SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

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

Prepared By: Governmental Oversight and Productivity Committee

BILL: CS/SB 1162

SPONSOR: Governmental Oversight and Productivity Committee and Senator Atwater

SUBJECT: Florida Prepaid College Program

DATE: April 12, 2005 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Matthews	O'Farrell	ED	**Favorable**
2.	Wilson	Wilson	GO	**Fav/CS**
3.			EA	
4.			RC	
5.				
6.				

I. Summary:

This bill amends the Florida Prepaid College Program to permit an independent college or university other than those not-for-profit to be eligible for the transfer of benefits. The CS further provides that the state will guarantee the availability of funds to cover all contracts for qualified beneficiaries who are within 18 years of enrollment in a postsecondary institution. The current guarantee is limited to beneficiaries within 5 years of such enrollment. The guarantee would only apply if the program were found to be financially infeasible.

This bill substantially amends section 1009.98, F.S.

II. Present Situation:

Current law provides that if the Florida Prepaid College Program is determined to be financially infeasible, the state will act as guarantor for the benefits of all contracts for qualified beneficiaries who are within 5 years of enrollment in a postsecondary institution.[1] All other contract holders would receive a refund of the amount paid plus prevailing interest.[2]

As of June 30, 2004, there are 699,168 active contracts for the Florida Prepaid College Program. Approximately 300,000 are for contract beneficiaries who are within 5 years of enrolling in a postsecondary institution. The approximately 400,000 remaining contracts have been sold to beneficiaries who are within 6 to 18 years of enrolling in a postsecondary institution.

[1] Section 1009.98(8), F.S.
[2] Id.

Based on the Ernst & Young Analysis of Actuarial Adequacy Report and the assumptions contained therein, the Prepaid Trust Fund is actuarially sound as of June 30, 2004, with an actuarial reserve of $656 million. The trust fund can fund the future benefit payments for all contracts sold through June 30, 2004, based upon the following key assumptions:

Yield on Investments (Weighted Average)	5.71 percent annually
University Tuition Increase	7.5 percent per annum in years 1 and 2 6.8 percent per annum thereafter
Community College Tuition Increase	6.0 percent annually
University Local Fees Increase	6.0 percent annually
Community College Local Fees Increase	6.0 percent annually
Dormitory Costs Increase	6.0 percent annually

Any significant increase in tuition above the assumed rates, or any significant change in the assumptions would have an impact on the actuarial soundness of the fund. For example, the Prepaid Board has estimated that if tuition increases 10.5 percent each year, the fund would have an actuarial deficit of $747 million upon termination of the program.

III. Effect of Proposed Changes:

This bill extends the time frame for the state's guarantee that sufficient funds will be available to cover the purchased contract provisions of the Florida Prepaid College Program if the state terminates the program. Currently the state guarantee applies only to beneficiaries who are within 5 years of enrollment in a postsecondary institution. The new guarantee would extend to contract beneficiaries who are within 18 years of enrollment in a postsecondary institution.

If the program continues to be fiscally sound and tuition increases do not jeopardize the financial viability of the Program, then the proposed change would have no fiscal impact. If the state did determine the Program to be financially infeasible, then the state may have to provide financial assistance to a greater number of contract beneficiaries than under current law.

If this bill becomes law, according to the Ernst & Young Analysis of Actuarial Adequacy Report, as of June 30, 2004, the Prepaid Trust Fund would be actuarially sound with an actuarial reserve of $404 million and the trust fund could fund future benefit payments for all contracts sold through June 30, 2004, based upon the following key assumptions used in the report:

Yield on Investments (Weighted Average)	5.71 percent annually
University Tuition Increase	7.5 percent per annum in years 1 and 2 6.8 percent per annum thereafter
Community College Tuition Increase	6.0 percent annually
University Local Fees Increase	6.0 percent annually
Community College Local Fees Increase	6.0 percent annually
Dormitory Costs Increase	6.0 percent annually

Under current law, the trust fund would have an actuarial reserve of $656 million, or $256 million more based on the assumptions contained in the report.

According to the Ernst and Young Report, any significant increase in university tuition increases above the assumed rates or any significant decrease in the investment earnings projection will have a negative impact on the actuarial soundness of the trust. For example, based upon the June 30, 2004 Actuarial Adequacy Report, if university tuition rates increase 10.5 percent in all future years, the Prepaid College Trust Fund would have an actuarial deficit of $747 million. If the Prepaid Program were terminated due to this scenario, then the bill would require the state to fund this deficit for all contract beneficiaries within 18 years of enrollment in a postsecondary institution.

The changes incorporated into the CS permit for-profit institutions to be made eligible for benefit transfers from an advance payment contract. The board may refuse to transfer the benefits in circumstances in which an eligible institution distributes materials that have not received board approval.

The effective date for the bill is July 1, 2005.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

The bill extends guaranteed coverage of contracts for tuition and fees to students in the Florida Prepaid College Program who are within 18 years of enrollment in an eligible postsecondary institution. In effect, almost every person holding a contract in the Program would be guaranteed that funds will be available to pay their contracts for tuition and fees when they enter postsecondary education if the program were terminated and assuming they met their contractual obligations.

C. Government Sector Impact:

The bill extends the state's exposure to fund all contracts from the date of program termination. Based on the June 30, 2004 Actuarial Adequacy Report, the Prepaid Trust

Fund would have an actuarial reserve of $404 million based upon the assumptions of a 5.71 annual yield on investments and a 7.5 percent annual tuition increase in the first two years and a 6.8 percent increase thereafter. If state university tuition rises 10.5 percent per year, the trust fund would have an actuarial deficit and the state would have a potential liability of $747 million.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Summary of Amendments:

None.