordan also mentioned the Governor's tax credit savings proposal that was part of his State-of-the State message. For the maximum benefits of that plan to be realized, it needs to be a part of a state savings plan in order to get the federal tax benefits as well.

Dr. Jordan completed his testimony by stating that the Board would look forward to providing its assistance and input into a feasibility study.

Senator Oleen commented that she wanted to be sure the feasibility study included the savings plan side and not the guaranteed tuition; that would be part of her motion.

One of the Committee stated that he was not at all sure the bill in front of the Committee is the one that it wants to pass. Something along the lines of a feasibility study based on some of the principals that have been laid out would be the correct way to go. Not to be overlooked is the fact that Kansas tuition is low; the case can certainly be made that Kansas taxpayers are already subsidizing fairly substantially the cost of higher education in Kansas because tuition costs have been held down.

After discussion it was requested that the Regent's and Treasurer's office get together on something to bring to the Committee by next Tuesday.

The Ways and Means chairman stated that if there should be a timing problem, he would be happy to cooperate in introducing or acting upon legislation.

Senator Oleen commented that the LEPC had two days of meetings. When the issue was studied, the Committee had to start with a model. It is another example of when that Committee is not allowed to meet, it is difficult to get post-secondary questions addressed.

Another comment was made that to discuss something of such great importance in a couple of hours did not do it justice; there was not enough time to address it adequately.

The Chairperson stated the bill would be taken up again Tuesday. The meeting was adjourned. The next meeting is scheduled for February 23, 1998.



STATE OF KANSAS

Sally Thompson
TREASURER

900 SW JACKSON, SUITE 201
TOPEKA, KANSAS 66612-1235

TELEPHONE
(913) 296-3171

**Testimony of State Treasurer Sally Thompson
Senate Education Committee, SB 402
Resubmitted February 20, 1998**

Senator Lawrence and Members of the Committee:

I would like to thank Senator Lawrence and Members of the Education Committee for this opportunity to speak about SB 402. The state treasurer's office supports exploring the concept of a college savings program in Kansas.

I would like to bring to the committee's attention that your approval of this bill really only puts the feasibility study in motion, not the program itself.

Only after the feasibility study is completed, and the committee approves its recommendations, would a college savings plan be implemented. The governor, board of regents and board of education also would have to approve the study's recommendations.

This proposal is a prime opportunity for us to provide Kansans with additional support in preparing for college expenses. This program has the potential to produce tremendous gains for our state.

Consider these features found in most savings plans:

- **Portability.** Most college savings and prepaid tuition plans allow portability. That means the intended recipient is not required to attend a specific college or university.
- **Flexibility.** In existing programs, participants may use their savings at out-of-state institutions or private schools. The U.S. General Accounting Office (GAO) reports that 72 percent of all freshmen students enroll at a public college in their home state. In other words, this provision provides flexibility and makes the savings fund a more attractive investment to individuals who are leery of restrictions.
- **Participants also receive a tax incentive.** In 1996, Congress passed legislation that locked-in tax exempt status for the qualified state tuition plans and granted tax-deferred growth of earnings for program participants who utilized these savings to pay for educational expenses.

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- **Self-funded program.** After the start-up period, this program potentially could pay for itself. The savings plan could evolve into a fee fund, in which participants' fees would supply the fund's operating costs.

This effort represents a win:win venture for our state's parents, public and private institutes of higher learning and the students whose educational costs partially would be financed by this program.

The National Association of State Treasurers operates the College Savings Plan Network, a national organization comprised of these programs' administrators. I have attached information from the network to this testimony. According to the Savings Network, 21 states have operating programs and 29 states have legislation pending or are studying the feasibility of such programs. Of those 29 states, one of which is Kansas, 11 states have passed legislation.

There is a planned conference by this organization in early March. I have attached a copy of the agenda. I would be happy to send a couple of staff members.

As I mentioned earlier, my primary purpose today is to ask the panel to recommend the feasibility study. The Treasurer's office has estimated that this in-house study would cost \$30,000. We arrived at this figure after consulting other state's savings programs. If the study is approved, as the legislation requires, the treasurer's office, at the beginning of the next legislative session, would report to the legislature the findings of this review.

Our counterparts across the country have acknowledged the long-term advantages associated with a college savings program—and Kansas should explore a similar concept's feasibility.

Thank you. I would be happy to answer any questions.

SENATE EDUCATION COMMITTEE

TESTIMONY ON SENATE BILL 402

Presented by
Dr. Stephen M. Jordan
Executive Director
Kansas Board of Regents

January 29, 1998

Good morning, Madam Chair and members of the Committee. Thank you for the opportunity to present testimony regarding Senate Bill 402.

Senate Bill 402 establishes the framework for the Kansas postsecondary education expense program. Because a high quality college education is one of the best investments a family can make, the Board of Regents believes the state should provide assistance in the form of a plan which encourages families to save for that college education. On behalf of the Board, I offer the following observations:

1. The Kansas Board of Regents has endorsed the concept of a tax-free educational savings plan to be established by the State of Kansas. The Board does not support a guaranteed expense or guaranteed tuition program.
2. In earlier communications we have recommended an oversight board appointed by the governor which is responsible for setting policy, program oversight and audit. That board might include the State Treasurer; Chair of the Pooled Money Investment Board; Trustee representation from all the postsecondary education sectors; a public representative with an investment background; and one or more appointees by the governor.
3. It is likely the private sector can provide flexible investment options at the lowest possible cost to the program and participants. Section 3 (a) does provide for engaging the services of the investment community.
4. We strongly support Section 6 (b) which directs the investment income to be tax free at the state level. In 1997, federal legislation causes bona fide programs to be federal tax deferred. A program that eliminates state taxes should further encourages saving for postsecondary education, which is one of our goals for the program, especially since the provider of funds is not limited to parents or other close relatives.

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Attachment 2
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5. We strongly recommend that Section 4 (a) extend beyond tuition to include the entire cost of education. In a low tuition state such as Kansas (public and independent institutions) the cost of attending a Regents school or community college is heavily weighted to room and board costs rather than tuition and fees. For example, the total budget for a full-time student living on a Regents campus is approximately \$9,223. Only \$2,199 is for tuition/fees; \$656 for books/supplies and the remainder for living expenses, two round trips home and modest social and personal expenses.

6. We encourage any legislation be crafted in order to be complementary to the federal tax credits and IRA programs that were created by the Taxpayer Relief Act of 1997 (P.L. 105-34). Both the HOPE Scholarship tax credit and the Lifetime Learning Tax Credit are limited to tuition and required fees. The federally approved prepaid tuition plans allow contributions for tuition, fees, and reasonable room and board expenses. The Education IRA allows a contribution of up to \$500 per year per beneficiary and can be used for "qualified educational expenses" which is defined as tuition, fees, books, supplies and equipment. Penalty-free withdrawal from current IRA's are allowed for educational expenses which, in this case, allow reasonable room and board expenses.

The bill calls for a feasibility study prior to implementation of a program, providing for consultation with the Board of Regents and other groups. The Board would look forward to providing its assistance and input.