

**PUBLIC HEARING AND WORK SESSION:**

**HB 2124, HB 2125-A**

**TAPES 053-054, A**

**SENATE REVENUE COMMITTEE**

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**February 26, 2001 — 8:30 A.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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Members Present: Senator Ted Ferrioli, Chair

Senator Lee Beyer, Vice Chair

Senator Susan Castillo

Senator Tony Corcoran

Senator John Minnis

Senator Charles Starr

Members Excused: Senator Gary George

Staff: Paul Warner, Legislative Revenue Officer

Ed Waters, Economist, Legislative Revenue Office

Carol Phillips, Committee Assistant

Witnesses: Randall Edwards, State Treasurer

Michael Parker, Executive Director, Oregon College  
Savings Plan

**TAPE 053, SIDE A**

005 Chair Ferrioli Meeting called to order at 8:39 a.m.

006 Chair Ferrioli Gave overview of HB 2124 and HB 2125-A.

OPENED PUBLIC HEARING ON HB 2124

023 Ed Waters

Gave background information regarding the Oregon Qualified Tuition Savings Program, which was established in 1999. Beginning in 2001, annual contributions up to \$2,000 to a qualified account can be subtracted from Oregon taxable income. In connection with federal law, earnings within the account grow tax-deferred until withdrawn by the beneficiary for qualified educational expenses. HB 2124 makes some technical corrections to the Oregon Qualified Tuition Savings Program so it more closely follows federal treatment under Internal Revenue Code, Section 529.

033 Randall  
Edwards, State  
Treasurer

Extensive discussion of how the program works. The bill allows family members to set money aside to pay for college not only for children or grandchildren, but for themselves as well. Regarding this bill, the definition of "college" includes junior college, four-year college, graduate school, private, public, in-state, or out-of-state. Oregon aligned itself with a federal tax code change that allowed states to set up college savings plans. The plans allow money to be put aside on a tax-deferred basis until funds are removed to cover college expenses, at which time they are taxed at the beneficiary's rate. Under the Oregon plan, Oregon residents can deduct up to \$2,000 off state taxable income as joint filer each year for a contribution into one of these plans. Anyone who puts money into a plan for the benefit of a beneficiary can get the \$2,000 tax deduction.

Strong Investments, the fund's operator, has put together four different investment options for participants to choose from. Once participants have chosen how much to invest and in which type of fund, Strong Investments does the rest. An account can be opened with as little as \$25.00 per month through direct deposit, or deposit \$150,000 , or anything in between.

This college fund is for anyone of any age to invest in and use. Any person can set up an account for themselves for future college expenses. It's not just for the benefit of

children.

- 128 Michael Parker Discussed Exhibit 4, outlining the eight "housekeeping" changes to be made to the plan.  
Questions and answers interspersed.
- 179 Sen. Minnis Asked if this program discriminates against schools of theology or other religious schools that may not be accredited.
- 181 Parker Replied that under IRC 529, expenses must be applied toward an accredited university. Oregon law follows what IRC 529 allows, so a college must be accredited.
- 185 Sen. Minnis Countered with the question, "Even though the accreditation process itself is discriminatory?"
- 190 Edwards Added that Oregon must follow federal law to operate this program.
- 199 Chair Ferrioli General discussion regarding the bill and benefits it would provide.  
Questions and answers interspersed.
- 309 Sen. Minnis Asked even if schools of theology are not allowed under IRC 529, could something be done to accommodate them under Oregon tax law. By statute, schools of theology are granted the authority to grant degrees. They should be covered under this bill. Gave an example of a school in Multnomah County. Their problem with accreditation is the fact that they are governed by a church. The accrediting institution refuses to accredit them because they are governed by a church instead of some other independent board. Feels there should be an Oregon law stating no institution of higher education can be accredited by any institution

that discriminates against any school of theology, based on their governance.

350 Chair Ferrioli Agreed the issue brought up by Sen. Minnis was worth addressing, perhaps in another committee. Since it is impossible for a parent or grandparent to determine what educational pathway a child may take over the course of a life, it would be terrible to have a road block created in the funding of that education. Asked if there are guaranteed returns on investments made to this program.

370 Parker Stated there is no guaranteed return The fund is market driven and is a savings plan with some tax benefits and a deferral. There is no guarantee against losing money through the market. If Strong Investments goes bankrupt or sells off, the money is guaranteed not to be lost through that happening.

CLOSED PUBLIC HEARING ON HB 2124

OPENED PUBLIC HEARING ON HB 2125-A

412 Waters Discussed HB 2125-A, which requires the amount of a non-qualified withdrawal from a qualified tuition savings account to be added to taxable income. In addition, the US Treasury assesses a 10% penalty on earnings withdrawn for non-qualified purposes from one of these tuition accounts.

430 Edwards Discussed aspects of HB 2125-A, which closes a potential loophole in the tuition program.

Questions and answers followed.

**TAPE 054, SIDE A**

030 Chair Ferrioli Agreed that the pre-emptive closure of a possible loophole is a good feature of the tuition plan.

CLOSED PUBLIC HEARING ON HB 2125-A

OPENED WORK SESSION ON HB 2124 AND HB 2125-A

040 L. Beyer MOTION:  
  
MOVES HB 2124 TO THE SENATE FLOOR  
WITH A DO PASS RECOMMENDATION.

044 Sen. Minnis Stated for the record that, although it is not the  
fault of the State Treasurer, this policy is  
discriminatory toward schools of theology  
authorized to grant degrees under Oregon  
statutes. This is stated for the record in the  
event of a lawsuit challenging access to this  
program at some future time.

060 Chair Ferrioli ORDER:  
  
HEARING NO OBJECTION, THE MOTION  
PASSES: 6 — 0 — 1  
  
SENATORS VOTING AYE: CASTILLO,  
CORCORAN, MINNIS, STARR, L. BEYER,  
FERRIOLI  
  
SENATORS ABSENT: GEORGE  
  
Sen. Ferrioli will carry the bill on the Senate  
Floor.

062 L. Beyer MOTION:  
  
MOVES HB 2125-A TO THE SENATE  
FLOOR WITH A DO PASS  
RECOMMENDATION.

066 Chair Ferrioli ORDER:  
  
HEARING NO OBJECTION, THE MOTION  
PASSES: 6 — 0 — 1  
  
SENATORS VOTING AYE: CASTILLO,  
CORCORAN, MINNIS, STARR, L. BEYER,

FERRIOLI

SENATORS ABSENT: GEORGE

Sen. L. Beyer will carry the bill on the Senate Floor.

CLOSED WORK SESSION ON HB 2124 AND HB 2125-A

098 Chair Ferrioli Adjourned meeting at 9:13 a.m.

Submitted by, Reviewed by,

Carol Phillips Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 2124, Waters, Staff Measure Summary, 1 pp.
2. HB 2124, Waters, Revenue Impact Statement, 1 pp.
3. HB 2124, Waters, Fiscal Impact Statement, 1 pp.
4. HB 2124, Edwards, Written testimony dated February 26, 2001, 2 pp.
5. HB 2125-A, Waters, Staff Measure Summary, 1 pp.
6. HB 2125-A, Waters, Revenue Impact Statement, 1 pp.
7. HB 2125-A, Waters, Fiscal Impact Statement, 1 pp.
8. HB 2125-A, Edwards, Written testimony dated February 26, 2001, 1 pp.
9. HB 2124/HB 2125-A, Edwards, Written testimony, 1 pp.
10. HB 2124/HB 2125-A, Edwards, Written testimony (OVERSIZED), 35 pp.