

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.)

Prepared By: The Professional Staff of the Committee on Education

BILL: SB 732

INTRODUCER: Senator Galvano

SUBJECT: Stanley G. Tate Florida Prepaid College Program

DATE: February 17, 2014

REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Graf	Klebacha	ED	Pre-meeting
2.			AED	
3.			AP	

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) will follow the methodology previously utilized by the Prepaid Board for contracts purchased prior to July 1, 2009, rather than the actual cost assessment and payment presently authorized. 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 Prepaid Board's actuarial reserve level. The goal of this change is to provide the Prepaid Board 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.¹

The bill takes effect on July 1, 2014.

II. Present Situation:

The Legislature created the Stanley G. Tate Florida Prepaid College Program (Prepaid Program) in 1987² to provide Florida's families, affordable means to plan and save for their children's college education.³ The Prepaid Program is administered by the Florida Prepaid College Board

¹ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 3, on file with the Committee on Education staff.

² 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).

³ Section 1009.98(1), F.S.

(Prepaid Board).⁴ Florida's families have purchased more than 1.5 million Prepaid Program contracts.⁵

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,⁶ 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.⁷ Families may choose from the following Prepaid Program options:⁸

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

A qualified beneficiary⁹ 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.¹⁰

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

⁴ Section 1009.971(1), F.S.

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

⁶ Section 1009.98(7), F.S.

⁷ Section 1009.98(2), F.S.

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

⁹ 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.

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

¹¹ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 1-2, on file with the Committee on Education staff.

Actuarial Information

	2010	2011	2012	2013
Actuarial Reserve	\$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 level the Prepaid Board will pay universities for registration and tuition differential increases within a reasonable range based on fund reserve. The table below shows the methodology.¹²

Registration & Tuition Differential Fee Payment Scenarios

Actuarial Reserve, % of Expected Liabilities	<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.¹³

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.¹⁴ 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 will follow the methodology previously utilized by the Prepaid Board for contracts purchased prior to July 1, 2009, rather than the actual cost assessment and payment presently authorized.

Registration & Tuition Differential Fee Payment Scenarios

Actuarial Reserve, % of Expected Liabilities	<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%

¹² State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 2, on file with the Committee on Education staff.

¹³ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 2, on file with the Committee on Education staff.

¹⁴ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 2, on file with the Committee on Education staff.

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 Florida Prepaid College Board (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 \$10,000,¹⁵ from \$53,729 to less than \$43,000¹⁶. 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.¹⁷ These monthly payments are estimated to drop to \$255 per payment - a savings of over \$75 per month for 223 months¹⁸ totaling approximately \$17,000 over the life of the contract.

¹⁵ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 3, on file with the Committee on Education staff.

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

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

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

C. Government Sector Impact:

According to the Prepaid Board, the state universities may experience a dip in revenues if the actual cost for the registration fees, tuition differential fees, local fees, and dormitory fees exceed the amount assessed and paid by the Prepaid Board to the state universities for such fees.¹⁹

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.

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

¹⁹ State Board of Administration, *2014 Agency Legislative Bill Analysis for SB 732* (Feb. 5, 2013), at 3, on file with the Committee on Education staff.