

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

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Prepared By: The Professional Staff of the Appropriations Subcommittee on Education

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BILL: SB 732

INTRODUCER: Senator Galvano

SUBJECT: Stanley G. Tate Florida Prepaid College Program

DATE: March 5, 2014

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Graf</u>	<u>Klebacha</u>	<u>ED</u>	<b>Favorable</b>
2.	<u>Sikes</u>	<u>Elwell</u>	<u>AED</u>	<b>Favorable</b>
3.	_____	_____	<u>AP</u>	_____

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**I. Summary:**

SB 732 specifies that for an advanced payment contract purchased before July 1, 2024, the amount assessed and paid by the Florida Prepaid College Board (Prepaid Board) to the universities will follow the methodology previously utilized by the Prepaid Board for contracts purchased prior to July 1, 2009. This methodology requires the Prepaid Board to increase payments to the state universities between 5% and 7% annually, depending on the type of fee and the Florida Prepaid College Trust Fund's (Prepaid Trust Fund) actuarial reserve level, which provides the Prepaid Board with better predictability of future tuition and fees. The maximum assessment and payment for state university registration fees, tuition differential fees, local fees, and dormitory fees is capped at no more than the actual cost charged by the state universities for such fees.

The Prepaid Board estimates the change in payment methodology will reduce the cost of a new 4-Year Florida University Plan by \$10,000 and result in \$50 million in refunds to families with an existing 4-Year Florida University Plan.<sup>1</sup>

The fiscal impact of the bill on the state universities is indeterminate, but may reduce the tuition fees, tuition differential fees, local fees, and dormitory fees that will be paid by the Prepaid Board to the state universities on behalf of qualified beneficiaries of Prepaid Plans purchased prior to July 1, 2024.

The bill takes effect on July 1, 2014.

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<sup>1</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 3, on file with the Committee on Education staff.

## II. Present Situation:

The Legislature created the Stanley G. Tate Florida Prepaid College Program (Prepaid Program) in 1987<sup>2</sup> to provide Florida's families, affordable means to plan and save for their children's college education.<sup>3</sup> The Prepaid Program is administered by the Florida Prepaid College Board (Prepaid Board).<sup>4</sup> Florida's families have purchased more than 1.5 million Prepaid Program contracts.<sup>5</sup>

The Prepaid Program provides for the purchase of advanced payment contracts for postsecondary education. The contracts, which are financially guaranteed by the State of Florida,<sup>6</sup> lock-in many of the costs associated with enrollment in state universities and Florida College System (FCS) institutions (e.g., registration fees, tuition differential fees, local fees, and dormitory fees) at the time such contracts are purchased.<sup>7</sup> Families may choose from the following Prepaid Program options:<sup>8</sup>

- 2-Year Florida College Plan
- 4-Year Florida College Plan
- 2+2 Florida Plan
- 4-Year Florida University Plan

A qualified beneficiary<sup>9</sup> with a Prepaid Plan choosing to attend an out-of-state or private institution may have the full value of the Plan, which would have been paid to a Florida state university or a Florida college for that beneficiary, transferred semester by semester to the private or out-of-state institution.<sup>10</sup>

Each year, the Prepaid Board conducts an analysis of the actuarial adequacy of the Prepaid Trust Fund. In order to conduct this analysis, a series of assumptions are made regarding investment yield, tuition increases, tuition differential fee increases, local fee increases, and dormitory fee increases. The result of the analysis is a determination of the actuarial reserve, which means the amount by which the expected value of the assets in the Prepaid Trust Fund exceeds the value of

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<sup>2</sup> Section 1, ch. 1987-132, L.O.F.; see also Florida Prepaid College Board, *Our History*, <http://www.myfloridaprepaid.com/who-we-are/> (last visited Feb. 15, 2014).

<sup>3</sup> Section 1009.98(1), F.S.

<sup>4</sup> Section 1009.971(1), F.S.

<sup>5</sup> Florida Prepaid College Board, *Annual Report* (2012), available at <http://www.myfloridaprepaid.com/wp-content/uploads/2012-annual-report.pdf>, at 1.

<sup>6</sup> Section 1009.98(7), F.S.

<sup>7</sup> Section 1009.98(2), F.S.

<sup>8</sup> Florida Prepaid College Board, *Explore Your Options*, <http://www.myfloridaprepaid.com/what-we-offer/> (last visited Feb. 15, 2014).

<sup>9</sup> A qualified beneficiary is "a resident of [Florida] at the time a purchaser enters into an advance payment contract on behalf of the resident; a nonresident who is the child of a noncustodial parent who is a resident of [Florida] at the time that such parent enters into an advance payment contract on behalf of the child;" or "a graduate of an accredited high school in [Florida] who is a resident of [Florida] at the time he or she is designated to receive benefits of the advance payment contract." Section 1009.97(3)(f), F.S.

<sup>10</sup> Florida Prepaid College Board, *Annual Report* (2012), available at <http://www.myfloridaprepaid.com/wp-content/uploads/2012-annual-report.pdf>, at 10.

the expected liabilities. The table below shows showing a recent history of the actuarial reserve.<sup>11</sup>

**Actuarial Information**

	2010	2011	2012	2013
<b>Actuarial Reserve</b>	\$482,626,581	\$589,408,656	\$569,458,560	\$834,449,416
As % of Expected Liabilities	5.1%	6.0%	4.9%	7.6%

The Prepaid Plan payment methodology (tuition and fee caps) established for advanced payment contracts purchased before July 1, 2009, specifies the annual percentage increase above the fees assessed in the previous fiscal year that the Prepaid Board will pay universities for registration fees and tuition differential fees, based on actuarial reserve of the Prepaid Trust Fund. The table below shows the methodology.<sup>12</sup>

**Registration & Tuition Differential Fee Payment Scenarios**

<b>Actuarial Reserve, As a % of Expected Liabilities</b>	<5%	5% - 6%	6% - 7%	≥7.5%
Prepaid Board Payment to Universities Above Fee Assessed Previous Year	5.5%	6.0%	6.5%	7.0%

The Prepaid Board pays state universities five percent above the amount assessed in the previous fiscal year for local fees and six percent above the amount assessed in the previous fiscal year for dormitory fees.<sup>13</sup>

For advanced payment contracts purchased on or after July 1, 2009, with regards to registration, tuition differential, local, and dormitory fees, the Prepaid Board must pay the university the actual amount charged for these fees.<sup>14</sup> For actuarial planning purposes, the Prepaid Board must price the Prepaid Plan with the assumption that universities will assess the maximum allowable fees each year.

**III. Effect of Proposed Changes:**

SB 732 specifies that for an advanced payment contract purchased before July 1, 2024, the amount assessed and paid by the Prepaid Board to the universities will follow the methodology previously utilized by the Prepaid Board for contracts purchased prior to July 1, 2009.

<sup>11</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 1-2, on file with the Committee on Education staff.

<sup>12</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 2, on file with the Committee on Education staff.

<sup>13</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 2, on file with the Committee on Education staff.

<sup>14</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 2, on file with the Committee on Education staff.

**Registration & Tuition Differential Fee Payment Scenarios**

<b>Actuarial Reserve, As a % of Expected Liabilities</b>	<b>&lt;5%</b>	<b>5% - 6%</b>	<b>6% - 7%</b>	<b>≥7.5%</b>
Prepaid Board Payment to Universities Above Fee Assessed Previous Year	5.5%	6.0%	6.5%	7.0%

The bill also creates a cap on the aggregate sum the Prepaid Program pays state universities for registration, tuition differential, and local fees, equal to the actual amounts charged for those fees as well as a cap on dormitory fees equal to the actual amount charged for that fee.

The bill takes effect on July 1, 2014.

**IV. Constitutional Issues:**

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

**V. Fiscal Impact Statement:**

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The Prepaid Board estimates that the bill will reduce the cost for individuals to purchase Prepaid Program contracts. The new lump-sum price for the 4-Year Florida University Plan would be reduced by approximately \$10,000,<sup>15</sup> from \$53,729 to less than \$43,000<sup>16</sup>. Over 26,000 Florida families who purchased plans at higher prices in recent years would be entitled to refunds of approximately \$50 million. In addition, future monthly payments would be reduced for those purchasing a Prepaid contract and paying on a monthly basis. A Florida family enrolling a newborn during 2012-13 in a 4-Year Florida University Plan is currently paying \$332 per month under the monthly payment option.<sup>17</sup> These monthly payments are estimated to drop to \$255 per payment - a savings

<sup>15</sup> State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2014), at 3, on file with the Committee on Education staff.

<sup>16</sup> Email, Florida Prepaid College Board (Jan. 15, 2014), on file with Committee on Education staff.

<sup>17</sup> Email, Florida Prepaid College Board (Jan. 15, 2014), on file with Committee on Education staff.

of over \$75 per month for 223 months<sup>18</sup> totaling approximately \$17,000 over the life of the contract.

**C. Government Sector Impact:**

For advanced payment contracts purchased on or after July 1, 2009, with regard to tuition and tuition differential, the Prepaid Board must pay the university the actual amount charged for these fees. For actuarial planning purposes, the Prepaid Board must price the Prepaid Plan with the assumption that universities will assess the maximum allowable fee increase of 15 percent each year. This has led to a higher cost for the 4-Year Florida University Plan and 2+2 Florida Plan. This bill will provide an improved forecast methodology allowing the Prepaid Board to more accurately price the 4-Year Florida University Plan and 2+2 Florida Plan.

The fiscal impact of the bill on the state universities is indeterminate, but may reduce the tuition fees, tuition differential fees, local fees, and dormitory fees that will be paid by the Prepaid Board to the state universities on behalf of qualified beneficiaries of Prepaid Plans purchased prior to July 1, 2024.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

**VIII. Statutes Affected:**

This bill substantially amends section 1009.98 of the Florida Statutes.

**IX. Additional Information:**

**A. Committee Substitute – Statement of Changes:**

(Summarizing differences between the Committee Substitute and the prior version of the bill.)

None.

**B. Amendments:**

None.

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This Senate Bill Analysis does not reflect the intent or official position of the bill's introducer or the Florida Senate.

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<sup>18</sup> Email, Florida Prepaid College Board (Jan. 15, 2014), on file with Committee on Education staff.