Approved: April 10, 1999
Date

MINUTES OF THE HOUSE COMMITTEE ON EDUCATION.

The meeting was called to order by Chairperson Ralph Tanner at 9:00 a.m. on February 19, 1999 in Room 313-S of the Capitol.

All members were present except:

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

Conferees appearing before the committee:
Representative Cindy Empson
Tim Shallenburger, State Treasurer
Dr. Bob Kelly, KS Independent Colleges
Christine Crenshaw, Director of Student Financial Aid, Kansas Board of Regents
Shirley Sicilian, Director of Policy and Research, Kansas Department of Revenue

Others attending: See attached list

Hearing on **HB 2357 - Kansas Post Secondary Education Savings Progra**m was opened.

Representative Cindy Empson presented the Subcommittee Recommendations on the Kansas Postsecondary Education Savings Program proposes a program that will create an incentive to encourage savings on the part of parents, grandparents, aunts and uncles, and anybody else who wants to contribute to a student's education. The major features of the program recommended are listed below:

- Tax Incentives would be allowed under State and Federal Law
- State Treasurer would be the program administrator
- Participation would be broad
- A variety of institutions would be eligible
- Educational expenses would be paid
- Qualified withdrawals for education purposes would be allowed; penalties would be assessed for unqualified withdrawals
- Fiscal impact would vary

Under the Subcommittee's proposal, the program would be administered by the State Treasurer and would begin January 1, 2000. (Attachment 1)

Tim Shallenburger, State Treasurer, appeared before the committee as a proponent of the bill. He believes that the time for Kansas to act on a College Savings Program is now. College is becoming an incredible expense for families. By offering tax incentives and a program that would encourage parents to begin that savings today, this is one of the best investments the state can make with its money. The subcommittee did an excellent job of striking a balance between penalties to dissuade early withdrawal and penalties so severe they would discourage enrollment. The bill recommends that the State Treasurer administer the program, and he feels that bases on the structure in other states that is a logical and very practical recommendation. (Attachment 2)

Bob Kelly, appeared before the committee as a proponent of the bill. He stated that Kansas has shown excellent judgment by moving carefully into this complex field of encouraging families to save for their postsecondary educations. The Kansas program focuses on Kansas citizens not on its institutions. The beneficiaries are provided unlimited access to postsecondary options; while donors, whether parents, other family members, friends, or employers, can benefit from the tax incentives. (Attachment 3)

Christine Crenshaw, Director of Student Financial Aid, appeared before the committee as a proponent of the bill. She brought the endorsement of the Kansas Board of Regents for the concept of a state postsecondary savings plan. Seh did state that the majority of investors in a state savings plan are likely to be from families, or extended families with incomes higher than $50,000, therefore, it is important that a state savings plan not be viewed as a substitute for need-based student scholarships or grants. (Attachment 4)

Hearings on **HB 2357** were closed.

Representative Benlon made a motion to approve the minutes of January 19, 29, February 4, and 5, 1999. Representative O'Connor seconded the motion. The motion carried.

The meeting was adjourned at 10:56 a.m. The next meeting is scheduled for February 22, 1999.

HOUSE EDUCATION COMMITTEE
GUEST LIST
DATE: February 19, 1999

NAME	REPRESENTING
MARK DEBETTI	KNEA
Jim Yonally	USD #512
Bob Kelly	KICA
ERIC SEXTON	WSU
SUE PETERSON	K State
Jon Josserand	KU
Matt Goddard	Heartland Community Bankers
Kathy Olsen	Ks Bankers Assn
Trish Heim	Security Benefit
Louie Kencade	Visitor
Jackson Coley	Sen. Tyson - Intern
Sheila Frahm	KACCT
Cindy Deaton	Budget

STATE OF KANSAS

CINDY EMPSON
REPRESENTATIVE, TWELFTH DISTRICT
MONTGOMERY COUNTY
HOME ADDRESS: P.O. BOX 848
INDEPENDENCE, KANSAS 67301

TOPEKA OFFICE: STATEHOUSE, RM. 171-W
TOPEKA, KANSAS 66612
(785) 296-7685

COMMITTEE ASSIGNMENTS
VICE CHAIR: HOUSE EDUCATION COMMITTEE
CHAIR: LEGISLATIVE EDUCATIONAL PLANNING COMMITTEE
MEMBER: HOUSE INSURANCE COMMITTEE
HOUSE FINANCIAL INSTITUTIONS COMMITTEE

TOPEKA

HOUSE OF
REPRESENTATIVES

February 19, 1999

To: House Education Committee

From: Subcommittee on the Kansas Postsecondary Education Savings Program:
Representative Cindy Empson, Subcommittee Chair
Representative Marti Crow
Representative Cindy Hermes
Representative Kathe Lloyd
Representative Kay O'Connor
Representative Judy Showalter
Senator Janis Lee
Senator Lana Oleen

Re: Subcommittee Recommendations

The Subcommittee on the Kansas Postsecondary Education Savings Program proposes a program that will create an incentive to encourage savings on the part of parents, grandparents, aunts and uncles, and anybody else who wants to contribute to a student's education. The incentive would be in the form of a tax break for the contributor under both federal and Kansas law. The program that would be established would allow people to plan ahead for the educational costs of their children, for themselves, or for someone else. Under the Subcommittee's proposal, the program would be administered by the State Treasurer and would begin January 1, 2000.

H.B. 2357 is patterned after law in New York State and closely follows federal legislation relating to education savings plans. The Subcommittee reviewed the bill and federal regulations, considered the recommendations of the Kansas College Savings Plan Task Force chaired by the Acting State Treasurer Clyde Graeber during the 1998 interim, and received input from the Office of the Kansas Board of Regents, the State Department of Revenue, and the Office of the State Treasurer.

The result is the recommendations we present to you today. Some already are contained in H.B. 2357. Others represent amendments we think should be made to reflect our consensus of what the best education savings program should be. The major features of the program we recommend are listed below:

- **Tax Incentives Would Be Allowed Under State and Federal Law.** Under both state and federal law, interest earned on money in an education savings

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program account would not be taxed until withdrawn by the student, who most likely would be in a lower income bracket than the contributor. Under Kansas law, a contributor to an account would be able to deduct the amount of the contribution for Kansas income tax purposes. There would be no limit on the amount of money a contributor could put into an account each year, nor would there be a limit on the amount of the contribution that could be deducted for Kansas income tax purposes. The only limit imposed by the Subcommittee is on the total amount that could be in an account. This limit would be set by the State Treasurer, as described later in this report. The question of imposing a limit on the amount that could be deducted was discussed by the Subcommittee in some detail because the extent to which deductions are allowed would have an impact on receipts to the State General Fund. We call this to the Committee's attention as an area that may merit additional discussion.

- **State Treasurer Would Be the Program Administrator.** The State Treasurer of Kansas would administer the program. The Treasurer's duties would include developing rules and regulations to implement the program and selecting the financial organizations that would handle the education savings accounts.

- **Participation Would Be Broad.** The only restriction imposed on who may participate in the program would be that either the contributor or the beneficiary must be a Kansas resident at the time an education savings program account is opened. The Subcommittee believes this constraint is justified on the grounds that a tax benefit under Kansas law should have some connection with a person who actually lives in Kansas. Anyone could open an account—a parent, a grandparent, another family member, or a friend. A person could open an account for him or herself. It also would be possible for more than one person to contribute to an account. If for some reason a contributor wanted to change beneficiaries, that would be possible. However, federal law allows an account to be transferred only to another member of the beneficiary's family.

- **A Varity of Institutions Would Be Eligible.** Students would be allowed to attend a variety of postsecondary education institutions in Kansas or in other states. Eligible institutions are defined in federal law as accredited postsecondary institutions that offer credit toward an undergraduate or graduate degree or other recognized postsecondary education credential. The institution must be eligible to participate in federal student aid programs. In Kansas, these institutions would be Regents institutions, Washburn University, public community colleges, independent colleges and universities, technical colleges, area vocational schools, and licensed proprietary schools.

- **Educational Expenses Would Be Paid.** Educational expenses that could be paid with money from an education savings program account include tuition, fees, books, supplies, and required equipment. Money also could be used for room and board for students who are enrolled at least half-time. Although federal law sets a high limit on allowable expenses, the Subcommittee recommends a lower limit so that the education savings program really is for paying educational costs, not just for sheltering income. The Subcommittee's recommendation is that, on an annual basis, the State Treasurer would determine an amount that represents allowable expenses for five years of study at eligible public and private institutions in the Midwest. This figure would be adjusted each year to reflect increases in tuition and other allowable costs. The total amount contributed to an education savings program account could not go over the amount set by the Treasurer.

- **Qualified Withdrawals for Education Purposes Would Be Allowed; Penalties Would Be Assessed for Unqualified Withdrawals.** Under federal law, money can be withdrawn from an account without a penalty if it is to pay for allowable educational expenses. The only exceptions are if the beneficiary dies, becomes disabled, or receives a scholarship (under conditions spelled out in the federal law). If the withdrawal is an unqualified withdrawal, a 15 percent penalty would be imposed on the amount withdrawn, plus the interest on the withdrawn portion would be forfeited. The Subcommittee recommends that there be a three-year wait before withdrawals can be made. This wait encourages people to plan ahead to meet educational costs and discourages people from opening an education savings program account on the spur of the moment just for the tax advantages. While recognizing that postsecondary education students represent all age groups, the Subcommittee is mindful of the impact of a tax deduction on State General Fund revenues and has tried to strike a balance among competing interests—providing a tax break for contributors, helping students pay educational costs, and protecting state revenues. The Subcommittee's recommendation is that an education savings plan account must be opened before a beneficiary reaches the age of 25 and, once a qualified withdrawal is made, qualified withdrawals must be completed within ten years or by the time the beneficiary reaches the age of 30, whichever comes first. There could be exceptions to these requirements for extenuating circumstances, which the State Treasurer would identify by rules and regulations. Some of the exceptions the Subcommittee discussed are those that are allowed for professional service scholarships, which would include the beneficiary being in active military service, serving in the Peace Corps, or being temporarily disabled.

- **Fiscal Impact Would Vary.** When the Kansas College Savings Plan Task Force appointed by Acting State Treasurer Clyde Graeber met during the 1998 interim, the Department of Revenue made an estimate of the fiscal impact of implementing an education savings plan program based on the general principles endorsed by the Task Force. Our Subcommittee has fleshed out the Task Force's recommendations and changed some of the assumptions, which means that the fiscal impact of our plan may be different. But for purposes of giving some idea of what the cost could be, we want to share information that was presented to our Subcommittee. Assuming that accounts were opened for 1 percent of all the children in Kansas who are under 18 years of age and that single taxpayers in the highest tax bracket utilized the Kansas income tax deduction in the amount of $1,500 and married taxpayers utilized deductions totaling $3,000, the impact would be a reduction of $2.4 million in revenues to the State General Fund. If single taxpayers utilized the deduction in the amount of $5,000 and married taxpayers utilized deductions totaling $10,000, the impact on the State General Fund would be a reduction in revenues of $8.0 million.

STATE OF KANSAS

Tim Shallenburger
TREASURER

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

TELEPHONE
(785) 296-3171

Testimony on College Education Savings

February 19, 1999

I want to thank you for once again allowing me to testify before you regarding the College Savings Program. Let me also commend the subcommittee and Representative Empson for their expedient and productive work on what is now HB 2357.

I am here as a proponent of HB 2357. I believe the time for Kansas to act on a College Savings Program is now. College is becoming an incredible expense for families. As a parent who is getting ready to send a child off to college in the fall, I am aware of how easy it is to put off savings until tomorrow and how quickly tomorrow sneaks up on you. If by offering tax incentives and a program that would encourage parents to begin that savings today, I think that is one of the best investments the state can make with its money.

In addition, I think that HB 2357 provides a good withdrawal and penalty structure. The subcommittee did an excellent job of striking a balance between penalties to dissuade early withdrawal and penalties so severe they would discourage enrollment.

HB 2357 also allows freedom for the student to choose what direction they may go after high school. Currently there are 317,400 students in kindergarten through eighth grade. Some of these children will go to public and private four year universities, others will choose community colleges, some will attend vocational postsecondary schools. HB 2357 gives the child enrolled a full range of options for him/her to decide what best suits his/her strengths.

HB 2357 also recommends that the State Treasurer administer the program. I feel that based on the structure in other states that is a logical and very practical recommendation. However, if you are hesitant to allow me the oversight, I leave that to your discretion. I only ask that you move forward on this legislation. It is good legislation for Kansas, it is good for parents trying to be responsible for their children's future, and it is good for the future leaders of our state. Thank you.

KANSAS INDEPENDENT COLLEGE ASSOCIATION

700 SW Kansas Ave. Suite 515 Topeka, Kansas 66603
Telephone (785) 235-9877 FAX (785) 235-1437

ROBERT N. KELLY, Executive Director

February 19, 1999

TESTIMONY
before the House Education Committee on
on HB 2357

Mr. Chairman, Members of the Committee:

Our Association strongly endorses HB 2357 and wishes to command the Task Force on which two independent college Presidents--Dr. Daniel Lambert of Baker and Fr. Richard Mucowski of Saint Mary--served as well as Rep. Empson's subcommittee for their excellent work.

Kansas has shown excellent judgment by moving carefully into this complex field of encouraging families to save for their postsecondary educations. States that jumped early into Tuition Prepayment plans or a variety of savings plans have encountered numerous problems. By waiting, Kansas has been able to learn from the mistakes of other states and can benefit from recent federal tax incentives as well as state tax benefits.

The Kansas program focuses on Kansas citizens not on its institutions. The beneficiaries are provided unlimited access to postsecondary options; while donors, whether parents, other family members, friends, or employers, can benefit from the tax incentives. Considering the conservative culture of Kansas, this program should prove quite popular.

As public policy, education savings plans meet a well documented need: the lack of savings for postsecondary education. The federal government has emphasized using IRAs which have an income cap. What makes the section 529 provisions so attractive is the lack of an income cap because the benefit is a tax deferral and a change in tax liability from the donor to the recipient. The Kansas plan thus has value to higher income tax payers.

In short, we are developing a total panoply of postsecondary education benefits as follows:

Low income: federal Pell Grants
Low-middle income: state Comprehensive Grants, federal loans, institutional grants
Middle income: federal loans, state Comprehensive Grants, institutional funds, tax breaks
Upper-middle income: federal loans, tax breaks, institutional funds
Upper income: savings plans

Encouraging savings and providing educational incentives build financial capital and human capital for the state and nation.

HOUSE EDUCATION
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TESTIMONY OF ENDORSEMENT

TO

HOUSE EDUCATION COMMITTEE

313-South

House bill No. 2357
Kansas Postsecondary Education Savings Program

Presented by
N. Christine Crenshaw
Director of Student Financial Aid
Kansas Board of Regents
February 19, 1999

In January 1998, the Kansas Board of Regents unanimously endorsed the concept of a state postsecondary savings plan. We bring that endorsement forward to you today.

For the last year, at least one phone call per week is received in our office from Kansans requesting information about the availability of state savings or prepaid tuition plans.

The only caveat we present is for the members of the Kansas Legislature to appreciate that the majority of investors in a state savings plan are likely to be from families, or extended families with incomes higher than $50,000.* Therefore, it is important that a state savings plan not be viewed as a substitute for need-based student scholarships or grants. Approximately 80% of the students you fund through the $10 million Comprehensive Grant Program come from families with less than $40,000 in income. And, over a third come from families of less than $25,000 income. That level of income generally does not provide for discretionary income.

Thank you for the opportunity to endorse this program.

*<u>The National Center for Public Policy and Higher Education, Report #98-6</u>
"Findings from an August 1995 U.S. General Accounting Office study of *state prepaid tuition programs* showed that these plans most benefit middle and upper income families. In Kentucky, 61% of the participating families had incomes higher than $50,000, while only 10% of participants were from families with incomes under $25,000. In Florida, 51% of the participating families had incomes above $100,000; only 5% of participants were from families with incomes less than $25,000. In Alabama, almost 60% of participants had family incomes above $50,000, while only 10% had incomes below $25,000. In Texas, half of the participants were in the $50,000 to $100,000 range, with just 5% under $25,000.

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