

## MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Jean Schodorf at 1:40 p.m. on March 15, 2006, in Room 123-S of the Capitol.

Committee members absent:

Committee staff present: Deb Hollon, Kansas Legislative Research Department  
Carolyn Rampey, Kansas Legislative Research Department  
Theresa Kiernan, Revisor of Statutes  
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Representative Edward O'Malley  
Scott Gates, State Treasurer's Office  
April Holman, Kansas Action for Children  
Kathy Cook, Kansas Families United for Public Education  
Senator Dwayne Umbarger  
Representative Doug Gatewood

**HB 2722—Postsecondary savings accounts; pilot program providing state matching of contributions by low-income participants**

Deb Hollon, Kansas Legislative Research Department, explained that **HB 2722** would establish the Low-Income Family Postsecondary Savings Accounts Incentive Program, a pilot program which would become effective July 1, 2006, and would run until June 30, 2009. It would provide a state match of Learning Quest deposits by Kansas individuals and families with a household income of not more than 200 percent of the federal poverty level. The program would be limited to 400 approved applications each year. No more than 100 of those applications from each Congressional district could be approved each year. The state would match those deposits on a dollar-for-dollar basis if the participant contributes at least \$100 each year to a maximum of \$600 a year. The program would sunset in Fiscal Year 2008.

Representative Edward O'Malley testified in support of **HB 2722**. He commented that the bill was the next step in the development of more asset building types of legislation in the state. He noted that the concept behind asset building measures basically recognizes the fact that it is through asset building that citizens in lower-income ranks can climb into the middle class. He explained that the bill dealt with the Learning Quest 529 Plan, and the State Treasurer's Office assisted him in developing the bill. The goal of the bill is to encourage more low-income Kansans to save for college. The State Treasurer would be provided the flexibility to administer the pilot program. In conclusion, he emphasized that providing resources to access higher education is perhaps the best economic development the Legislature can do. (Attachment 1)

Senator Vratil expressed concern that the \$340,000 fiscal note on the bill included \$100,000 for marketing and administration of the program. He commented, "No business in their right mind would spend \$100,000 on advertising for the chance of having a gross revenue of \$240,000. Why so much for administration and marketing?" Representative O'Malley responded, "I imagine that, when that fiscal note was prepared, the Budget Office talked to the State Treasurer's Office. I imagine the State Treasurer's Office put some thought into what type of outreach they would need to do to reach this population throughout the state. There is a realization that, whether it's a \$100,000 or less than that or more than that, the Treasurer's Office will need some resources to develop this program so that it can target these different populations." Senator Vratil commented, "American Century is the brokerage company that is responsible for that, and they bear at their own expense the marketing charges for that. Seems to me that they could do the same thing for this. I'm very supportive of the concept of the bill, but I'm not supportive of spending \$100,000 for the opportunity to get \$240,000. We'd be better off doing \$100,000 in scholarships to low-income students and get the money to them directly. If the Treasurer's Office thinks they have to spend \$100,000 to market this, I can't support the bill."

Scott Gates, Director of Learning Quest, State Treasurer's Office, stated, "American Century has a marketing budget of about \$1 million every year. This \$100,000, if we ask them to bear that, would be 10 percent of their marketing budget to reach a population that is going to make minimal contributions simply because of

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their income level. We've asked for that for the expense of printing materials that directed specifically about this program's benefits in addition to just a description of our options and program materials and also to have some additional staff time that may be necessary to process the applications. That figure may indeed not be quite as high as \$100,000, but we certainly need some resources to do that rather than just push that off onto American Century." Mr. Gates noted that sometimes the marketing expense for the first year of a program is high because the Treasurer's Office is kicking off something new, but the expense for the second year might not be so high.

Mr. Gates went on to testify in support of **HB 2722**. He noted that, from the beginning, the Treasurer's Office has done everything it could to make the Learning Quest program attractive to Kansans of all incomes. He pointed out that adding a matching grant for lower income Kansans ensures that even those who pay little or no Kansas income tax can benefit from the program. He called attention to a balloon amendment to the bill attached to his written testimony. He explained that the amendment would give the Treasurer's Office more flexibility to develop procedures for ensuring that the matching funds are used for college expenses, and it also addresses the process for transferring the matching funds into the participants' accounts. For the Committee's information, the federal poverty guidelines and a report from [www.SavingForCollege.com](http://www.SavingForCollege.com) on other states' savings programs were also attached to his testimony. (Attachment 2)

April Holman, Kansas Action for Children, testified in support of **HB 2722** as a means for helping low-income children and their families to begin thinking and planning for higher education. She discussed the importance of higher education in breaking the cycle of poverty. She pointed out that national research on 529 college savings programs showed that participation by low-income families is minimal, and the Kansas Department of Revenue reported that over half of the returns claiming a deduction for Learning Quest contributions in tax year 2004 were from taxpayers with a Kansas adjusted gross income of \$100,000 or more. She noted that the low-income participants do pay taxes, but the difference is, instead of itemizing their deductions as high-income people often do, many low-income people use the standard deduction. Therefore, under the current system, the major incentives for participation in the Learning Quest program are in the form of favorable tax treatment for investments. She emphasized that **HB 2722** would provide a direct incentive for low-income Kansans to participate in the Learning Quest program. (Attachment 3)

Kathy Cook, Kansas Families United For Public Education, testified in support of **HB 2722**. She pointed out that the working poor often receive wages too low to benefit from a number of financial savings programs available which allow middle class families to save for their children's future. She noted that the number of Kansas children living in poverty is on the rise, and the bill would provide less fortunate students with a means to realize their dream of a college education upon graduation. She pointed out that citizens with a higher educational background will make more income and, therefore, pay more taxes. (Attachment 4)

Senator Allen asked Mr. Gates to give a more detailed account of the \$100,000 administrative and marketing expense. Mr. Gates indicated that the Treasurer's Office looked at the mailing expense to reach 300,000 households (approximately \$60,000 in printing and postage for one mailing). He noted that, regardless of any additional staff expenses, the office would probably spend about \$100,000 for one or two mailings.

Senator Schodorf called attention to written testimony in support of **HB 2722** submitted by Gary Daniels, Secretary, Kansas Department of SRS (Attachment 5); Reginald L. Robinson, President and CEO, Kansas Board of Regents (Attachment 6); and Deborah Adams, Associate Professor, University of Kansas School of Social Welfare (Attachment 7).

There being no others wishing to testify, the hearing on **HB 2722** was closed.

### **HB 2634—School districts; assessed valuation**

Senator Dwayne Umbarger testified in support of **HB 2634** with a proposed amendment. (Attachment 8) He explained that the bill would allow the assessed valuation of a new ethanol plant to be constructed in Haskell County to be shared equally between USD 507 and USD 374. He noted that his proposed amendment was a similar proposal relating to Cherokee County in southeast Kansas. He explained that the amendment would simply add a new section that would mirror the first part of Section 1, but "school district" in the new

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MINUTES OF THE Senate Education Committee at 1:40 p.m. on March 15, 2006, in Room 123-S of the Capitol.

language would mean USD 404, USD 493, USD 499, and USD 508. The school districts are all located in Cherokee County, and they consist of the communities of Riverton, Columbus, Galena, and Baxter Springs. The description of the property in the new language would be, “any property, and improvements thereon, comprising a racetrack gaming facility or lottery gaming facility under the Kansas expanded lottery act located in Cherokee County.” He noted, “I believe that the Committee knows of the initiative this year that will probably be before the Legislature, precisely before the Senate committee as it relates to expanded gaming, and I wanted to make a provision that would mirror what they are doing in western Kansas, particularly in Haskell County, that, if that entity was to be located in Cherokee County, then it would be beneficial to all four districts within the county.” With regard to subsection (b) concerning computing the assessed valuation of school districts, he explained that the new language would be “1/4 of the assessed valuation of such property shall be assigned to each of the school districts.” With regard to subsection (c), the new language would be, “ceases to be used as a racetrack gaming facility or a lottery gaming facility under the Kansas expanded lottery act.” He noted that the following corrections were needed: in subsection (2), insert “s” on improvement; in subsection (b), a space between the comma and 1/4; and in subsection (c), insert “a” before racetrack and lottery.

Theresa Kiernan, Revisor of Statutes Office, explained that Representatives Hayzlett and Light requested **HB 2634**, and they had explained that both school boards agreed to share the assessed valuation. Senator Umbarger pointed out that line 31 on page one of the bill states, “The provision of this section shall not apply if the property is not or ceases to be used for the production of ethanol,” and his proposed amendment had similar language. He confirmed that three of the Cherokee County school districts supported the amendment, but the fourth district had some concerns.

Representative Doug Gatewood testified in support of Senator Umbarger’s proposed amendments as well as the original bill. He explained that the developer in Representative Hayzlett’s and Light’s district came to them and requested that the two school districts get together and share the value. He commented, “That’s basically how this amendment has come together too – because the people that will be looking at the proposal for Cherokee County first brought this to Senator’s and my attention that they would like the same effect in Cherokee County for several reasons, but they understand that the four school districts have worked very well together; they’ve been proactive instead of reactive on many issues. All four superintendents are here today. To address the question about that fourth school district, that school district also has a power plant within their border so they’re pretty good on evaluation right now anyway.” He introduced the following superintendents: David Walters from Riverton (USD 404), Dennis Burke from Baxter (USD 508), Ken Jones from Columbus (USD 493), and Brian Smith from Galena (USD 499). He commented, “They’ve always worked well together. They realize that we are interconnected and interdependent, and they’ve come today to show their support for this as well.”

There being no others wishing to testify, the hearing on **HB 2634** was closed.

Senator Teicman moved to amend **HB 2634** to include the amendments as submitted and corrected by Senator Umbarger, seconded by Senator Vratil. The motion carried.

Senator Steineger moved to amend **HB 2634** by replicating Senator Unbarger’s amendment except it would be for school districts 202, 203, 204, and 500 (the four school districts for Kansas City, Kansas).

Senator Steineger confirmed that he had not talked to the school districts about his suggested amendment, and commented, “I think the politics will be the same. Three districts will be very happy, and one will be just happy.” Senator Goodwin suggested that he check with the districts, and if they were in agreement with his proposed amendment, the amendment could be offered as a floor amendment.

On a call for a second to Senator Steinerger’s motion, there was no second.

Senator Teichman moved to recommend **HB 2634** favorably for passage as amended, seconded by Senator Vratil. The motion carried.

Senator Schodorf called attention to the minutes of the March 6, 7, and 8 meetings.

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Senator Goodwin moved to approve the minutes of the March 6, 7, and 8 meetings, seconded by Senator Apple. The motion carried.

The meeting was adjourned at 2:25 p.m.

The next meeting is scheduled for March 16, 2006.

Written testimony in support of **HB 2634** was submitted for the record on March 16. (Attachment 9)

**SENATE EDUCATION COMMITTEE  
GUEST LIST**

DATE: March 15, 2006

NAME	REPRESENTING
April Holman	Kansas Action for Children
Melinda Lewis	El Centro, Inc.
Kathy Cook	KFUPF
Jeff Wagoner	Treasurer's Office
Scott Gates	Treasurer's Office
B. Mariani	SRS
Shannon Bell	LGR
Bernadine Lamson	KNEA
Rhonda Barth	KNEA
Kristine Midyett	University of Kansas
Aubrey Fraker	" "
Corden Poul	" "
Molly Tys	University of Kansas
Ty Climer	University of Kansas
RUSSELL MILLS	GACHES BRADEN
David Watten	USD 404
Brian Smith	U.S.D. 499
Day Steward	Ks. House
Dennis Burke	USD# 508





REP. EDWARD J. O'MALLEY JR.  
STATE OF KANSAS, 24TH DISTRICT

## Testimony in Support of HB 2722

Representative Ed O'Malley

March 15, 2006

Over the last few years the Legislature has passed numerous economic development initiatives, including:

- 1 \$500 million bonding measure for Boeing,
- 2 \$500 million life science initiative,
- 3 tax credits for entrepreneurship,
- 4 tax credits for rural economic development, and
- 5 tax credits for downtown redevelopment.

I proudly supported those measures as did almost every legislator. I am here today to talk about economic development of a different kind. As this committee knows, there is no greater way to encourage the development of individuals than through education. While economic development is traditionally thought of as impacting companies, the bill before you is focused on impacting individuals.

**Kansas' Learning Quest program has been a valuable tool to help families save for higher education; however, the data suggests it has not necessarily had a great impact on low-income families.**

**In tax year 2004, 72% of participants in the Learning Quest program made over \$75,000 and 88% made over \$50,000. Only 4% of participants made less than \$25,000.**

In her paper titled "Who Benefits from the Education Saving Incentives?", Harvard professor Susan Dynarski states:

Education savers are 41 years old, on average, and their oldest child is nine. They have two children and are well-educated, with over 90 percent having at least 16 years of education. Their median income is \$91,000 and their median net worth is \$281,000.

The goal of HB 2722 is simply to encourage more low-income Kansans to save for college. Key aspects of the bill are as follows:

- 1 A pilot program is created in which the state will match the savings of individuals in 529 plans.
- 2 The match will be on a dollar for dollar basis and the total match for an individual will be capped at no more than \$600.
- 3 The state treasurer is provided great flexibility to administer the pilot program.
- 4 Only families with a household income not more than 200% of the federal poverty level may apply.
- 5 Four-hundred accounts will be offered each year (100 for each of the four congressional districts).
- 6 At the start of the 2009 legislative session the state treasurer will submit a report on the effectiveness of the pilot program.

As the legislature moves toward passage of additional economic development legislation, including passage of a significant tax cut for business machinery and equipment (which I support), I hope we can find the time and the resources to enact HB 2722. Providing resources to access higher education is perhaps the best economic development the legislature can do.





REP. EDWARD J. O'MALLEY JR.

STATE OF KANSAS, 24TH DISTRICT

February 17, 2006

Dear Colleagues:

During debate on HB 2722, **Rep. Mitch Holmes** asked whether or not savings accumulated within a Learning Quest 529 account could disqualify someone from public assistance (i.e. food stamps).

**A regulation from the federal Department of Health and Human Services allows for the exclusion of some assets from determinations of eligibility for means-tested benefits, including food stamps, subsidized housing, and Medicaid.**

In order to be excluded, the assets must be held in an account that is consistent with the federal *Assets for Independence Act*. This includes a requirement that the account-holder's income is less than 200% of poverty and that the assets are restricted to one of the three allowable uses: higher education, first-time homeownership, and/or entrepreneurship.

**Because the pilot program established by HB 2722 meets those criteria, the state will most likely seek a determination from federal agencies that these assets, as with those accumulated in the Individual Development Account program approved by the 2005 Legislature, do not harm low-income Kansans' eligibility for these important safety-net services.**

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This legislation, similar to the Individual Development Account Act last year, attempts to gradually change the manner in which our government assists low-income Kansans. The old approach was to simply put food on their table and clothes on their backs. The smarter approach is to provide incentives for asset development, which IS the way individuals climb out of the lower class.

Together we can move away from "entitlements" and towards "empowerment." I hope to have your support for HB 2722.

Most sincerely,



STATE OF KANSAS

**Lynn Jenkins, CPA**  
TREASURER

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**House Committee on Higher Education, March 15, 2006**  
**Testimony by Scott M. Gates, Director of Learning Quest on H.B. 2722**

Thank you for the opportunity to address the Committee in support of House Bill 2722. I also want to thank Representative O'Malley for introducing this Bill and giving us an opportunity to expand the benefits that Learning Quest provides to Kansans of more modest means. From the beginning, we have kept the minimum monthly automatic investment to open an account at \$25 to ensure that all Kansas can afford to participate. We strive to create a plan with features for investors at all levels with both a direct sold plan and features for investors using an investment advisor. We have done everything that we can through plan design to attract investors of modest means short of providing matching funds as a financial incentive for those who do not pay taxes.

H.B. 2722 creates a pilot program in which up to 400 low income Kansans per year could receive up to \$600 in matching funds from the state for each dollar they contribute to their account. Approximately 500,000 Kansans are within 200% of the federal poverty guidelines for households with five or fewer members. 200% of the poverty guidelines for a family of five would be \$46, 800. Kansans who pay income taxes can receive a tax benefit of up to \$390 per beneficiary based on the maximum deduction of \$6,000 and the highest Kansas tax bracket of 6.45%. Adding a matching grant for lower income Kansas ensures that even those who pay little or no Kansas income tax can benefit from this program.

When families save even a modest amount for a student's future it lets the student know that attending college is both expected and planned for. We should do everything we can to encourage Kansans at this income level to save for their children's future, and I can't think of a better way to provide hope to these families than to match their college savings with state funds.

I have attached a balloon amendment that would give the Treasurer more flexibility to develop procedures for ensuring that the matching funds are used for college expenses. It also addresses the process for transferring the matching funds into the participants' accounts. Also attached are the federal poverty guidelines and a report from Savingforcollege.com listing the eight other states that provide matching grants.

I'd be glad to answer any questions that you may have.

*Senate Education Committee  
3-15-06  
Attachment 2*

## HOUSE BILL No. 2722

By Committee on Higher Education

1-25

9 AN ACT concerning higher education; establishing a pilot program to  
10 provide an incentive for low-income families to establish postsecondary  
11 savings accounts.  
12

13 *Be it enacted by the Legislature of the State of Kansas:*

14 Section 1. (a) As used in this section:

15 (1) "Federal poverty level" means the most recent poverty income  
16 guidelines published in the calendar year by the United States depart-  
17 ment of health and human services.

18 (2) "Program" means the low-income family postsecondary savings  
19 accounts incentive program established by this section.

20 (3) "Qualified individual or family" means an individual or family who  
21 resides within the state of Kansas and whose household income is not  
22 more than 200% of the federal poverty level at the time of application.

23 (4) "Participant" means a qualified individual or family who has been  
24 approved for participation in the program.

25 (5) "District" means a congressional district of the state of Kansas.

26 (6) Words and phrases have the meanings provided by K.S.A. 75-643,  
27 and amendments thereto, unless otherwise provided by this section.

28 (b) There is hereby established the low-income family postsecondary  
29 savings accounts incentive program. The purpose of the program is to  
30 encourage the establishment of family postsecondary savings accounts  
31 pursuant to K.S.A. 75-640, and amendments thereto, by qualified indi-  
32 viduals and families.

33 (c) The treasurer shall:

34 (1) Implement and administer the program;

35 (2) develop marketing plans and promotional material for the  
36 program;

37 (3) prescribe the procedure for, and requirements relating to, the  
38 submission and approval of applications;

39 (4) do all things necessary and proper to carry out the purposes of  
40 this act; and

41 (5) adopt any rules and regulations and policies deemed necessary  
42 for implementation and administration of the program.

43 (d) Applications for participation in the program shall be submitted

1 to the treasurer in the manner and form required by the treasurer. Ap-  
2 plications shall be accompanied by any information deemed necessary by  
3 the treasurer.

4 (e) During fiscal year 2007, the treasurer may approve no more than  
5 400 applications. Each fiscal year thereafter, the treasurer may approve  
6 up to 400 applications in addition to those approved in the previous fiscal  
7 year. In each fiscal year, the treasurer shall approve no more than 100  
8 applications from residents of a single district. If 100 applications from  
9 residents of a district are not approved in any fiscal year, the treasurer  
10 may approve additional applications submitted by residents of the re-  
11 maining districts. The treasurer shall provide written notice, to an appli-  
12 cant, of the approval or nonapproval of such person's application. No  
13 application shall be approved after June 30, 2009.

14 (f) ~~The provisions of this subsection shall be subject to the limitation~~  
15 ~~of appropriations.~~ The amount of contributions made to an account by a  
16 participant who establishes a family postsecondary savings account pur-  
17 suant to K.S.A. 75-640 et seq., and amendments thereto, shall be matched  
18 by the state on a dollar-for-dollar basis if the participant contributes at  
19 least \$100 in each calendar year in which the account is open. The ag-  
20 gregate of all matching amounts for any participant shall not exceed \$600  
21 in any calendar year.

22 (g) Between January 1 and January 31 of each calendar year, the  
23 treasurer shall transfer the amount determined by the treasurer to meet  
24 the matching obligations under subsection (f) for the preceding calendar  
25 year to the family postsecondary savings account for each participant.

26 (h) ~~All withdrawals shall be used to pay the cost of qualified higher~~  
27 ~~education expenses. Withdrawals of matching funds shall be paid directly~~  
28 ~~to the institution of postsecondary education in the same manner pro-~~  
29 ~~vided for qualified withdrawals under K.S.A. 75-640 et seq., and amend-~~  
30 ~~ments thereto.~~

31 (i) On or before January 15, 2009, the treasurer shall prepare and  
32 submit to the governor and legislature a report on the program. Such  
33 report shall include the number of accounts opened under the program, the  
34 amount of moneys contributed to such accounts by participants, the  
35 amount of matching moneys transferred by the treasurer pursuant to  
36 subsection (g), the average income of the participants, an analysis of the  
37 success of the program in meeting the purpose of the program and any  
38 other information deemed appropriate by the treasurer.

39 (j) The provisions of this section shall be part of and supplemental to  
40 the Kansas postsecondary education savings program.

41 Sec. 2. This act shall take effect and be in force from and after its  
42 publication in the statute book.

the Director of Accounts and reports shall transfer from the state general fund to the Kansas postsecondary education savings program trust fund the amount certified by the treasurer necessary to satisfy the obligations in paragraph (f) for the preceding calendar year. Before January 31<sup>st</sup> of each calendar year,

from the Kansas postsecondary savings program trust fund

Subject to appropriations therefore and upon warrants of the director of accounts and reports pursuant to vouchers approved by the state treasurer

The treasurer shall ensure that all withdrawals of matching funds are used

## Plan Name

## Program Match on Contributions

<p><b><u>Direct Portfolio College Savings Plan</u></b> Colorado</p>	<p>Dollar-for-dollar match of up to \$500 in contributions from lower-income Colorado residents to accounts with an eligible beneficiary (a dependent under age 13 at the time of initial application); the match can extend for a maximum five years; matching grants for 2005 and future years are subject to continued funding by the sponsor</p>
<p><b><u>START Saving Program</u></b> Louisiana</p>	<p>The state provides an earnings enhancement equal to 2% to 14% (depending on income) of a Louisiana participant's contributions when the account is used for qualifying expenses</p>
<p><b><u>NextGen College Investing Plan - Client Direct Series</u></b> Maine</p>	<p>Matching grant program for Maine residents provides \$200 initial grant with a new account of at least \$50, and annual matching grants of 50% of contributions up to \$200 grant per beneficiary; requires that family adjusted gross income be below a certain level (2006 grants require 2005 AGI of \$54,500 or less)</p>
<p><b><u>Michigan Education Savings Program</u></b> Michigan</p>	<p>Michigan residents with adjusted gross income of \$80,000 or less and a beneficiary under seven years old may apply for a one-time matching grant of up to \$200</p>
<p><b><u>Minnesota College Savings Plan</u></b> Minnesota</p>	<p>Up to \$300 per year matching grant for Minnesota residents, subject to income limitations</p>
<p><b><u>TAP 529 Investment Plan (Direct-sold)</u></b> Pennsylvania</p>	<p>Match available for Pennsylvania low-income families (200% of the federal poverty level) participating in the Family Savings Account Program offered through the Pennsylvania Department of Community and Economic Development</p>
<p><b><u>CollegeBoundfund (Direct-sold, Alternative R)</u></b> Rhode Island</p>	<p>The program will annually match up to \$500 in contributions from low- and moderate-income Rhode Island residents to accounts opened before the beneficiary reaches age 11; the match can extend for a maximum five years; the match is either 1-for-1 or 2-for-1 depending on reported family income</p>
<p><b><u>Utah Educational Savings Plan (UESP) Trust</u></b> Utah</p>	<p>Pilot program matches contributions of low-income Utah participants, up to \$300 each year for four years</p>

Information found at: [www.SavingForCollege.com](http://www.SavingForCollege.com).


**2006 HHS Poverty Guidelines**

<b>Persons in Family or Household</b>	<b>48 Contiguous States and D.C.</b>	<b>Alaska</b>	<b>Hawaii</b>
1	\$ 9,800	\$12,250	\$11,270
2	13,200	16,500	15,180
3	16,600	20,750	19,090
4	20,000	25,000	23,000
5	23,400	29,250	26,910
6	26,800	33,500	30,820
7	30,200	37,750	34,730
8	33,600	42,000	38,640
For each additional person, add	3,400	4,250	3,910

Kansas Department of Revenue  
Learning Quest Modifications to FAGI  
Tax Year 2004

<u>KAGI</u>	<u>Bracket</u>	<u>Returns</u>	<u>Learning Quest Amount</u>	<u>Percentage of Total Amount</u>	<u>Average Modification</u>
Up To	\$25,000	439	\$1,160,839	2.5%	\$2,644
\$25,000	\$50,000	842	\$2,305	5.0%	\$2,738
\$50,000	\$75,000	1,786	\$4,829,559	10.4%	\$2,704
\$75,000	\$100,000	2,201	\$6,398,219	13.8%	\$2,907
\$100,000	Over	<u>5,585</u>	<u>\$31,634,314</u>	68.3%	\$5,664
	Total	10,853	\$46,327,975	100.0%	\$4,269

## FISCAL FOCUS

Budget and Tax Policy in  Perspective

April Holman  
Legislative Testimony  
House Bill 2272  
Senate Committee on Education  
March 15, 2006

Kansas Action for Children is an independent, nonpartisan, citizen-based corporation founded in 1979. We work on behalf of all children to ensure that their physical and emotional needs are met, and that they become healthy and contributing adults. In 2003, Kansas Action for Children began a new initiative called Fiscal Focus, the purpose of which is to improve the economic security of Kansas children and their families.

### **Importance of Higher Education in Breaking the Cycle of Poverty**

HB 2722 is a wonderful first step towards increasing educational attainment for low-income Kansans. This is an important tool for breaking the cycle of poverty. According to the National Center for Education Statistics (NCES), "the direct and indirect effects of family income constitute a dominant factor in the formation of an individual's earning capacity." However, the NCES also notes that "education is positively related to individual earnings" such that ten years after high school students with a bachelor's degree are estimated to earn an average of 23 percent more than students with no college. Likewise, students with an associate degree earn an average of nine percent more than students with only a high school education.

### **Participation in 529 College Savings Programs by Income Level**

National research on 529 college savings programs shows that participation by low-income families is minimal. A 2004 report by Susan Dynarski of the Harvard University Kennedy School of Government and the National Bureau of Economic Research notes that the average education saver is 41 years old and their oldest child is nine. They have two children and are well-educated, with over 90 percent having at least 16 years of education. Their median income is \$91,000 and their median net worth is \$281,000.

Although fewer data are available about participants in the Kansas Learning Quest (529 College Savings) Program, the Kansas Department of Revenue reports that over half of the returns claiming a deduction for Learning Quest contributions in tax year 2004 were from taxpayers with a Kansas Adjusted Gross Income of \$100,000 or more.

## Current Incentives to Participate in the Learning Quest College Savings Program

Under the current system, apart from the obvious benefit of saving for college the major incentives for participation in the Learning Quest program are in the form of favorable tax treatment for investments. Among other things, taxpayers contributing to the Learning Quest program receive a tax deduction both at the federal and state level. At the state level, it is estimated that about \$46.3 million dollars in Learning Quest deductions were claimed in tax year 2004. Using an average tax rate of 5%, this translates into about 2.3 million dollars that the state indirectly paid to encourage participation in the Learning Quest program in 2004. Unfortunately the benefit of this incentive went overwhelmingly to higher income taxpayers because unlike wealthier taxpayers most low-income taxpayers do not itemize their deductions, but instead use the standard deduction. Tax deductions are of little use to a taxpayer that doesn't itemize deductions.

### **Benefits of HB 2722**

HB 2722 would create a three-year pilot program to provide a direct incentive for low-income Kansans to participate in the Learning Quest program. Our estimates indicate that the cost of the incentive provided through HB 2722 would be approximately \$1.4 million over the three-year period. When viewed in light of the \$2.3 million incentive for one year under the current incentive structure, this seems like a small investment in what will be a very important tool against poverty. We respectfully ask for your support of HB 2722.



### INCREASING PARTICIPATION IN COLLEGE SAVINGS ACCOUNTS BY LOW-INCOME FAMILIES

Publicly sponsored college savings accounts, commonly known as “529” accounts, are an effective means of promoting savings for higher education. However, these programs are underutilized by low-income families due to the structure of current program incentives. Kansas Action for Children supports a pilot program to provide a direct match of investments in Kansas “529” accounts for low-income Kansas children as a first step towards greater economic opportunities.

#### *Learning Quest “529” Education Savings Plan*

The Learning Quest program is administered by the office of the Kansas Treasurer. It is organized to take advantage of special tax treatment of child savings under the federal Internal Revenue Code section 529 and is among a group of similar programs provided by almost every state in the country. In addition to tax advantages at the federal level, investments under the Learning Quest program also receive tax advantages at the state level.

These include an annual adjusted gross income deduction of up to \$3,000 per student, per year (\$6,000 if married, filing jointly).

Aside from the obvious benefit of saving for a child’s education, the incentive to participate in 529 plans comes from the beneficial tax treatment provided by the state and federal governments.

One way to encourage low-income families to participate in Learning Quest is to offer a direct match to their investments as opposed to indirect benefits provided to higher-income families through the tax code.

However, this incentive does very little to encourage savings for low-income taxpayers who typically do not benefit from tax deductions.

While little data is available as to participation in the Learning Quest

program by income level, national research on 529 plans shows that participation in such programs by low-income families is minimal. One way to encourage low-income families to participate in Learning Quest is to offer a direct match to their investments as opposed to the indirect benefit provided to higher-income families through the tax code.

#### *Pilot Program*

Kansas Action for Children supports a pilot program that would assist low-income families in participating in the Learning Quest program. This pilot program would provide a dollar for dollar match of funds invested by qualified low-income families up to \$600 per year. The pilot program would be limited to 400 accounts, equally divided to participants in the four Kansas congressional districts. After three years, a report would be issued detailing the number of accounts that were established, the savings of matched participants, and the impact of the match on participation in the program and the amount saved.

**Testimony to Senate Education Committee**

**RE: HB 2722**

**(pilot program incentive for low-income families to establish postsecondary savings accounts)**

**Kathy Cook, Executive Director (913) 825-0099**

**Kansas Families United for Public Education**

Madam Chair and Members of the Committee:

I would like to thank the committee for the opportunity to address you this afternoon.

We are pleased to testify as proponents of HB 2722. It's wonderful to be here testifying on behalf of a bill that is innovative public policy and is looking toward the future.

This is simple legislation that makes sense, and we hope that the committee unanimously votes in favor of this bill today.

Today there are a number of financial saving programs available; IRA's, Roth IRA's, 529 plans, etc. that allow middle class families to save for their children's futures all while receiving some tax benefit from the government to subsidize their contributions. These programs are incentives to save more.

However, the working poor often receive wages too low to benefit from the savings accounts that I have described above. These families don't work fewer hours; in fact, they often work more hours and harder than many that benefit from the programs listed above. Yet, they barely can make ends meet, and are therefore unable to save for their child's college education.

We know that Kansas children living in poverty is on the rise. This committee is striving to address the needs of many of those children in their K-12 school finance plan, and we applaud you for those efforts. However, we believe it is also necessary to help those students less fortunate also realize their dream of a college education upon graduation.

As a lifelong Kansan, I am proud of my heritage from a state that has believed in, and fought for, fairness in educational opportunities. This legislation is a prime example of this Kansas spirit to provide everyone in our state with an opportunity for success. This legislation says if you work hard, play by the rules, and save, your child can have an opportunity for post secondary education, and therefore a brighter future.

I know that this committee is struggling to find the needed dollars for their school finance plan, but the fiscal note on this bill is minimal compared to the everlasting benefits to society. It is well known that our citizens with a higher education background, will make more income, and therefore pay more taxes. This legislation is not only an investment in our students, but also our state and our economy. But, most importantly, it is our moral obligation to provide today's students and their families with the tools needed to succeed. We believe that this bill is one of those tools.

This bill is good for Kansas students, good for Kansas families, and good for all of Kansas.

It is our hope that this committee will see the success of this pilot program and expand it in the years to come. However, it's a great starting point and one that we should nurture.

We ask you for your support of HB 2722.

*Senate Education Committee  
3-15-06  
Attachment 4*

Kansas Department of

# Social and Rehabilitation Services

Gary J. Daniels, Secretary

**Senate Education Committee**

March 15, 2006

**HB - 2722**

**Post - Secondary Savings Accounts  
for Low-Income Families**

**Gary J. Daniels, Secretary**

785-296-3271

For additional information contact:  
Public and Governmental Services Division  
Kyle Kessler, Director of Legislative Affairs

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*Senate Education Committee  
3-15-06  
Attachment 5*

**Kansas Department of Social and Rehabilitation Services  
Gary J. Daniels, Secretary**

Senate Education Committee  
March 15, 2006

**HB 2722- Post-Secondary Savings Accounts for Low-Income Families**

Chair Schodorf and members of the committee, the Department of Social and Rehabilitation Services supports House Bill 2722, which seeks to establish a matchable savings program for post secondary school expenses for low-income individuals and families.

The lack of education among low-income people can significantly undermine their economic security and their opportunities for advancement. Low-income individuals and families often have little discretionary income and lack the opportunities upper-income people have to save money.

This proposed savings program will help low-income individuals and families achieve greater economic security and stability. Lack of access to post-secondary education is a critical barrier preventing low-income individuals from building the personal and financial resources needed to achieve and maintain self-sufficiency. Higher education results in increased personal income, greater earning potential, and contributes to continued economic growth in Kansas. Asset development programs, such as this savings plan, can help move families on a path of self-sufficiency, where they no longer need publicly-funded supports and services to help them make ends meet. This bill will enable individuals and families to save for the necessary education and training that will not only help them, but will pass on opportunities to future generations.

The Department of Social and Rehabilitation Services supports HB 2722 as a means to assist families to move out of poverty.

Thank you for the opportunity to provide this written testimony.



# KANSAS BOARD OF REGENTS

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March 15, 2006

Senator Jean Schodorf  
Chairwoman  
Senate Education Committee  
Statehouse, Room 241-E  
Topeka, KS 66612

Senator Janis Lee  
Ranking Member  
Senate Education Committee  
Statehouse, Room 162-E  
Topeka, KS 66612

Dear Chairwoman Schodorf and Ranking Member Lee:

On behalf of the Board of Regents, I write to you to express the Board's support for House Bill 2722. This legislation would establish a pilot program to provide an incentive for low-income families to establish postsecondary savings accounts.

The Board has long-supported the state's Learning Quest Program. As an advocate for higher education in Kansas, the Board is pleased to support programs, such as Learning Quest, and legislation, such as House Bill 2722, that help Kansans to prepare for and pursue their higher education goals and dreams.

Thank you for the opportunity to share the Board's support for House Bill 2722.

Sincerely,

Reginald L. Robinson  
President and CEO

Senate Education Committee  
3-15-06  
Attachment 6

To: Kansas Senate  
Committee Education

From: Deborah Adams, Associate Professor  
University of Kansas School of Social Welfare

Date: March 15, 2006

Re: Postsecondary savings accounts for low-income families

Thank you for the opportunity to provide written testimony on HB 2722, and for your consideration of an act establishing a pilot program for low-income families who want to save money for college and other postsecondary education. While I am testifying as a private citizen who has Learning Quest accounts for my own children, I also have a professional interest in asset building policies and programs. In my work, I am currently engaged in research on a national initiative called SEED which is designed to test the effects of matched children's savings accounts on the social and economic well-being of low-income families and communities. A number of the SEED programs in the study are establishing children's savings accounts through their state college savings (529) plans.

Making college savings plans more inclusive, by matching the deposits of low-income families, is a promising approach to giving children who are living in economically distressed circumstances a better chance in life. Higher education has long been the key to a brighter and more productive future for children from all walks of life, and helping disadvantaged families save for college works to even the playing field for lower-income children. Non-poor citizens receive substantial help in building assets through tax system provisions including home mortgage interest deductions, exclusions on retirement savings, and benefits associated with saving in 529 plans. Low-income families are less able to benefit from these asset building policy structures because of their modest circumstances and limited tax liability. If college savings plans are going to be more inclusive of our lower-income citizens, a matching approach like the one proposed in HB 2722 is necessary.

Aside from fairness considerations, HB 2722 offers a promising approach from a practical perspective. My research, and the related work by colleagues at the University of Michigan and Washington University, suggests that asset building enhances the well-being of families and communities in a number of ways, including greater economic participation and enhanced community and civic involvement. Further, lessons learned about saving for college are most effective when learned early in life, and families who establish accounts when children are young have more years for saving and asset building to affect their lives in positive ways.

For all of these reasons, a number of states including Rhode Island, Maine, Michigan, Minnesota, and Louisiana already have progressive policies in place to help families of modest means participate in their college savings plans. I'm very pleased to know that your committee is considering a similar approach here in Kansas. Thank you.

*Senate Education Committee  
3-15-06  
Attachment 7*

Proposed amendment  
Senator Umbarger  
March 13, 2006

# HOUSE BILL No. 2634

By Representatives Hayzlett and Light

1-18

9 AN ACT concerning certain school districts; relating to the assessed val-  
10 uation thereof.

11  
12 *Be it enacted by the Legislature of the State of Kansas:*

13 Section 1. (a) As used in this section:

14 (1) "School district" means unified school district No. 507 and unified  
15 school district No. 374.

16 (2) "Property" means the following described property, and improve-  
17 ments thereon, comprised of 1,120 acres, more or less, located in Haskell  
18 county: All of Section 34, Township 29 South, Range 33 West and the  
19 West 1/2 of Section 3, Township 30 South, Range 33 West and the North-  
20 east Quarter of Section 3, Township 30 South, Range 33 West.

21 (3) "State aid" means general state aid, supplemental general state  
22 aid, capital improvements state aid, capital outlay state aid and any other  
23 state aid paid, distributed or allocated to school districts under the school  
24 district finance and quality performance act or other law, and any other  
25 state aid paid, distributed or allocated to school districts on the basis of  
26 the assessed valuation of school districts.

27 (b) For the purposes of computing the assessed valuation of school  
28 districts for the payment, distribution or allocation of state aid and the  
29 levying of school taxes, 1/2 of the assessed valuation of such property shall  
30 be assigned to each of the school districts.

31 (c) The provisions of this section shall not apply if the property is not  
32 or ceases to be used for the production of ethanol.

33 Sec. 2. This act shall take effect and be in force from and after its  
34 publication in the statute book.

Sec. 2. (a) As used in this section:  
(1) "School district" means unified school district No. 404, unified school district No. 493, unified school district No. 499 and unified school district No. 508.  
(2) "Property" means any property, and improvement thereon, comprising a racetrack gaming facility or lottery gaming facility under the Kansas expanded lottery act located in Cherokee county.  
(3) "State aid" means general state aid, supplemental general state aid, capital improvements state aid, capital outlay state aid and any other state aid paid, distributed or allocated to school districts under the school district finance and quality performance act or other law, and any other state aid paid, distributed or allocated to school districts on the basis of the assessed valuation of school districts.  
(b) For the purposes of computing the assessed valuation of school districts for the payment, distribution or allocation of state aid and the levying of school taxes, 1/4 of the assessed valuation of such property shall be assigned to each of the school districts.  
(c) The provisions of this section shall not apply if the property is not or ceases to be used as racetrack gaming facility or lottery gaming facility under the Kansas expanded lottery act.  
[Renumber remaining section accordingly.]  
#re

Senate Education Committee  
3-15-06 Attachment

**GARY K. HAYZLETT**  
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TOPEKA

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REPRESENTATIVES

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SELECT COMMITTEE ON  
SCHOOL FINANCE

### **Testimony for the Senate Education Committee Presented March 15, 2006, in Support of HB 2634**

Thank you Madam Chair and Members of the Committee for hearing House Bill 2634.

For the record, I am Representative Gary Hayzlett, from the 122<sup>nd</sup> District which includes USD 374.

HB 2634 would allow the assessed valuation of a new ethanol plant to be constructed in Haskell County to be shared equally between the Satanta schools, USD 507 and the Sublette schools, USD 374. The property is located in the Sublett school district.

The fiscal note indicates that enactment of the bill would not require any additional state appropriation to the Department of Education. As local property valuations increase, however, state aid required for the affected districts could be reduced under the school finance formula.

*Submitted 3-16-06*

*Senate Education Committee  
3-15-06  
Attachment 9*