Approved: February 28, 2001
Date

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE.

The meeting was called to order by Chairperson David Corbin at 10:40 a.m. on February 20, 2001, in Room 519-S of the Capitol.

All members were present except:

Committee staff present: Chris Courtwright, Legislative Research Department
April Holman, Legislative Research Department
Don Hayward, Revisor of Statutes Office
Shirley Higgins, Committee Secretary

Conferees appearing before the committee: Senator David Haley
Dennis Boody, Heart of America Family Services
Teresa Moreno, Independent Development Account recipient
Karen Edwards, Center for Social Development

Others attending: See attached list.

The minutes of the February 14, 2001, meeting were approved.

SB 231–An act establishing the family development account program and family development account reserve fund.

Senator David Haley, sponsor of **SB 231**, explained that a family development account, also known as an individual development account (IDA), is essentially a savings account for average to low income individuals wherein each dollar contributed by the individual/family is matched at a one-to-one up to a three-to-one ratio. Contributions from the account holder are held at a financial institution and can only be withdrawn for specific expenditures approved by a board. He went on to say that statistics prove that IDAs in other states have been successful in helping chronically dependent poor families to achieve home ownership and higher educational opportunities. In his opinion, the $4 million dollar fiscal note on the bill is erroneous; however, he suggested that the committee set a reasonable, affordable limit on potential tax credits to get the program up and running. (Attachment 1)

Dennis Boody, Heart of America Family Services, testified in support of **SB 231**. He distributed two handouts relating to his testimony. (Attachment 2 and Attachment 3) Mr. Boody informed the Committee that Heart of America Family Services, one of the oldest and largest not-for-profit organizations in the metropolitan Kansas City area, initiated a pilot IDA program called the Family Asset Building Program three years ago. The program was one of thirteen pilot programs across the country and has proved to be highly successful. Because of the initial success of that program, the federal government passed legislation called the Assets for Independence Act. Heart of America applied for funding under that act and currently is doing a replication program in Wyandotte County called the WIDA program. Ultimately, that program will have 250 account holders. Seventy-Five of the accounts are targeted for Wyandotte County high school students, 75 for family members of those students, and 100 for the general population living in the northeast area of Kansas City, Kansas. He explained that the program has several important partners, such as the University of Kansas School of Social Welfare and Firstar Bank, which help provide services to families involved in the IDA program. He noted that, by law, IDA accounts can only be used for home purchase, business training, or for post high school education and training. He emphasized that initial research and evaluation indicate that IDA assets help people move from poverty to non-poverty status. He has seen people in the program move out of poverty, acquire homes, start small businesses, and pay for a college education. He explained that 42 percent of the funding is provided by the U.S. Department of Health and Human services and 58 percent of the funding is provided by the Ewing Marion Kauffman Foundation. He noted that the Kauffman Foundation will not support the program forever; therefore, the funding base must be diversified. Heart of America hopes to use the tax credit tool to get private businesses and individuals involved in the program. In conclusion, he introduced Teresa Moreno, who is a participant in an IDA program.

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Ms. Moreno said she has been a participant in the Family Asset Building Program (FAB) in Missouri for approximately three years, and when she finishes the five year program, she will have over $5,000 in her account. She explained that she joined FAB because she has four children, ten grandchildren, and two great grandchildren, and someone in the family always needed money. While the children benefitted from her financial help, she had no money left for herself. When she discovered FAB, she found she could save $33 a month, and with the addition of the two-to-one match, she could save $99 a month. More importantly, she cannot withdraw the money without losing the matching funds; therefore, she is not tempted to give money to her children when they ask. She went on to say that she learned a lot as a participant in FAB classes. For example, when she purchased a home, she discovered that she did not need to go through a realtor but instead could go to the banker herself and simply transfer the deed for $50. She noted that she is two years away from retirement, and she has learned about all the different programs available to help her when she retires. She said that the money she has saved through the program will be used to fulfill her dream of opening her own restaurant.

Karen Edwards, Project Coordinator for the Center for Social Development at Washington University in St. Louis, followed with testimony outlining IDA policy at the state and national level. (Attachment 5) She noted that the development of IDA policy has been impressive. Since the concept was first widely circulated in 1991, twenty-nine states have legislated IDA programs, and eight states have created IDA programs by administrative rule. At the federal policy level, the Assets for Independence Act (AFIA) was signed into law on October 27, 1998. A $25 million appropriation per year was approved for the AFIA program, beginning in 1999, with awards as high as $1 million per program being granted. A privately funded IDA policy demonstration called the American Dream Policy Demonstration (ADD) is taking place at thirteen sites across the nation. The Center for Social Development is running the evaluation for ADD. Analysis of the first two years of data shows that IDA programs work and are helping to build assets for the participants. For the Committee's information, Ms. Edwards distributed copies of the summary of the Center's findings on ADD. (Attachment 6) Ms. Edwards noted that Kansas' neighboring states have passed IDA legislation. In Missouri, Arkansas, and Colorado, IDA legislation includes state tax credits for contributions to IDAs. This increased potential to leverage matching funds creates more opportunity for establishing IDA programs in rural areas where there is much interest in IDAs.

In conclusion, Ms. Edwards suggested possible amendments to **SB 231**, based on what other states have learned. She suggested that, on page 1, subsection (h), the language be changed to clarify that the moneys contributed by the participant and the reserve fund are kept in separate pools and never commingled. She believes that, to ensure that there will be no problems down the line, it is important to specify that the moneys are actually designated from a family reserve development account reserve fund to match a family development account program. She pointed that on page 2, Section 3, line 9, three purposes are listed for which the participants may use IDA funds; however, on page 3, Section 4, lines 20 through 27, five purposes are listed. She suggested that Section 3 be made consistent with Section 4. She went on to point out that the term "economic literacy" is used several times in the bill. She explained that participants in IDA programs prefer the term "economic education," and most current legislation uses that terminology. Her final suggested amendment was to strike "all" before "matching moneys" on page 4, Section 6, line 13. She explained that, when participants make a withdrawal from their own funds that is not an approved withdrawal, they lose the match for those funds. However, they can either put funds back in to make up for the withdrawal or whatever funds that are retained in the account should be able to be matched. If the bill provides that they lose all the matching money in the account, that means that they are basically dropped out of the program if they have an emergency and must make a small withdrawal from their account. With regard to concerns about the fiscal note for tax credits, she agreed with Senator Haley's suggestion that a smaller tax credit be allowed if the current fiscal note would hold back the program in Kansas. She noted that tax credits in other states range from $100,000 in Arkansas to $25 million in Colorado.

Chairman Corbin informed the Committee that Deborah Page-Adams, Ph.D., with the University of Kansas School of Social Welfare, submitted one copy of her written testimony in support of IDA programs along a summary of research studies addressing the effects of home ownership and other assets on the well-being of neighborhoods, children, and families. (Attachment 7) He noted that the testimony will be filed with the minutes and will be available in his office for review. He noted that a companion bill, **SB 332**, was introduced in the Ways and Means Committee on February 19. He felt that perhaps **SB 231** could be blended with that bill. With this, the hearing on **SB 231** was closed.

Chairman Corbin turned the Committee's attention to three previously heard bills: **SB 138** concerning the exemption of farm storage and drying equipment from property taxation; **SB 92** concerning the determination of fair market value for property taxation; and **SB 233** concerning the exemption of residential sales of natural

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gas from local sales taxation. With regard to **SB 138**, he recalled that testimony from Farm Credit Services indicated that the use of "leased" on page 1, line 35, creates a problem as the Board of Tax Appeals (BOTA) will not allow an exemption for leased equipment.

Senator Clark moved to amend **SB 138** by striking "lease" on page 1, line 35, and inserting "lease purchase." Don Hayward, Revisor of Statutes Office, noted that the bill addresses leasing the equipment, not the method of purchase. He suggested that the BOTA issue could be addressed by simply striking "exclusively" and deleting the new language.

Senator Clark withdrew his motion.

Senator Clark moved to amend **SB 138** by deleting "exclusively" on page 1, line 30, and deleting the new (italicized) language on page 1, lines 34 through 36, seconded by Senator Jenkins. The motion carried.

Senator Clark moved to recommend **SB 138** as amended favorable for passage, seconded by Senator Jenkins. The motion carried.

The Committee turned its attention to **SB 92**. Senator Lee moved to recommend **SB 92** as favorable for passage, seconded by Senator Donovan. The motion carried.

Senator Allen noted that, after the hearing on **SB 233**, concern about the potential cost of the fiscal note to the state with regard to the return of natural gas severance tax receipts to cities and counties was brought to her attention. To resolve the concern, Senator Allen moved to delete New Section 2 on page 1, lines 32 through 37, seconded by Senator Jenkins. The motion carried.

Senator Allen moved to recommended **SB 233** as amended favorable for passage, seconded by Senator Jenkins. The motion carried with Senators Lee and Donovan voting "No."

The meeting was adjourned at 11:30 a.m.

The next meeting is scheduled for February 27, 2001.