

SUBJECT: Continuing the Prepaid Higher Education Tuition Board

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 7 ayes — Morrison, F. Brown, Alonzo, Giddings, D. Howard, Patrick, Rose

0 nays

2 absent — McCall, Aycock

WITNESSES: For — None

Against — None

On — Amy Trost, Sunset Advisory Commission

BACKGROUND: The Prepaid Higher Education Tuition Board helps Texans save for college through two college-savings programs, a Prepaid Plan, formerly known as the Texas Tomorrow Fund, that locks in future college tuition and fees at today's prices, and a Savings Plan that allows individuals to invest money for college expenses, which works much like a 401(k) but with after-tax dollars. Both plans offer federal tax advantages, but only the Prepaid Plan is backed by the full faith and credit of the state.

In 2003, the board temporarily suspended enrollment in the prepaid plan because of the uncertain effects of the deregulation of tuition. The board thought because it could not accurately predict the future costs of tuition, it might sell new tuition contracts at inadequate prices and jeopardize the plan's assets. The board continues to manage its more than 158,000 existing prepaid tuition contracts. The prepaid plan had \$1.6 billion in assets at the end of fiscal 2005.

By the end of fiscal 2005, the savings plan had about 16,000 account holders and more than \$131 million in assets. Unlike with the prepaid plan, the state does not guarantee that contributions will meet future tuition requirements. The plan has disbursed about \$11 million for college costs between 2002 and 2005. The savings plan remains open.

The board has no staff of its own, but designated staff at the Comptroller's Office carry out the day-to-day operations. The board receives no appropriations to operate the two plans, but instead relies on prepaid tuition contract payments, investment income, and fees to cover administrative costs and tuition benefits.

DIGEST:

CSHB 2173 would continue the Prepaid Higher Education Tuition Board until September 1, 2019, and would require the board to establish, by rule, the procedures for determining when and under what conditions to reopen new enrollment and would require an annual reassessment each year that the program remained closed. Applicants for enrollment would have to provide the following information in order to be considered:

- the annual household income of the purchaser;
- the highest educational level of the purchaser;
- the race or ethnicity of the beneficiary; and
- how the purchaser intended to finance the contract.

The board would be authorized to issue refunds to purchasers who entered into a prepaid tuition contract after December 31, 2003, who paid more for the contract than the cost of tuition. The board also would be authorized to require a maturity period between the time a purchaser entered into a prepaid contract and when prepaid tuition contract benefits could be used. The bill would limit the weighted average requirement to apply only to beneficiaries of a senior college plan entered into on or before December 31, 2003.

The bill would establish an ethics policy for the board and set forth the provisions for the ethics policy. The bill would allow board members to be reimbursed for travel expenses, clarify who could not serve as a board member, outline the complaint procedure and grounds for removal from the board, and require the use of Internet technology. By September 1, 2008, the board would conduct a study of the feasibility of any benefits of agreements between the board and universities under which universities would offer tuition discounts or other benefits to beneficiaries of prepaid tuition contracts who enrolled at those universities.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

CSHB 2173 appropriately would continue the Prepaid Higher Education Tuition Board, which successfully has helped thousands of Texans save for college but could better serve the public with a few improvements. The bill would give the board more tools that could help it reopen the plan in the future and restore the plan to a self-sustaining status while promoting fairness to both plan purchasers and Texas universities. The popularity of the plan clearly demonstrates that it has filled a need for Texas families.

Tuition deregulation has caused tuition at four-year public universities to diverge considerably, making it difficult for the board to price new contracts. The difference in cost between the least and most expensive universities poses the biggest challenge. Tuition at some universities is nearly three times higher than at others. Compounding the board's difficulty in pricing contracts, individual universities have begun to set tuition rates for different programs of study. This necessitates the proposed changes in CSHB 2173.

According to the weighted average requirement, any university with tuition and required fees above the weighted average of all four-year, public Texas universities must waive the difference in cost between their tuition and required fees and the weighted average amount. As a result, the six largest universities waived more than \$7 million in tuition for prepaid plan beneficiaries in 2005. While this practice protects contracts in place at the time of tuition deregulation, reopening the plan under this arrangement would require universities to bear an increasingly inequitable portion of the plan's total tuition liabilities. This could also shift these costs to other students in the form of higher tuition or reduced financial aid.

Current law does not allow the board to issue refunds to purchasers of senior or junior plans if they paid more than the actual cost of tuition and fees. Not being able to give refunds means the board has to price contracts high enough to cover the most expensive universities without charging more than a beneficiary would need for a lower-cost university.

Authorizing a delay from the contract purchase date to when the student claimed benefits would allow time for investments to grow and give the board flexibility to protect the plan's assets, which could help reopen the plan.

OPPONENTS
SAY:

Although CSHB 2173 would make several much-needed improvements, there are lingering concerns about the actuarial shortfall currently facing the fund. If the fund could be re-opened in such a way that would not add to the existing shortfall in the future, that may be a viable concept. As tuition rates continue to be in a volatile period, making the future cost of higher education very difficult to project, reopening of the fund in the near future remains problematic.

NOTES:

HB 3900 by Morrison, which would establish the Texas Tomorrow Fund II prepaid tuition program, passed the House on second reading yesterday.

The companion bill, SB 902 by Brimer, has been referred to the Senate Government Organization Committee.