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.)

BILL: SB 1930

SPONSOR: Senator Atwater

SUBJECT: Florida Prepaid College Program

DATE: March 5, 2004 REVISED:

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Woodruff	O'Farrell	ED	Favorable
2.			AED	
3.			AP	
4.				
5.				
6.				

I. Summary:

The bill amends the Florida Prepaid College Program to provide 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 be required if the Program were found to be financially infeasible.

This bill substantially amends section 1009.98 of the Florida Statutes.

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. All other contract holders would receive a refund of the amount paid plus prevailing interest.

In total, there are 971,956 contracts which have been sold for the Florida Prepaid College Program. Of this number, approximately 220,000 are for contract beneficiaries who are within 5 years of enrolling in a postsecondary institution. The approximately 750,000 remaining contracts have been sold to beneficiaries who are within 6 to 18 years of enrolling in a postsecondary institution.

Based on the Analysis of Actuarial Adequacy Report, as of June 30, 2003, prepared by Ernst & Young, and the assumptions contained therein, the Prepaid Trust Fund is actuarially sound with an actuarial reserve of $169 million and can fund the future benefit payments for all contracts sold through June 30, 2003, based upon the following key assumptions used in the report:

Yield on Investments (Weighted Average)	4.35% annually
University Tuition Increase	8.5% per annum in years 1-3, 6.8% per annum thereafter
Community College Tuition Increase	6.0% annually
University Local Fees Increase	6.0% annually
Community College Local Fees Increase	6.0% annually
Dormitory Costs Increase	6.0% annually

III. Effect of Proposed Changes:

The only change the bill makes is to extend 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. Currently that guarantee applies only to beneficiaries within 5 years of enrollment in a postsecondary institution. The new guarantee would extend to contract beneficiaries 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 would have to provide financial assistance to a greater number of contract beneficiaries than under current law.

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, 2003 Actuarial Adequacy Report, if university tuition rates increase 10.5% in all future years, the Prepaid College Trust Fund would have an actuarial deficit of $866 million. If the Prepaid Program were terminated due to this scenario, then SB 1930 would require the state to fund this deficit for all contract beneficiaries within 18 years of enrollment in a postsecondary institution, whereas the current law would require the State to fund any deficit for beneficiaries who are within 5 years of enrolling in college. The fiscal impact would be the difference between the 18-years (proposed legislation) and the 5-years (current legislation), as determined by the Program Actuary.

The effective date for the bill is July 1, 2004.

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 instead of the current language of within 5 years of enrollment. 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.

C. Government Sector Impact:

The potential liability of the state to provide supplemental funding in case of a shortfall in the Florida Prepaid College Program will be spread over a longer period of time. Currently, if the Florida Prepaid College Program becomes financially infeasible, the state is the guarantor for any contract benefits not covered by the Program for students within 5 years of enrollment in a postsecondary institution. This bill extends that potential liability to contracts for all students within 18 years of enrollment in a postsecondary institution.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.