Approved: February 22, 2006
Date

MINUTES OF THE SENATE EDUCATION COMMITTEE

The meeting was called to order by Chairman Jean Schodorf at 1:40 p.m. on February 7, 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: Senator Mark Taddiken
Don L. Wells, Superintendent, USD 221 & USD 455
Representative Sharon Schwartz
Jim Hays, Kansas Association of School Boards

SB 481 – School districts; state aid for districts which consolidate

Noting that **SB 481** was introduced at the request of Senator Taddiken, Theresa Kiernan, Revisor of Statutes Office, explained that the bill concerned an incentive for school districts which consolidate. Under current law, when two or more districts consolidate, the districts can have the total of the state aid received by those districts prior to consolidation for the year in which they consolidate and the following year. If they completed their consolidation before July 1, 2005, the special payment is for the year in which they consolidate and two more years. The bill would provide that same benefit for the three years to any school districts which consolidate, regardless of the date in which it was completed. For the purposes of capital outlay state aid and bond and interest state aid, the bill would provide that, when the Department of Education determines their state aid percentage factor, it would use the higher, or the highest if it was more than two districts, state aid percentage factor for three years after consolidation (the year they consolidate and two more years).

Senator Mark Taddiken testified in support of **SB 481**. In the last year, seven school districts in his Senate district have been involved in the consolidation process. He noted that, under current law, school districts may receive less state aid under consolidation that they do operating as separate districts. He pointed out that **SB 481** would allow consolidating districts to maintain their current level of state aid for their general fund, bond and interest, and LOB for a period of three years. After the initial three year period, they would follow standard funding guidelines. He emphasized that the bill would provide an opportunity to remove the current disincentive and allow a smoother transition for consolidating districts. (Attachment 1)

Don Wells, Superintendent, USD 221 and USD 455, testified in support of **SB 481**, noting that he was speaking on behalf of other superintendents in his area of the state who supported the bill (Mike Stegman, Superintendent of USD 222, and Larry Lysell, Superintendent of USD 427). He commented that the bill would allow efficient consolidation of school districts without penalizing the taxpayers of the affected districts. He went on to discuss the current consolidation process in Washington and Republic counties which involved four boards of education that represented eleven communities. He noted that the bill addressed the merging districts' concerns about combining their assessed value per pupil and student enrollments. In conclusion, he contended that the bill would offer a powerful incentive for consolidation because the current cost of state aid would remain the same, and local districts would benefit by assessing fewer mills to reach the needed levels of local support. (Attachment 2) For the Committee's information, Mr. Wells distributed copies of an estimated cost analysis and data relating to USD 221, USD 222, USD 427, and USD 455. (Attachment 3)

Representative Sharon Schwartz expressed her support for **SB 481**. In her opinion, the bill would greatly assist in providing the resources necessary for successful consolidation of school districts and help to defray the cost of the merger of districts. (Attachment 4)

In response to a question regarding the inclusion of a deadline in the bill, Senator Taddiken clarified that the Board requested that he introduce the bill to include LOB and bond and interest, but they did not request striking the deadline. In the process, the bill was drafted to remove the deadline. He commented, "I think that's probably more of a policy issue for the Committee than it is something for these gentlemen's concern." He confirmed that neither he nor the superintendents would object to putting a deadline in the bill. Senator Vratil commented, "Of course, then, the situation becomes one where we establish a deadline, we extended the deadline, we extended it again. Pretty soon, nobody is going to believe that the deadline means anything."

Jim Hays, Kansas Association of School Boards (KASB), testified in support of **SB 481**. He noted that the bill meets KASB's two basic positions on school consolidation issues. He suggested that the bill might be more persuasive to voters if it provided that the higher district's state bond and interest aid rate would apply for the remaining life of the bond issue in question instead of just for three years. (Attachment 5)

There being no others wishing to testify, the hearing on **SB 481** was closed.

Senator Schodorf turned the Committee's attention to a previously heard bill, **SB 330** concerning Learning Quest (family postsecondary education savings accounts), and called upon Scott Gates, State Treasurer's Office, to respond to questions from the Committee. Senator Vratil commented, "My question was, under the proposal, could a Kansas income tax payer contribute $2,000 to a 529 plan, Learning Quest, on December 31, 2005, take the tax benefits of that (a deduction), and then withdraw that money the next day on January 1, 2006, and use it for their child's higher education expense?" Mr. Gates responded, "You can do that today as long as you have your account open for one year. What this bill gets rid of is the penalty for doing that within the first year after you open the account. So, if you put $500 in an account, leave it there for a year, a year later now you can come in and move money through that in a day or two, and no other states are currently restricting that. There is one other state that currently has a penalty for withdrawing money that first year, and that's the State of Georgia. And there are 27 states that currently offer a tax deduction to their participants. The limit for couples filing jointly is $6,000, and, at the maximum tax rate of 6.5 percent, that's about $390."

Senator Teichman moved to recommend **SB 330** favorably for passage, seconded by Senator Pine.

Senator Vratil commented, "I want to be sure that everybody understands that the whole purpose of Learning Quest and every other 529 plan across the country is to encourage parents to save money so that money will be available when their kids go on to college or the university. From that standpoint, we don't really care whether those funds are invested in a Kansas based plan or plan in another state because it goes to the kids no matter what state plan is being used. But, apparently, under current law, and this amendment would exacerbate the problem, we have a big loophole for an income tax scam. Parents who fully intend to provide money for their child's education had the ability to get a substantial income tax deduction just by investing the money one day and withdrawing it the next. And that's currently true under our existing statutes. I think we need to do something about that. This Learning Quest was not implemented in order to provide a tax scam for our citizens. It was implemented in order to encourage saving for education, and we should not allow it to be used as a tax scam."

Senator Teichman asked Mr. Gates how many other states were having problems with scamming. Mr. Gates responded, "I haven't seen this to be a problem, and to be quite honest, we would be glad to report to you in our annual report the number of withdrawals that occur within the first year or even timing of those withdrawals. We can study that issue. I haven't found that to be a problem in the flows that I've seen for reporting money in and out of this plan. We continue to grow this plan. And, again, most people use it for the long term. I think what limits that occurring is the fact that it must be a qualified withdrawal. The only people who could take advantage of the system in that light are families that currently have a student in college. That's a small percentage of the population of people that are using these accounts to save for their students."

Senator Vratil requested that Senator Teichman withdraw her motion to allow the Committee time to study the bill further after receiving additional information on withdrawals from Mr. Gates.

Senator Teichman withdrew her motion, and Senator Pine withdrew his second.

The meeting was adjourned at 2:30 p.m. The next meeting is scheduled for February 8, 2006.