HOUSE RESEARCH ORGANIZATION bill digest | 5/9/95 | HB 1214 Kamel, Raymond (CSHB 1214 by Rangel)

SUBJECT: Higher education prepaid tuition program

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 8 ayes — Rangel, Ogden, Gallego, Goolsby, Harris, Moreno, Reyna

0 nays

2 absent — Kamel, Rodriguez

WITNESSES: For — None

Against — None

On — Jeff Cole, Office of the Texas Comptroller of Public Accounts

DIGEST: HB 1214 would create the Prepaid Higher Education Tuition Program to be administered by the Prepaid Higher Education Tuition Board in the Office of the Comptroller of Public Accounts.

Board. The seven-member board would consist of the comptroller, who would be the board's presiding officer, two members appointed by the governor and four members appointed by the lieutenant governor, two of whom would have to be appointed from a list provided by the speaker of the house. Members, other than the comptroller, would have to be knowledgeable about higher education, business or finance. Board members would be required to complete at least one training course informing them of their duties as a board member before they could assume their duties. Members would service six-year staggered terms.

The unpaid board would be required to meet quarterly in Austin and at other times and places at the call of the comptroller. The board would be required to meet standard conflict-of-interest provisions and would be subject to the opening meetings laws. The comptroller would act as executive director, and staff would come from the comptroller employees. The Legislature could appropriate funds to cover the board's administrative costs for the fiscal 1996-97 biennium.

The board would be required to enter into a prepaid tuition contract no later than March 1, 1996.

The board would be abolished on September 1, 2007 unless continued by the Legislature.

Prepaid program. The program would allow the board and the purchaser to enter into a contract to prepay the tuition and fees for the purchaser's beneficiary to attend a public institution of higher education. If the student attended a private institution, the person would have to pay the difference between what it costs to go to a public institution and the private institution. Beneficiaries would have to have been less than 18 years and either they or their parent would have to be a state resident when the contract was initiated.

The program would offer three prepaid tuition plans: a junior college plan, a senior college plan and a junior-senior college plan for students starting at a junior college and transferring to a senior college. The purchaser could convert from one plan to another. The contracts would provide for a beneficiary to attend institutions for a specified number of semester hours but no more than the typical number of hours required to graduate from the type of school chosen in the plan.

The terms of the contract would be based on the actuarial analysis of tuition growth rates, expected investment returns and estimated administrative costs.

The contract specification would include: the amount and number of payments, information on the beneficiary and anything the board would consider necessary or appropriate. The prepaid contract would not cover laboratory fees. Payments could be made in installments or lump sums.

The beneficiary could be changed if a new beneficiary met the requirements on the date the beneficiary designation was changed. If the purchaser was an individual, the change could only be to a sibling of the original beneficiary.

The prepaid tuition program would not promise or guarantee admission to any institution of higher education.

The contract would be terminated if the purchaser terminated or defaulted on the contract or the beneficiary died, became disabled, was denied admission, or did not graduate within 10 years. The contract would have to provide for a refund. The refund would include the sum of the payments plus interest.

Texas Tomorrow Fund. The bill would establish the Texas Tomorrow Fund outside the state treasury. The fund would consist of state appropriations, funds from other governmental or private sources, money paid under the prepaid tuition contracts and interest on the fund. The board would administer the fund's assets. The board would invest the fund's assets based on the prudent person rule.

The fund's assets could only be used to pay program administration, tuition and fee payments on behalf of beneficiaries and refunds.

Termination of prepaid program. If the comptroller determines the program is financially infeasible, he or she would be required to notify the Legislature and the governor and recommend the program be modified or terminated.

If the program is terminated, a contract would remain in effect if the beneficiary was accepted by or enrolled in an institution of higher education or was projected to graduate from high school not later than the third anniversary of the date the program is terminated.

Prepaid higher education tuition scholarships for needy students. If funds were available, the board could award prepaid tuition scholarships to financially-needy students. Scholarships could not be awarded to students who were convicted of a drug offense, a felony or a Class A misdemeanor.

These scholarships would have to be funded by the private sector, the federal government and the state. The bill would authorize the state to appropriate funds for this purpose. Scholarship recipients would have to come from all regions of the state.

The bill would take effect September 1, 1995.