PUBLIC HEARING ON

BILL 17-235, "COLLEGE SAVINGS PROGRAM INCREASED TAX BENEFIT ACT OF 2007" BY THE OFFICE OF THE CHIEF FINANCIAL OFFICER (OCFO)

Before the
Committee of the Whole
Council of the District of Columbia

The Honorable Vincent C. Gray, Chairman

October 9, 2007, 11:00 A.M.
John A. Wilson Building
Council Chambers

Testimony of
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Office of Finance and Treasury

Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia

Good morning, Chairman Gray and members of the Committee. My name is Lasana Mack, DC Treasurer and Deputy Chief Financial Officer. I manage the Office of Finance and Treasury within the Office of the Chief Financial Officer. Thank you for the opportunity to present testimony regarding the DC College Savings Program.

The District's College Savings Program was authorized by Council legislation and launched in November 2002. It is designed to help participants save money to pay for college for their children, grandchildren or themselves. The Program is managed by my office in conjunction with the Calvert investment management company.

As of October 1st, the College Savings Program had attained $102 million in assets from 9,163 account owners, of which 75 percent are District residents. The Program has achieved an "A" rating from SmartMoney Magazine and a 5-star rating from InvestforCollege.com. Later this month, the Program will receive the Mutual Fund Education Alliance's national award for outstanding marketing and communications.

The Program's average account balance of $10,936 is approximately at the national average for this type of savings plan. Contributions to the Program can be made by check, automatic bank deduction, or payroll deduction. Participants can choose from among thirteen investment options, including five age-based portfolios. Earnings are tax-free, as are withdrawals used to pay education costs. Since its inception, the Program has distributed $7.3 million to 1,682 participants for college expenses.

The Program allows District residents to deduct up to $3,000 in contributions from their federal adjusted gross income reported each year on their DC income tax return (up to $6,000 for married couples filing jointly if both own accounts). There has been no increase in the maximum permitted deduction since the plan's inception in 2002. It is estimated that the current deduction results in approximately $660,000 in foregone District tax revenues annually and the proposed change, is projected to increase that amount by approximately $220,000 annually. As the size of the program grows, this amount would grow by approximately that same percentage of growth.

Our Office of Tax and Revenue (OTR) does not believe that there will be significant administrative costs associated with implementation of this proposed legislation. However, due to the fact that the tax year 2007 tax forms have already been completed and submitted to the vendor for printing, implementing this legislation for tax year 2007 would be burdensome to OTR. As such, OTR requests that if the Council approves this legislation that it defer the effective date to tax year 2008.

Finally, at my request, my staff and Calvert are exploring initiatives that would help low-income District families increase their participation in the Program. We know that a number of states, for example, have enacted Individual Development Accounts, where personal college savings are matched by the government. We are also looking into ways that the private sector might be able to contribute to this effort.

Mr. Chairman, this concludes my testimony. I am prepared to address any questions that you might have.