1999 SENATE EDUCATION

SB 2195

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2195

Senate Education Committee

❑ Conference Committee

Hearing Date January 26, 1999

Tape Number	Side A	Side B	Meter #
1	x		0 to 2590
1/27	x		4683-6207
1/27	x		0-191
Committee Clerk Signature Linda Christman			

Minutes:

ROLL CALL TAKEN

ALL SENATORS PRESENT

Testimony by SENATOR SCHOBINGER: State offered tuition plan, description of SB2195, attached testimony.

SENATOR KELSH: Section 9, trouble understanding the individual account if the fund is not enough, the fund itself must make the remaining payment? Where does that money come from.

SENATOR SCHOBINGER: That money would come from the fund itself, in any given year it would be invested fully and the recipient gets tuition increases per year, but the fund may be returning 10% for tuition increase which may have only gone up 5%.

Senator FLACKOLL: There are other avenues like IRA's does this have any advantage over those or why should they go with a program like that.

SENATOR SCHOBINGER: If you have a choice between an IRA or prepaid tuition the route to go would be prepaid tuition. The reason is an IRA you can only invest $500 in any given year, tuition account program you can put in up to whatever the tuition for that year is.

SENATOR FLACKOLL: When does this parent or spouse decide what institution they would like to go to.

SENATOR SCHOBINGER: At the time that the contract is signed for the year. They choose that institution up front so they can determine the payment based on the tuition.

SENATOR O'CONNELL: In other words you'd be better off choosing the institution with the highest tuition. Can you project what the tuition will be in 10-15 years.

SENATOR SCHOBINGER: Tough to say but increase of 4.6% increase in 5 years.

SENATOR KELSH: Choose the highest tuition institution and then use the lesser amount of money, what happens to the money left over in the account.

SENATOR SCHOBINGER: New federal laws lets the student use the left over money for room and board or a refund.

Testimony in Favor: REP. POOLMAN, Grand Forks. Support for SB2195

Testimony in Favor: SENATOR TRAYNOR, Devils Lake. Support of the bill.

SENATOR O'CONNELL: I'm on the committee and I support for this bill.

Testimony in Support: NANCY SAND: Support for this bill.

Testimony in Opposition: KATHI GILMORE, State Treasure of ND, testimony attached tend to be Neutral.

SENATOR WANZEK: Do you have any actual numbers or figures that say what the growth of tuition has been over the last 10 years and how it compares to a mutual fund growth.

KATHI: No

SENATOR COOK: Have you investigated other options for a savings plan or other options.

KATHI: Investigated since 1995 and have other documentation from other states and concern is, " is this right for ND".

SENATOR COOK: BANK OF ND is lukewarm to savings plan or tuition.

SENATOR O'CONNELL: Is there any one state that we can compare this plan to.

KATHI: Wyoming plan went broke but was due to school population, room and board, and the money had to be paid up front.

SENATOR KELSH: Went broke or failed?

KATHI: True, they could not repay the money.

SENATOR FREBORG: Any further opposition to 2195

Neutral Testimony, LAURA BLOCK, University Systems. Supportive of any legislation that would provide additional flexibility for students wishing to pursue a full secondary education especially those interested in pursuing it in the state of ND. Our concern would be with the ability of the fund to sustain the payments to the campuses we would be concerned at anything that might create the possibility that the campuses might have to absorb any shortfall in tuition. We use that tuition income to fund the instructional operation on our campuses. Needs to be examined on how the various plans can impact students financial aid eligibility in other programs. Depending on the type of program, the state establishes an administer it could have impact on student eligibility for federal financial aid or other state programs.

SENATOR O'CONNELL: Explain the fiscal note.

SENATOR KELSH: Would it be possible to limit the institutions of ND to the amount if the fund couldn't pay the full tuition, it couldn't deal with a 5% reduction it would have to go back to the person attending to make that up. Is that a feasible thing to do, is 5% still too much.

LAURA BLOCK: If there were a shortfall in the fund and the fund was unable to reimburse the campus 100% of the tuition, your suggestion would be that the campus would only have to eat 5% of the difference. That would certainly seem reasonable only to the extent that we don't have a large population of participants that are experiencing shortfalls. 1 or 2 students is not terribly material but if we are experiencing a number of students that have a shortfall all of that has an impact on the operation.

SENATOR FLAKOLL: I assume higher education continually grapples with projecting enrollment numbers, will this in any way help you in higher education knowing that x amount of students that have a certain number of semester or years paid up. Will this be a benefit.

LAURA BLOCK: We don't have a hard time predicting the traditional high school graduates that will go on to college in ND. Hardest that we have projecting is the nontraditional age enrollment.

Neutral Testimony: JULIE KUBISIAK: Bank of ND, testimony attached.

SENATOR FLAKOLL: What is the amount of default per year on student loans.

JULIE KUBISIAK: Less than 1%

SENATOR FLAKOLL: Translate that to dollars.

JULIE KUBISIAK: Less than $700,000.

SENATOR WANZEK: What are your feelings about limiting the exposure to unfunded contingency liability by saying we're responsible for full tuition up to a maximum of 12-15%. Would that relieve some of the customer concern.

JULIE KUBISIAK: Concern would still be there.

January 27, 1999 Tape 1, Side A, Meter 4683-6207

SENATOR COOK : I supported the concept 2 years ago and have no reason to not support it now.

SENATOR WANZEK : I support the concept, except that tuition increases outstrip the growth of the fund.

SENATOR KELSH : Like to know why it failed in a state or two.

SENATOR FLAKOLL : Failed because all of the moneys had to be paid in one lump sum up front, which didn't work well.

SENATOR FREBORG : Would like to pass this bill over to appropriations and let them do what they will with it. They have the final say. I think we should try it.

SENATOR REDLIN : Lack of enthusiasm from the Bank of ND and the State Treasurer didn't thrill me.

SENATOR O'CONNELL : Comes out of our committee and goes directly to appropriations or goes to floor and then referred to appropriations.

SENATOR FREBORG : Goes directly to appropriations. Fiscal impact of over $50,000.

SENATOR FLAKOLL : Need some new things in education.

SENATOR O'CONNELL : Another bill coming in.

SENATOR COOK : I move a DO PASS on SB2195 to refer to Appropriations.

SENATOR WANZEK : 2nd.

Vote: 5 (Yes) 2 (No)

CARRIER: SENATOR FLAKOLL

Discussion:

SENATOR WANZEK : If it is DO PASS rereferred we essential don't take it to the floor.

SENATOR FREBORG : We are responsible for that bill when it come out of Appropriations.

SENATOR WANZEK : What if we move for a DO PASS and Appropriations moves for a DO NOT PASS.

SENATOR FREBORG : They carry the bill, that is their recommendation. If they only amend the bill they carry the amendment, we are still responsible for the bill.

SENATOR O'CONNELL: We are responsible to do down to Appropriations and explain the bill to them.

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: ______________ Amendment to: SB 2195

Requested by Legislative Council Date of Request: March 23, 1999

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

Narrative:

As amended, SB 2195 allows Bank of North Dakota to establish and administer a program that permits the advance purchase of tuition credits for a beneficiary.

Due to uncertainty associated with the level of participation in the program, volatility of interest rates and increases in tuition rates at the various participating schools, the amounts of tuition purchase shortfalls cannot be estimated with any level of confidence.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		**1999-2001 Biennium**		**2001-03 Biennium**	
	General Fund	**Special Funds**	**General Fund**	**Special Funds**	**General Fund**	**Special Funds**
Revenues:	-0-	-0-	-0-	-0-	-0-	-0-
Expenditures:	-0-	-0-	-0-	$ 50,000	-0-	$25,000
Shortfall:	-0-	-0-	-0-	?	-0-	?

3. What, if any, is the effect of this measure on the appropriation for your agency or department:
   a. For rest of 1997-99 biennium: n/a
   b. For the 1999-2001 biennium: Operating costs of $50,000 (identified above). Tuition shortfall - unknown.
   c. For the 2001-03 biennium: Operating costs of $25,000 (identified above). Tuition shortfall - unknown.

4. **County, City, and School District** fiscal effect in dollar amounts:

1997-99 Biennium			**1999-2001 Biennium**			**2001-03 Biennium**		
Counties	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**	**Counties**	**Cities**	**School Districts**

If additional space is needed, attach a supplemental sheet.

Signed Julie Kubisiak

Typed Name Julie Kubisiak

Date Prepared: March 23, 1999

Department Bank of North Dakota

Phone Number 701-328-5621

FISCAL NOTE

(Return original and 10 copies)

Bill/Resolution No.: SB 2195 Amendment to: ____________

Requested by Legislative Council Date of Request: January 25, 1999

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts.

   Narrative:

   Two types of costs are involved to implement a prepaid tuition plan:
   DIRECT COSTS for administration of the program. (See Attachment A)
   POTENTIAL COSTS in the form of an unfunded liability for the fund may result should tuition increase at a level which exceeds that planned for in the actuary study or the investment return. The amount of the potential liability cannot be estimated.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Special Funds	General Fund	Special Funds	General Fund	Special Funds
Revenues:	-0-	-0-	-0-	-0-	-0-	-0-
Expenditures:	-0-	-0-	$135,117	-0-	$70,802	-0-

3. What, if any, is the effect of this measure on the appropriation for your agency or department:
   a. For rest of 1997-99 biennium: ____________
   b. For the 1999-2001 biennium: Administrative expense of $135,117 (identified above)
   c. For the 2001-03 biennium: Administrative expense of $70,802 (identified above)

4. **County, City, and School District** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed, attach a supplemental sheet.

Signed Julie Kubisiak

Typed Name Julie Kubisiak

Department Bank of North Dakota

Phone Number 701-328-5621

Date Prepared: January 25, 1999

FISCAL NOTE RE SB 2195

SB 2195 directs the Bank of North Dakota to establish and administer a tuition purchase program for the benefit of students attending a participating institution of higher education.

The bill provides the Bank with the power to charge & collect fees for administration of the tuition purchase program. The only reference to a specific fee amount pertains to the termination of a tuition purchase contract for which the administrative fee cannot exceed $25.00.

	99 - 01 Biennium	01 - 03 Biennium	03 - 05 Biennium
PERSONNEL COSTS			
Initial development of the program	20,256.60		
Ongoing costs - servicing, reporting, board activities etc	22,512.75	16,322.34	16,906.55
ADVISORY BOARD EXPENSES			
The bill calls for creation of an advisory board consisting of seven members and two ex offio members. Five of the seven members are 'appointed' and are eligible for per diem and expense payments as provided in the legislation.	12,347.50	8,980.00	8,980.00
OTHER OPERATING EXPENSES			
Audit	5,000.00	5,000.00	5,000.00
Legal	5,000.00	2,500.00	2,500.00
Consultants & actuaries re initial development of the program	25,000.00	5,000.00	5,000.00
Annual actuarial study	33,000.00	30,000.00	30,000.00
Investment managers	???	???	???
Investment managers - guarantee	???	???	???
DATA PROCESSING	12,000.00	3,000.00	3,000.00
	135,116.85	70,802.34	71,386.55

Date: 1/29/99
Roll Call Vote #:

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2195

Senate EDUCATION Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Move for a Do Pass to rerefer SB 2195 to appropriations

Motion Made By Cook

Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Senator Freborg, Chairman	✓				
Senator Cook, Vice Chairman	✓				
Senator Flakoll	✓				
Senator Wanzek	✓				
Senator Kelsh		✓			
Senator O'Connell	✓				
Senator Redlin		✓			

Total (Yes) 5 No 2

Absent

Floor Assignment Flakoll

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2195: Education Committee (Sen. Freborg, Chairman) recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). SB 2195 was rereferred to the **Appropriations Committee**.

1999 SENATE APPROPRIATIONS

SB 2195

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2195

Senate Appropriations Committee

❑ Conference Committee

Hearing Date February 8, 1999

Tape Number	Side A	Side B	Meter #
1	X		5050-end
1		X	1-1670
Committee Clerk Signature	Kathy C. Kottenbrock		

Minutes:

SENATOR NETHING: Opened the hearing on SB2195; A BILL FOR AN ACT TO PROVIDE FOR THE ADVANCE PURCHASE OF TUITION CREDITS AND TO ESTABLISH A TUITION ACCOUNT PROGRAM; AND TO PROVIDE A CONTINUING APPROPRIATION.

RANDY SCHOBINGER: State Senator from District 3 to testify in support of SB2195 (testimony attached (tape 5050-5735).

SENATOR ANDRIST: If the child doesn't go to college or goes to a college out of state that's not participating, he gets 90% back?

RANDY SCHOBINGER: If they are excepted to a college out of state, they get the full amount of the tuition. That doesn't mean the full amount of the debt, the full amount of tuition based on the college that they chose. If they child doesn't go to college, it pays back 90%, and is paid back to the person who put it in.

SENATOR ANDRIST: Is the money that goes into the plan tax sheltered?

RANDY SCHOBINGER: It's tax exempt from State taxes and tax deferred at the Federal level and the Federal level is based later on the child's income, which makes it a definite tax advantage, or the beneficiaries income rather than the purchasers income.

SENATOR GRINDBERG: Regarding the Advisory Board, did you have any discussions with the Bank of North Dakota on utilizing their existing Board and the Board of Higher Education ex-officio would be sufficient.

RANDY SCHOBINGER: I had a meeting at length with the President of the Bank of North Dakota and that wasn't discussed as a possibility.

SENATOR SOLBERG: Is there a time or age limit on purchase?

RANDY SCHOBINGER: Must be purchased before the child is a Freshman in High School.

SENATOR LINDAAS: What is the advantage of this over a tuition fund that a parent or grandparent creates themselves?

RANDY SCHOBINGER: An education IRA, only allows you to invest up to $500 in any given year for any one child. This plan, you can invest more.

SENATOR KRAUTER: In section 9, you talk about the State's liability; can you explain, if the cost of tuition exceeds the investment of the fund, where is that difference made up? It says it's made out of a special payment from the fund. If the inflation of tuition exceeds what that fund has done, where does the money come from?

RANDY SCHOBINGER: It comes from a separate payment. Your able to stay fully invested through business cycles. The fund if in one year returns 15% and another 4% but tuition goes up to 5%, from the year before there is a cushion in there to be able to cover.

SENATOR ANDRIST: There is a chance the Bank makes money because they just pay the tuition.

RANDY SCHOBINGER: Correct, the extra money is put back into the fund to keep it actuarially sound.

SENATOR ANDRIST: Parent signs a student for a state institution that has a lower rate than another institution, the child chooses the higher based institution.

RANDY SCHOBINGER: The payment would be made based on the institution they picked. The family or student would make up the difference.

SENATOR LINDAAS: The University or the Bank would be the ones to pick up the slack if the fund doesn't keep up?

RANDY SCHOBINGER: Your correct.

SENATOR HOLMBERG: Are there any offset built in for PELL Grants?

RANDY SCHOBINGER: No, this fund is setup more for middle class families.

SENATOR HOLMBERG: No requirement to apply for Federal aid prior to them attending college?

RANDY SCHOBINGER: No.

SENATOR NETHING: As I understand, this is a total funding of the tuition without consideration for anything except the tuition amount agreed too.

RANDY SCHOBINGER: That's correct.

JACK TRAYNOR: State Senator from District 15 to testify in support of SB2195 (tape 655-831). I administer a trust and the main beneficiary of the trust are medical students at the University of North Dakota. This year we had sixty applications from the 220 medical students for grants from the trust. We awarded $36,000 in grants to medical students. The student is required to submit an application and in those, they divulge the amount of their indebtedness and it's amazing to me the debt for the senior medical students. Many are way over $100,000 and some over $200,000. The medical school tuition for the year is $18,000. This bill certainly would help students in the future.

NANCY SAND: I am with the North Dakota Education Association to testify in support of SB2195 (tape 860-896). Last time we supported Senator Schobinger's proposal and we also support it this year. We believe this provides another option for families. If this would help keep our young people in the State attending our colleges, we think it's a good thing.

SENATOR ANDRIST: Is this transferable within a family?

RANDY SCHOBINGER: Yes, the purchasers spouse, sibling, parents, child, stepchild, grandchild or any person whom the purchaser is legal guardian.

AL NOSBUSCH: Associate Director of Fiscal & Administrative Services, Student Loans of North Dakota, Bank of North Dakota to testify in a neutral position of SB2195 (testimony attached (tape 1135-1315).

SENATOR SOLBERG: You have twice as much administrative fees the first biennium compared to the second, is this to set the program up and if so why so much?

AL NOSBUSCH: The initial costs are for setting up the data processing, legal, actuarial work that wouldn't have to reoccur each year.

SENATOR SOLBERG: You would document this so we could take a look at it in two years.

AL NOSBUSCH: Sure could.

(Tape 1541-1670)

SENATOR NETHING: Called for the motion on SB2195.
SENATOR NAADEN: Moved a Do Pass on SB2195.
SENATOR ANDRIST: Seconded the motion.

ROLL CALL: 14 YEAS; 0 NAY; 0 ABSENT & NOT VOTING.

CARRIER: SENATOR FLAKOLL.

SENATOR NETHING: Closed the hearing on SB2195.

Date: 2-8-99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2195

Senate APPROPRIATIONS Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Senator Naaden Seconded By Senator Andrist

Senators	Yes	No	Senators	Yes	No
Senator Nething, Chairman	✓				
Senator Naaden, Vice Chairman	✓				
Senator Solberg	✓				
Senator Lindaas	✓				
Senator Tallackson	✓				
Senator Tomac	✓				
Senator Robinson	✓				
Senator Krauter	✓				
Senator St. Aubyn	✓				
Senator Grindberg	✓				
Senator Holmberg	✓				
Senator Kringstad	✓				
Senator Bowman	✓				
Senator Andrist	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Senator Flakoll

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2195: Appropriations Committee (Sen. Nething, Chairman) recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2195 was placed on the Eleventh order on the calendar.

1999 HOUSE EDUCATION

SB 2195

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2195

House Education Committee

❑ Conference Committee

Hearing Date 3-1-99

Tape Number	Side A	Side B	Meter #
Tape # 1	x		25.0 to end
Tape #1		x	0.1 to 18.5
Committee Clerk Signature Joan Diers			

Minutes:

Chairman R Kelsch , Vice Chair Drovdal , Rep Brandenburg , Rep Haas , Rep Johnson , Rep Nelson , Rep Nottestad , Rep L Thoreson , Rep Grumbo , Rep. Hanson , Rep. Lundgren , Rep. Mueller , Rep. Nowatzki , Rep. Solberg .

Chairman R Kelsch : We will open the hearing on SB 2195 and ask the clerk to read the title.

Sen Schobinger: District 3 (See attached testimony) .

Rep Nelson : Does this include private colleges?

Schobinger: If I pick NDSU for my child and he/she gets accepted to a private college, the bank will make a refund to the child to be used at the private college.

Rep Nelson : Would the refund be at one hundred percent not at the ninety percent?

Schobinger: It would be one hundred per cent of the fund. Anything that is earned above the tuition increases stays in the fund to keep it sound.

Vice Chair Drovdal : Do you feel it would be fair that a portion be deferred to cover the operation of the plan itself.

Schobinger: The plan that you have in front of you, was taken from another state, what happened in that state, there was an appropriation of six hundred thousand dollars and the plan was actuarially sound.They paid the appropriation back to the state after a period of time.

Vice Chair Drovdal : Is this plan set up similar to that.

Schobinger: It won't have an appropriation every biennium but the committee may want to look into that.

Vice Chair Drovdal : In section 12, where the bank may set its own rules for refunds up to ninety percent. If there was a refund it could be as low as fifty percent.

Schobinger: That is correct. The reasons for the refund may be a determining factor.

Rep Nottestad : The money that goes into this is money that the taxes have been paid on it.

Schobinger: Correct.

Rep Nottestad : The tuition was paid in at one amount and the tuition then has raised by the time that the child goes to college,but the money makes more. What happens to the difference? How is the tax handled on that?

Schobinger: The amount that you paid in and that you receive is tax deferred to the beneficiary.

Rep Nottestad : What if the fund has earned more than the amount paid back?

Schobinger: That would be handled with the bank.That stays in the fund.

Rep L Thoreson : This bill and the previous bill as an either or situation? We have both bills and could they be both be used.

Schobinger: I do. Without some guidelines or legislative oversight there are problems.

Rep L Thoreson : The tuition to be determined, what is it based on?

Schobinger: It is based on the present year tuition, and the university's will send in their projections of the next years tuition, the payment for the following year will be based on that year tuition. Your payment is annually adjusted to the current years tuition

Vice Chair Drovdal : If I pay in one years tuition and then the next year the tuition goes up ten percent and the plan only goes up eight percent, the state or the college will cover the difference.What happens when the situation is reversed, who gets the two percent?

Schobinger: The two percent stays in the fund to keep it sound. There will be times when the fund doesn't cover the rise in tuition, then that extra will help keep the fund sound.

Rep. Lundgren : What is the cap on contributions.

Schobinger: The cap would be whatever the tuition would be that year.

Rep. Lundgren : Does this plan fall within federal guidelines, there are no federal restrictions on the amount that can go into an IRA?

Schobinger: This is not an IRA, you are buying tuition credits. A total of four years is all you can invest in the plan.

Chairman R Kelsch : If I want to send someone to medical school, can I invest the total amount of years that they will go to school or can I only pay for the four years.

Schobinger: The four year undergraduate is all you can invest. IF you transfer to another school with less tuition any money that would be left over could be used for that.

Chairman R Kelsch : I'm capped at tuition times the four years?

Schobinger: Yes

Vice Chair Drovdal : Tradition was four years and now it is five years, can this plan be more flexible.

Schobinger: If you only go half time for a semester that that is all that would be paid so you could stretch it out, you would still have credits to pay it with.

Rep Nottestad : Would the education IRA that are tax free be a better route to go?

Schobinger: The handout that I gave you on page three or four, a push is being made in congress to make these plans completely tax exempt.

End tape I side A

Begin Tape I side B

Rep. Lundgren : Where in the bill does it say that there is a maximum of four years.

Schobinger: That is the natural occurrence of the bill to pay for four years or less of the college to the beneficiary.

Rep. Lundgren : On page six, it says it can be used for masters and other post baccalaureate programs.

Schobinger: Yes, if the student goes to a college with a lesser tuition than what was put in, you could use the excess to go on to masters etc.

Senator Traynor: District 15 sponsor of the bill, spoke in support of SB2195.

Senator Flakoll: District 44. spoke in support of SB 2195.

Carol Siegert: Deputy State Treasurer of North Dakota. (See attached testimony) .

Vice Chair Drovdal : Why did the treasurer's office go with this plan instead of SB 2414, what is the difference?

Sieger: We support the concepts of both of the plans.

Jason Bernhardt: (See attached testimony)

Rep Nelson : As we compare the two plans, tuition is the major portion of going to school. The savings plan takes into account all aspects, how do you feel about that?

Bernhardt: The students have not taken an official stance on SB 2414. This bill deals with just tuition , when you have scholarships or loans that just cover tuition and don't cover room and board, so that is why we are concerned about this bill. Our main concern is to have student representation on this board to help them work through this.

Julie Kubisiak: Director of Student Loans of North Dakota Bank of North Dakota (See attached testimony) The bank is neutral regarding this bill.

Chairman R Kelsch : Anyone wishing to make comments on SB 2195? Seeing none we will close the hearing on SB 2195.

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2195-3-17-99

House Education Committee

☐ Conference Committee

Hearing Date 3-17-99

Tape Number	Side A	Side B	Meter #
Tape # 1	x		0.1 to 15.3
Committee Clerk Signature Joan Diers			

Minutes:

Chairman R Kelsch , Vice Chair Drovdal , Rep Brandenburg , Rep Brusegaard , Rep Haas , Rep Johnson , Rep Nelson , Rep Nottestad , Rep L Thoreson , Rep Grumbo , Rep. Hanson , Rep. Lundgren , Rep. Mueller , Rep. Nowatzki , Rep. Solberg .

Chairman R Kelsch : We will call the House Education Committee to order and ask the clerk to take the roll. I am going to pass out some information that Dr. Klundt put together in regards to administrators sharing in North Dakota high schools under 75. I have passed out the amendments for 2195. Committee discussion on the amendments.

Vice Chair Drovdal : Moved the amendments to SB 2195.

Rep Brusegaard : seconded the motion.

Chairman R Kelsch : Committee discussion. Voice vote on the amendments. Motion carries.

What are the wishes of the committee?

Vice Chair Drovdal Move a DO PASS as amended,placed on the 6th order and then rereferred to Appropriations.

Rep Brandenburg : seconded the motion. .

Chairman R Kelsch : Committee discussion. We need to further amend with a sub motion to amend - the state of North Dakota will reimburse the difference if the fund return does not meet the rate of increase in tuition cost.

Vice Chair Drovdal : Moved the amendment.

Rep Brusegaard : seconded the motion.

Chairman R Kelsch : Voice vote on the amendment, motion carried. What are the wishes of the committee.

Vice Chair Drovdal : Move a DO PASS as amended.

Rep Brandenburg : seconded the motion. .

Chairman R Kelsch : The clerk will call the roll on a DO PASS as amended motion. The motion passes 12 YES 3 NO 0 Absent Floor assignment Chairman R Kelsch .

90532.0102
Title.

Prepared by the Legislative Council staff for
Representative R. Kelsch
March 17, 1999

PROPOSED AMENDMENTS TO SENATE BILL NO. 2195

Page 1, line 1, replace "provide for" with "authorize" and replace "to establish" with "the establishment of"

Page 1, line 2, remove "; and to provide a continuing appropriation"

Page 1, line 5, replace "shall establish and" with "may adopt rules to", after "administer" insert ", manage, promote, and market", and replace "to provide for" with "that permits"

Page 1, line 6, after the period insert "The Bank shall ensure that a tuition account program established in accordance with this Act is maintained in compliance with internal revenue service standards for qualified state tuition programs."

Page 1, remove lines 7 through 24

Remove pages 2 through 9

Renumber accordingly

90532.0103
Title.0200

Adopted by the Education Committee
March 17, 1999

VR
3/18/99

HOUSE AMENDMENTS TO SENATE BILL NO. 2195 Edu 3-19-99

Page 1, line 1, replace "provide for" with "authorize" and replace "to establish" with "the establishment of"

Page 1, line 2, remove "; and to provide a continuing appropriation"

Page 1, line 5, replace "shall establish and" with "may adopt rules to", after "administer" insert ", manage, promote, and market", and replace "to provide for" with "that permits"

Page 1, line 6, after the period insert "The Bank shall ensure that a tuition account program established in accordance with this Act is maintained in compliance with internal revenue service standards for qualified state tuition programs. The state shall reimburse the difference if the fund return does not meet the rate of increase in tuition cost."

Page 1, remove lines 7 through 24

HOUSE AMENDMENTS TO SENATE BILL NO. 2195 Edu 3-19-99

Remove pages 2 through 9

Renumber accordingly

Date: 3-17-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB-2195

House Education Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number 90532.0103 title .0200

Action Taken Do Pass as amend + be re-referred to Appro

Motion Made By Drovdal Seconded By Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Rep. ReaAnn Kelsch-Chairperson	✓		Rep. Dorvan Solberg	✓	
Rep. David Drovdal-Vice Chair	~~✓~~	✓			
Rep. Michael D. Brandenburg	✓				
Rep. Thomas T. Brusegaard		✓			
Rep. C. B. Haas	✓				
Rep. Dennis E. Johnson	✓				
Rep. Jon O. Nelson	✓				
Rep. Darrell D. Nottestad	✓				
Rep. Laurel Thoreson	✓				
Rep. Howard Grumbo	✓				
Rep. Lyle Hanson	✓				
Rep. Deb Lundgren		✓			
Rep. Phillip Mueller	✓				
Rep. Robert E. Nowatzki	✓				

Total (Yes) 12 No 3

Absent Ø

Floor Assignment Chr Kelsch

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2195: Education Committee (Rep. R. Kelsch, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (12 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). SB 2195 was placed on the Sixth order on the calendar.

Page 1, line 1, replace "provide for" with "authorize" and replace "to establish" with "the establishment of"

Page 1, line 2, remove "; and to provide a continuing appropriation"

Page 1, line 5, replace "shall establish and" with "may adopt rules to", after "administer" insert ", manage, promote, and market", and replace "to provide for" with "that permits"

Page 1, line 6, after the period insert "The Bank shall ensure that a tuition account program established in accordance with this Act is maintained in compliance with internal revenue service standards for qualified state tuition programs. The state shall reimburse the difference if the fund return does not meet the rate of increase in tuition cost."

Page 1, remove lines 7 through 24

Remove pages 2 through 9

Renumber accordingly

1999 HOUSE APPROPRIATIONS

SB 2195

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2195

House Appropriations Committee
Education and Environment Division

❑ Conference Committee

Hearing Date March 25, 1999

Tape Number	Side A	Side B	Meter #
1	x		0-25.0
Committee Clerk Signature Casey Davis			

Minutes:

SB 2195 A bill for an act to provide for the advance purchase of tuition credits and to establish a tuition account program; and to provide a continuing appropriation.

CHAIRMAN WENTZ opened the hearing on SB 2195.
1A: 0.4 SENATOR RANDY SCHOBINGER introduced the bill and testified in support of it.
1A: 4.4 REP. NICHOLS noted that it is a small fiscal note of $50,000 this biennium, all in special funds. It is written that the Bank of ND may set up the program, therefore it could be $50,000 and it could be $0. Al Nausbusch replied that this was correct.
1A: 6.9 REP. NICHOLS asked if the difference between this bill and SB 2414 was the way it is handled and that there may be a tuition shortfall in this bill. Mr. Nausbusch said that there are more differences.
1A: 8.0 REP. AARSVOLD asked what constitutes a tuition credit. Mr. Nausbusch responded that it is dollars of tuition. The investor purchases a number of credit hours.
1A: 8.5 REP. MONSON asked what happens the case that the investor bases the amount on the cost of a certain college, but the student chooses a different college. Sen. Schobinger said that there would be a value in the account. The value of the account would go as a refund to the student for expenses at another university.
1A: 9.7 REP. MONSON asked for clarification of the Senator's statement that a certain number of credits would be purchased at a certain university. Sen. Schobinger replied that the money an investor puts in for NDSU can be used to go to Yale. The point is that one must pick a North Dakota university before investing.
1A: 11.8 REP. MONSON asked what happens to money left over after choosing a different college with a lower tuition. Sen. Schobinger replied that it can be used to pay for books, room and board, and other school related costs. The remainder would go to the student as a refund.
1A: 12.8 CHAIRMAN WENTZ asked what constitutes a "participating institution". Sen. Schobinger said that any school under the guise of the ND Board of Higher Education would be a participating institution.

1A: 13.7 REP. CARLSON asked how the program worked. Sen. Schobinger said that any extra interest would go into the fund to keep it actuarily sound. The extra interest could come when the interest on the fund is higher than what tuition increases.
1A: 15.3 CHAIRMAN WENTZ asked if that was what the original bill said. Sen. Schobinger said yes. Chairman Wentz continued by saying that now the amended bill says that the Bank of North Dakota can adopt their own rules. She asked if they were making the assumption that the Bank of ND would adopt rules similar to the original bill. Sen. Schobinger said yes.
1A: 17.7 CHAIRMAN WENTZ asked about the track record of other states which have plans like this one. Sen. Schobinger reviewed the successes and problems other states are experiencing.
1A: 21.4 REP. BOEHM asked what would happen in the case that the child does not attend college. Sen. Schobinger said that the original bill allowed that the money be taken out in certain circumstances.
1A: 22.7 REP. AARSVOLD asked if the money is transferrable from one student to another. Sen. Schobinger replied that it is transferrable to family members, and noted that "family members" is very broadly defined.
CHAIRMAN WENTZ closed the hearing.

General Discussion

- ☐ Committee on Committees
- ☐ Rules Committee
- ☐ Confirmation Hearings
- ☐ Delayed Bills Committee
- ☑ House Appropriations
- ☐ Senate Appropriations
- ☐ Other

Date March 26, 1999			
Tape Number	Side A	B Side	Meter #
3	x		5.1-9.0
Committee Clerk Signature Roxanne Kone			

Minutes:

Chairman Dalrymple opened the discussion on Senate Bill 2195.

3A: 5.8 Rep. Monson explained Environment and Education Sub committee recommendation. Commented it has been heavily amended and not much of a plan left. Concern of language in bill and felt it was too risky. Rep. Monson moved for a DO NOT PASS. Rep. Boehm 2nd the motion. On a Roll Call Vote the motion carried.
11 voting NO
7 voting YES
2 voting ABSENT
Carrier: Rep. Monson

General Discussion

- ❑ Committee on Committees
- ❑ Rules Committee
- ❑ Confirmation Hearings
- ❑ Delayed Bills Committee
- ☒ House Appropriations
- ❑ Senate Appropriations
- ❑ Other

Date March 26, 1999

Tape Number	Side A	B Side	Meter #
1	x		45.0-end

Committee Clerk Signature Casey Denis

Minutes:

SB 2195

CHAIRMAN WENTZ opened discussion.
1A: 45.0 REP. CARLSON moved for a Do Not Pass. Rep. Monson seconded the motion.
1A: 45.6 REP. MONSON said that the bill was better originally because there was a plan. Now that there is no plan the bill is frightening. He said he has a problem with letting this go forward and letting the bank control everything.
1A: 47.1 REP. CARLSON said that it lacks any real direction. The bill does not contain a solid concept.
1A: 48.1 REP. BOEHM noted the last sentence of the bill, and said that it would be scary to let it go through.
1A: 49.0 A roll call vote was taken and the motion carried with 5 yeas and 2 nays. Rep. Monson will carry the bill to the house floor.

Date: 3-26-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2195

House Appropriations Committee

☐ Subcommittee on Education and Environment
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Carlson Seconded By Monson

Representatives	Yes	No	Representatives	Yes	No
Chairperson Janet Wentz		X			
Vice Chairman Ed Lloyd	X				
Rep. Ole Aarsvold	X				
Rep. James Boehm	X				
Rep. Al Carlson	X				
Rep. David Monson	X				
Rep. Ronald Nichols		X			

Total (Yes) 5 No 2

Absent

Floor Assignment Monson to full committee

If the vote is on an amendment, briefly indicate intent:

Date: 3-26-99
Roll Call Vote #: 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2195

House APP Committee

☐ Subcommittee on
or
☐ Conference Committee

Legislative Council Amendment Number

Action Taken DO NOT PASS

Motion Made By MONSON Seconded By BOEHM

Representatives	Yes	No	Representatives	Yes	No
Chairman Dalrymple	X		Nichols		
Vice-Chairman Byerly		X	Poolman		X
Aarsvold	X		Svedjan	X	
Bernstein	X		Timm		X
Boehm	X		Tollefson		X
Carlson	X		Wentz		X
Carlisle	X				
Delzer	X				
Gulleson					
Hoffner		X			
Huether	X				
Kerzman		X			
Lloyd	X				
Monson	X				

Total (Yes) 11 No 7

Absent 2

Floor Assignment MONSON

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

SB 2195: Appropriations Committee (Rep. Monson, Chairman) recommends **DO NOT PASS** (11 YEAS, 7 NAYS, 2 ABSENT AND NOT VOTING). SB 2195 was placed on the Fourteenth order on the calendar.

1999 TESTIMONY

SB 2195

TESTIMONY ON SENATE BILL 2195
Senator Freborg- Chairman
By: Randy Schobinger
January 26, 1999

Chairman Freborg and members of the Senate Education Committee:

Two years ago I came before this committee to introduce a plan I felt would benefit the grandparents, parents, and children of North Dakota. That plan was a prepaid college tuition plan. At that time some senators felt they needed more information before making a final determination. I'm back again because I feel as strong today as I did two years ago that North Dakota needs it's own state offered program.

In 1990 there were just five state offered tuition programs. $550 million dollars were invested in plans similar to the one I am introducing today. In 1997, 18 states had state offered tuition programs with more than $2.5 billion dollars invested. Now just two years later, 43 states have state offered programs and the dollars invested are expected to grow to over $7 billion by the year 2005.

Senate bill 2195 is a bill to establish a means by which North Dakota's Families can enter into a contract and make payments towards the college education of their choice for their child, children, and even their grandchildren. I call it " tomorrow's tuition at today's prices". It works like this; a parent or grandparent will either contact or be contacted by the Bank of North Dakota. They will then chose the North Dakota college they expect their child will attend. Let's say tuition at North Dakota State University is $1,200.00. If the purchaser chooses they can write a check to the Bank for the full $1,200.00. The bank will then begin investing those dollars. When that child later enters college; he or she will have a full year's tuition bought and paid for.

Although the purchaser doesn't have to make a full year's payment under this plan. They may chose to make payments to the bank. To simplify things let's use NDSU again and say tuition today is $1,200.00. If the purchaser would like to pay for one year they will make payments to the bank at $100.00 per month for that year. The bank will then begin investing those dollars. When the purchaser has made 12 monthly installments they will have purchased one year's worth of tuition at NDSU. Payments will be adjusted by the bank each year to absorb the tuition increases from year to year. That's why it's called " tomorrow's tuition at today's prices". If there are further questions on how exactly that works I am willing to answer them following my presentation.

At this time I will briefly explain each section of the plan:

Section 2: establishes the advisory board and the terms of each member on the board.

Section 3: establishes the tuition fund as a "special fund" and what the fund will consist of.

Section 4: explains the administration of the fund from obtaining actuarial assistance to the board making it's annual report to the governor and the legislative council.

Section 5: explains the power's of the Bank of North Dakota in carrying out the provisions in this plan.

Section 6: details how the board will develop policies to invest the fund.

Section 7: maintains that all colleges and universities under the supervision of the board of higher education will participate and accept the tuition credits.

Section 8: deals with the conversion to tuition credits and the banks responsibility to the purchaser to convert them.

Section 9: states that in the event of a shortfall. The remaining payments are to be made from the fund in a separate payment.

Section 10: states that the contracts will be entered into with the Bank of North Dakota and that tuition payments will be adjusted annually.

Section 11: describes who may be a beneficiary to the account. It also stipulates that a beneficiary must be designated when the contract is entered into; but can later be transferred.

Section 12: deals with termination and refunds. The full value of the account is refunded when 1. the beneficiary is dead 2. when, because of disability is unable or unwilling to attend. 3. a good faith effort is made to enter college but has failed 4. proof of acceptance to a nonparticipating college is shown. 90% of the fund will be refunded if the beneficiary does not enroll within time limits set by the bank. The bank may also set it's own rules for refunds of 90%.

Section 13: says that nothing in this act guarantees acceptance to any institution of higher education.

Section 14: makes the plan exempt from any statute regulating securities.

And section 15: exempts the plan from state income taxes and taxes by any political subdivision.

Mr. Chairman and members of the Senate education committee. In the March 1997 issue of *Money Magazine*, in an article entitled *From The Experts*, they called prepaid tuition plans their *Idea of the Month*. The *Wall Street Journal* and the *New York Times* have also written of the merits in state offered prepaid college tuition plans.

I believe now is the time for North Dakota to become the 44th state to offer our families one more option to secure a college education for their children. Thank you Chairman Freborg. I'll try to answer any and all question I can at this time.

Good Morning! My name is Julie Kubisiak and I am the Director of Student Loans of North Dakota, a division of the Bank of North Dakota.

The Bank is neutral regarding this bill, but several issues should be considered. We have submitted the costs to administer the program for the fiscal note at $135,117 for the 1999-2001 Biennium and $70, 802 for the 2001-2003 Biennium. These costs should be appropriated and later recouped from the tuition account fund, if possible..

An actuarial shortfall may occur in the fund. An investment fund manager cannot guarantee that the investment returns will equal or exceed the rate of increases in tuition costs, so an unfunded liability may result. This legislation as presented specifies that the fund insures full tuition will be covered. That shortfall would have to be made up by charging new plan participants more for their tuition accounts or funded by the state.

Finally, a tuition account program will create some competition with private enterprise such as banks, insurance companies, brokerage firms and other financial planners.

SENATE EDUCATION COMMITTEE

SENATE BILL 2195

KATHI GILMORE, STATE TREASURER

Mr. Chairman, members of the Senate Education Committee; for the record I am Kathi Gilmore, State Treasurer of North Dakota. I am here to present testimony on Senate Bill 2195. I am supportive of the concept of this bill, but recommend that the Legislature study a prepaid tuition plan, as well as, a college savings plan in the interim to determine which is the vehicle we want and need for educational investment in North Dakota.

Indeed, it would seem that the 42 states that are already using a college plan must attest to its success. I would offer this amendment to that assessment. Forty-two states have some form of a program in place, but not all of them are tuition programs, twenty are prepaid tuition programs, fifteen are savings plan trusts and eight are program startups for 1998 and 1999. Each plan has merit. A college savings plan gives tax relief on both the state and federal level. A pre-paid plan allows you to buy tomorrow's tuition at today's prices. Some states have put both a savings program and a tuition program in place.

Do we need to do something for the people of North Dakota in this area? I believe we do. My continued concern, however, is how we do it.

If part of our goal is to increase college participation by lower income families, it is important to note that many analysts agree that efforts to increase this type of participation will at best have a marginal impact with a prepaid plan because many of these families simply do not have the disposable income needed to participate.

We need to consider potential risks to the state. The liability for a prepaid tuition plan would remain with the state if the plan fails or the stock market goes south. That is why a study is so important. What are the dynamics which will uniquely affect North Dakota's choice. Low population, declining economy, drop in the stock market? How can we sustain what we put in place?

There is the possibility that future moneys within a states prepaid tuition plan may be inadequate to cover future growth in tuition. The interest earned on the funds principal may lag behind tuition growth, whereby the state and not the participants would be responsible for the shortfall. Prepaid tuition plans can encounter a solvency crisis when tuition inflation significantly or consistently exceeds a plan's rate of return on its investments. Tuition rates, which are the core of prepaid tuition plans, are not set in a vacuum. They are particularly susceptible to changes in state higher education appropriations, which in turn, are dependent on a state's fiscal health. When the economy is down and budgets are squeezed, states have tended to disproportionately cut higher education (relative to other state-funded services), leaving institutions and governing boards to consider options such as internal reallocations and tuition increases. Under such a scenario, the linkages between tuition rate, state appropriations, and prepaid tuition plans, could place public colleges and universities in a difficult fiscal position. Positive public perception of the program is definitely needed if it is to succeed, and a study would do this.

I have sought sponsorship for a study resolution which includes both a tuition plan and a savings plan. I also have the full assurance of the National Association of State Treasurers that they are willing to participate in an interim committee study on the subject. A study of this nature would allow us to tell the people of North Dakota that we, indeed, feel there is need and merit for some type of assistance in alleviating the cost of education at the college level. It also says to them; we will assume the fiduciary responsibility of looking at the issue from all angles to assure we have the best plan for the people of North Dakota with the most likelihood of success.

Worried about saving for college? Consider a prepaid-tuition plan

"Prepaid-tuition plans are more flexible today than they were in the past. Now, you can usually spend whatever amount you put up to help cover a college tuition anywhere in the country."

BY LANI LUCIANO

A DECADE AGO, TO HELP FAMILIES COPE WITH the soaring cost of college, Florida, Michigan and Wyoming created the first prepaid programs. By paying years in advance, parents could lock in current tuition costs at the state's public colleges for their future undergrads. Currently, 11 other states have prepaid plans or will soon, and more are expected. What's more, these newer programs generally offer parents more flexibility. For example, it's becoming easier to get your money back—plus a modest amount of interest—if your child decides against going to one of the program's participating colleges. And most plans even allow students to spend whatever has been saved in their name at other schools. So if you're getting nervous about rising college bills, this is an excellent time to look into prepaid deals.

The plans work like this: You prepay tuition for any number of years or course credits in a lump sum or in monthly installments. When college rolls around, the value of credits in your state college system is all paid up. Alternatively, your child may be able to use money that you put in toward the cost of tuition or credits at a more expensive private or out-of-state school. For instance, say you just had a baby in Ohio. By paying only $13,400 today, some or all of the four-year tuition at any of Ohio's 13 state schools will be paid when your kid is ready to enroll—or you'll be able to spend your money (about $52,000) on college tuition elsewhere.

There is a tax catch, however. Once your child starts college, he'll almost always owe taxes each year on the difference between a year's worth of the prepayment and tuition. What if your kid decides to motorcycle around the world at age 17 instead of ever hitting the books? Then, if you get a refund—about $52,000 in that Ohio example—you'll owe taxes on the excess.

Whether a prepaid plan turns out to be a wise investment will depend on how quickly tuition rises in your state and whether and where your kid attends college. Before making any decision, though, evaluate your state's program carefully (see the table below). Alabama's plan is so strict about refunds, for example, that you may pass it by. On the other hand, the plans in Massachusetts and Mississippi have such reasonable refund policies that you may conclude you've got little to lose. Most states, however, fall somewhere in between.

All 13 prepaid plans at a glance

State / Telephone	Amount due for a newborn[4]	Four-year colleges you can use	Refund availability and terms
Alabama 800-252-7228	$7,158	Any	Any reason; original payment minus modest cancellation fees
Alaska 800-478-0003	$9,240	Three in-state public colleges	Any reason; refund based on current tuition
Colorado[1] 800-478-5651	Not available	Any	Information not yet available
Florida 800-552-4723	$5,785	10 in-state public colleges	Original payment; for death, disability or scholarship, payment plus interest
Massachusetts[2] 800-449-6332	Varies by school	65 in-state colleges	Any reason; original payment plus tax-free interest
Michigan 800-638-4543	$19,808	15 in-state public colleges	Any reason; at least 98% of the average tuition
Mississippi 800-987-4450	$8,141	Any	Any reason; payment plus minimum of passbook rate
Ohio 800-233-6734	$13,400	Any	No refund until one year after high school except for death or disability; 98% of current average tuition[5]
Pennsylvania 800-440-4000	Varies by school	Any	Any reason; amount varies
Tennessee 888-486-2378	$9,000, any age	Any	No refund before age 18 except for death or disability[6]
Texas 800-445-4723	Varies by school	73 in-state colleges	Any reason; amount varies
Virginia 888-567-0540	$14,688	Any	Original payment; for death, disability or scholarship, payment plus "reasonable rate of return"
Wisconsin[3] 888-338-3789	Not available	Any, including for-profit colleges	98% of value of investment for any reason; 100% for death, disability or failure to get into college

Notes: [1]Begins fall '97 [2]Available to out-of-state residents [3]If tuition rises more or less than expected, purchaser pays extra or gets refund. [4]Amount covers four years of nonprofit college. [5]Paid over four years [6]After 18, principal plus 50% of increase in unit value

College savings soar

Nearly every state has expressed an interest in starting a plan to allow parents to save for their children's higher education, the College Savings Plans Network of the National Association of State Treasurers reports.

Currently, 13 states operate college savings programs and five more states are preparing to launch similar programs this year. About 500,000 children are enrolled in state college savings programs. As additional states offer programs, enrollment should top 1.7 million children within the next decade.

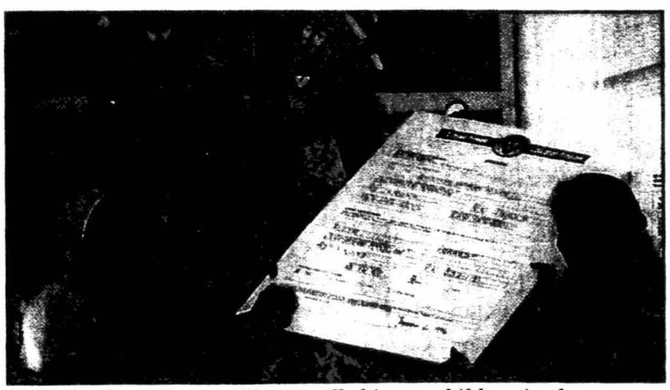
In 1990, when just five states offered programs, there was about $550 million in such plans. As of November, with a dozen states participating, savings total more than $2.5 billion. These savings could grow to more than $6.5 billion in the next decade.

Virginia started a college savings plan in December. Gov. George Allen purchased the first two contracts for his daughter Tyler and son Forrest. The program lets Virginia families lock in the cost of tomorrow's college tuition and mandatory fees at today's prices. The plan will cover full undergraduate in-state tuition and mandatory fees at any two-year or four-year public college or university in Virginia. Benefits also may be applied to tuition and fees at private colleges or universities in Virginia or institutions in other states.

College tuition has risen nationally by 234 percent over the past 15 years. "Our research shows that middle-income families want the peace of mind provided by a plan that guarantees that their savings will keep pace with rising tuition costs," said Barbara Jennings, executive director of the Ohio Tuition Trust Authority and chairman of the CSPN. By saving more, families won't have to borrow as much to pay for college.

States offer three types of college savings plans. Prepaid tuition plans, like Virginia's, allow families to purchase college tuition in advance at today's prices. College savings accounts allow families to save with a fixed-rate of return. A third method sells bonds to families who use the compounded interest to help offset the cost of education.

President Clinton signed in August a law granting tax relief for state college savings programs. Before that, many states were uncertain about the federal tax-exempt status of the earnings on prepaid tuition and other savings. Since the federal law passed, every state without a program, except for Georgia, is studying their feasibility. Georgia already offers full tuition scholarships to students maintaining a "B" or above grade average.



Virginia Gov. George Allen enrolls his two children in the Virginia Prepaid Education Program at a ceremony in Richmond. Photo courtesy of the Virginia governor's office.

Election update

Republicans gained control of the Texas Senate for the first time this century by picking up a 16th seat in a Dec. 10 runoff.

In addition, results are in from the Nov. 5 elections in American Samoa, Guam, Puerto Rico and the U.S. Virgin Islands.

In Puerto Rico, the New Progressive Party, which supports statehood, continued its dominance. The NPP controls the Senate by 19-9 and the House by 38-16 over the Popular Democracy Party, which opposes statehood. In addition, each chamber has one Puerto Rican Independence Party member. These figures reflect the addition of minority-party members triggered by provisions for minority representation that increased the size of both chambers. On Jan. 13, Charlie Rodriguez became senate president and Edison Misla became house speaker. In the election, Gov. Pedro Rosselló received a majority mandate to seek a congressionally sponsored referendum by 1998 on Puerto Rico's future political relationship with the United States.

In Guam, Republicans will control the Legislature, 11-10, after 14 years out of power. Carl Guitierrez won re-election as governor. Guam voters rejected casino gaming and legislative term limits. Voters approved reducing the size of the Guam Legislature from 22 to 15 senators in 1999.

In the U.S. Virgin Islands, the 15-member Senate switched from majority Democratic to majority independent. The Virgin Islands unicameral body consists of six independents, two Independent Citizens, four Democrats and three Republicans.

Lt. Gov. Tauese P. Sunia won election as governor of American Samoa in a Nov. 19 gubernatorial runoff election. Sunia, a Democrat, was an educator before becoming lieutenant governor. He taught and served as a school superintendent. The 55-year-old governor-elect and his wife, Fagaoalii, have eight children.

We have new information to update the listing of party control of state legislatures that appeared on page 25 of the December State Government News. The California House is 43D-37R, and Senate is 23D-16R, with one independent. On page 29, please note that Missouri Lt. Gov. Roger Wilson (D) was re-elected as an incumbent. On the map on page 31, please note that Vermont does not limit the governor's term.

THE WALL STREET JOURNAL.

MARKETPLACE

EDUCATION

Prepaid Tuition Is Catching On In More States

By JUNE KRONHOLZ
Staff Reporter of THE WALL STREET JOURNAL

Four years ago, Michael Olivas wrote a book warning that prepaid college-tuition plans were in danger of failing. Today, the University of Houston law professor is working on another book about the plans. "Now," he says, "I'm concerned about the successes."

Most often sponsored by states, these [illegible]s allow parents to pay for their chil- [illegible] future college education at today's [illegible]n rates. Last year, Congress codified [illegible] treatment of the plans, effectively endorsing them. After a decade of modest success, the idea took off.

The professor's new concerns about the plans center on the financial pressures that thousands of children, whose tuition already is paid, will put on universities in coming years. Envisioning a school choosing between a group of paid-up students and a group needing financial aid, he predicts the trend is "going to ruin need-blind admissions policies."

Fourteen states now have the plans, which are administered by their treasurers' offices. An additional seven will jump on the bandwagon by the end of 1998. Mr. Olivas predicts that once a plan is authorized by California, which is consid-

Please Turn to Page B2, Column 3

Prepaid Tuition Programs Spread

Continued From Page B1

ering one, all other states will follow.

The plans vary widely. In Ohio, for example, parents who pay $4,100 this year are guaranteed their investment will cover a year at an Ohio public university, even if they don't redeem it for a decade or more.

Most plans take monthly deposits and offer volume discounts. Ohio's price for a year drops to $3,600 if you buy it for a newborn. None of the plans guarantee admission. All offer refunds, minus a penalty, if a child doesn't choose to go to college or isn't accepted anywhere or flunks out.

Should a student enrolled in one state choose to attend school in another state, or opt for a private college, the plans are portable but pay only the amount stipulated in the original agreement. For example, the Texas Tomorrow Fund, which has enrolled 65,000 children in its first 22 months, will make the same payout to any out-of-state school that it would make to, say, Texas A&M. It doesn't guarantee that the payout will fully cover tuition at any school outside the state system, however.

The plans of both Texas and Massachusetts include those states' private colleges, and Massachusetts opens its plan to out-of-state children. A $1,500 investment in the Massachusetts U-Plan this year is guaranteed to cover 45% of a year's tuition at a public college like Salem State, 28% at the University of Massachusetts-Amherst, or 7% at Wellesley or Smith colleges.

Massachusetts backs its plan with guaranteed bonds that are exempt from federal and state taxes; other states operate investment funds. Last year, Congress decided that investment growth in prepaid plans was taxable — but only when the money was finally paid out, and then at the child's tax rate. That legislation clarified the tax status of plans, which for years had been contesting an unfavorable Internal Revenue Service ruling.

Private colleges around the country are considering establishing prepaid-tuition plans but none have such plans now. Congress declined to give the same tax treatment to private colleges' prepayment plans, giving rise to what Thomas Kepple, vice president for business at the private University of the South in Sewanee, Tenn., calls "a level-playing-field problem."

Mr. Kepple is organizing a group of 17 private Southern schools, including Emory, Rice and Vanderbilt universities; parents would prepay tuition to one member of the consortium, which would pay tuition at another school in the group if the child chose to go there. Colleges in the consortium would save on recruiting and advertising costs. And meanwhile, the first school would have the funds available to invest.

As it is, Mr. Kepple says only half the students at the University of the South are paying full tuition — $22,350. "If we don't get a fair number of our students to pay the full price, quality will disappear," he says, adding: "We would rather have a student come to us with 95% of his tuition covered than never consider us because of our cost."

If a state plan fails, its tuition guarantees aren't entirely ironclad. Even though all promise to return at least investment principal, only in Ohio does the state treasury stand fully behind its promise to pay future tuition. But the public funds now are so large that states would find it politically impossible to walk away from them, says the University of Houston's Mr. Olivas.

Indeed, the funds raise the specter of overcrowding. In Florida, over the next 18 years, 337,000 children who have prepaid tuition accounts will show up at the state's already-crowded universities. A spokesman for the Florida plan minimizes the threat, observing that the state's universities "have been grappling with crowding for years."

Still, the Florida plan promises to match increases; thus, the huge number of low-cost prepaid contracts in the state could bar the significant tuition hikes some educators say are necessary to improve or expand the universities. Travis Reindl of the American Association of State Colleges and Universities says the funds in Florida and elsewhere could thus become a counterweight to pressures on colleges to raise their tuition. Outstanding prepaid contracts, he says, "have to be part of the decision" when a school sets its prices.

Nationally, the College Board says public and private tuition rose 5% this year. Brian McQuade, a Washington, D.C., financial adviser, says that an investor "could arguably do better" than prepaying tuition and compares the plans to annuities because they promise a fixed rate of return. The plans also assume tuition will soar as it did in the 1970s and '80s, but "there's a school of thought that tuition has hit the wall," he says.

Barbara Jennings, chairwoman of the College Savings Plans Network, an association of states with tuition plans, says the plans aren't aimed at high-income families with their own investment strategies but at those that make $35,000 to $70,000 — "too much to get financial aid, but not enough to save." Those families like the security and the manageable payments, she says.

The plans also are popular with grandparents interested in transferring their wealth but wary of giving their grandchildren cash. "You can give a half semester as a Christmas present," says Mr. Reindl.

TearDrop Golf Acquisition

UNION N.J. — Golf club maker TearDrop Golf Co. said it completed its acquisition of Tommy Armour Golf Co. from U.S. Industries Inc. of Iselin, N.J., for about $25.5 million in stock and cash.

TearDrop, known for its putters and wedges, said the purchase of Armour, a leading maker of drivers and irons, gives the company a full line of premium clubs.

SPENDING IT

A Way to College: Buy Now, Learn Later

Continued from Page 1

cally popular service during an era when they have been forced to raise tuition sharply at state colleges, up to a peak nationally of 12 percent in 1991-92.

"They're almost patriotic," said Michael A. Olivas, a University of Houston law professor who has studied the plans. "Who can be against any plan that encourages parents to save money to send their children to school and rewards them for it? It's almost a no-brainer."

With increases in tuition exceeding gains in consumer prices by three or more percentage points in each of the last five years, participants like these plans because most lock in "tomorrow's tuition at today's rates," as the Massachusetts sales brochure points out. The Florida plan promises that "you never have to worry about whether the amount you saved will be enough."

"What I like about it is, once I put ... ey in, it can't be taken out," ... Sweet, who together with ..., a medical records specialist at a hospital, earns under $60,000. "If I decide I want a new car or the water heater blows up, I can't raid that fund."

Gale Richards, a home economics teacher in New Port Richey, Fla., has already paid off four years of college and two of dormitory expenses for her 9-year-old daughter, Bonnie, by putting down $135 a month for five years.

"There's a peace of mind about having that for her," said Ms. Richards, who earns $26,000 a year. "She's extremely bright, and there might be other options available for her, but at least we have this basic program."

The plans come in all shapes and sizes. Some states sell contracts guaranteeing they will pay whatever the tuition will be down the road; others sell bonds whose value can be applied toward the tuition bill. In Ohio, participants buy up to 400 "tuition units" of the $15,000 price tag of four years at a state college, paying $37.50 a unit.

... Sweets, who in addition to ..., Paul, have an 18-month-old d... Sarah, are squirreling aw... thday gifts and the money they earn from trading in recyclables so they can put away $40 a month toward roughly half the cost of their children's anticipated college education. They want the children to pick up the rest of the tuition

la-ity stems from a low-priced college system that means a Floridian can buy four years of senior college for a newborn at a rock-bottom $5,639, offers separate prepayment plans for dormitory costs and permits the savings to be transferred to out-of-state institutions. If a child cannot qualify for admission to a state college, the parents receive a refund of the money paid into the program, though not the accumulated interest.

Walter C. Young, a retired junior high school principal who represented Fort Lauderdale in the Florida Legislature for 20 years, decided to give each of his three grandchildren a gift of a fully paid college education. Over a seven-year period, he paid $3,500 to educate Ian Dasho, 17, $4,000 for Robert Bucellato, 8, and $5,000 for Elisabeth Tucker, 5. Whether the three decide to go to Florida State or Harvard or Slippery Rock State, they can apply the prevailing tuition at Florida's state colleges during their senior year of high school toward a college of their choice.

"I question whether I would have done it for the grandchildren if I didn't have an easy way to do it," said Mr. Young, 73.

Massachusetts, with more private college seats than public, does Florida one better by selling "U-Plan" bonds whose face value at maturity can be applied toward all or part of the tuition at 67 participating colleges in the state, including such elite private institutions as Wellesley, Smith and Mount Holyoke. By buying bonds, which pay an interest rate of 2.5 percentage points above the consumer price index, participants actually purchase a percentage of tuition at a Massachusetts college of their choice, with the percentage varying by college.

Associated Press

David and Cindy Sweet are counting on Ohio's prepaid college tuition plan to educate their children, Sarah, left, and Paul.

SOME plans, though, have had their problems. Michigan, the first state to enact a prepaid tuition plan, has halted new enroll-

is sharply reduced, with no more than 50 percent of a portfolio in equities. Since 1994, the investments have been backed by Ohio's full faith and credit.

Because of a favorable court ruling, even Michigan may soon get back into the prepaid tuition business. Last November, a Federal appeals court said Michigan should not have paid taxes on the investment income it earned and required the Internal Revenue Service to refund the state an amount lawyers calculate at $75 million. That decision is expected to open the floodgates for states that have been cautious about starting plans.

(Once they start college, students enrolled in prepaid plans do have to pay Federal income taxes on the appreciation in the value of their contracts.)

Prepaid tuition plans are not for everybody. They mostly attract middle-income people who get nervous choosing among stocks, bonds and mutual funds. Ohio's surveys show that most buyers, like the Sweets, earn $35,000 to $70,000. Canny investors, or those who can afford to pay

there because middle-income pec are not qualifying for anything student loans, and don't have purchasing power to pay for lege," said Mrs. Jennings.

Critics also see a number of ph sophical and financial drawbacks the plans. They worry that a conv gence of low investment returns rising college costs could spell dis ter for the states.

"I think the states have fared C because we've been in a bull m ket," said Peter A. Roberts, v runs a popular private prepaid ition plan called the College Savi Plan in Princeton, N.J. "Inflat has been going down and the inve ment rate of return has been go up. The true test will come wh those situations reverse the selves."

But that possibility does not wo participants like Mr. Young of Fl ida because the full faith and cre of the state is behind the plan.

"It may hurt the state," he saic a stock market decline. "But it v not hurt the people involved in plan."

SOME experts believe that if prepayment plans succeed saturating the state colleg state legislators may be less gen ous with the money they provide student aid and loans. Indeed, b Mr. Roberts and Mr. Olivas think plans are regressive transfers wealth because every time a pl runs into trouble, a state may f obligated to close the gap.

"People who don't go to colleg Mr. Olivas said, "are paying for elite who do go to college."

Mr. Roberts said, "It's definit reverse Robin Hood." Mr. Robe acknowledges that his own plan h been hurt by state plans with distir tax advantages that he can't off Last year, Mr. Roberts filed a Fe eral suit against the Florida plan infringing on College Savings Pla patented investment technique.

Mr. Olivas also believes that c lege admissions officers will fav applicants backed by prepayme plans.

"I think the pressure is going to irresistible to give preference those kids who've got aid in hand opposed to the ones who are nee eligible," he said.

Still, Mr. Olivas thinks the pla make sense because they serve as ballast to keep tuition costs dow "Legislatures have to moderate

Published: Tuesday, January 26, 1999

CONTENTS

Bill would allow downpayments on college

Parents could prepay tuition dollars

By Ian Swanson

Herald Staff Writer

BISMARCK -- Parents could pay today's college tuition cost for students now in kindergarten if the Legislature passes a bill creating a prepaid tuition program similar to those introduced in 43 other states.

Senate Bill 2195 would establish a tuition account program to be administered by the Bank of North Dakota.

Under the bill, parents would make monthly payment's at today's cost of tuition for tomorrow's undergraduates. The bank would invest the payments, and interest collected would be added to the individual accounts.

Parents enrolled in the program would be guaranteed that their investment would cover a year's tuition at UND a decade from now at today's cost.

The Senate Education Committee will hear the bill today at 8:30 a.m.

The bill's sponsor, Sen. Randy Schobinger, R-Minot, said the program will benefit the state by helping parents finance the rising cost of sending a child to college.

"Most parents and grandparents are middle class, but they can afford $30 or $40 a month," Schobinger said.

Under the program, he said parents could finance their children's education in the same way that they now finance homes and cars. UND Student Body President Jonathan Sickler said he thinks the plans have some potential.

"If the state can work it out so liability is held, I think it could work out from a students' perspective," said Sickler, who also is the student member of the Board of Higher Education.

How it would work

First, parents must select a school in North Dakota where they want to send their child. Children must be enrolled in the program before beginning their freshman year in high school. For example, say you want to send your child to UND. This year's cost of undergraduate tuition at UND for state residents is $2,830.

Parents who wanted to pay for one year of their child's education at UND could write a check in 1999 for $2,830. No matter how much tuition costs 20 years from now, the program would guarantee a year of a UND education at the $2,830 price. Interest on investments made by the Bank of North Dakota with the payments would cover the cost of inflation.

But Schobinger said parents will be allowed to "pay anything they want" based on financial ability.

For example, if parents were able to make $40 a month payments in 1999, the parents would be guaranteed the number of credits $480 affords in 1999 decades from now.

No matter what their investment is, participants in the program would receive the total amount of money they have paid into the program with interest.

Students who leave the state for schools outside North Dakota still can receive the full value of their accounts -- once they offer proof showing that they have been accepted by a school.

If a participant terminates their account, 90 percent is returned to the purchase, minus a transaction fee.

Schobinger said the bill will enable and motivate more students to continue their educations.

"If your parents are paying on the account, you're more likely to do well in high school and you're more likely to go," he said.

The bill's only potential hang-up, Schobinger said, would be if tuition hikes outpace the interest on investments.

Schobinger said he thought that would only happen if the stock market were to collapse. He expects the program's investments will see annual returns of 5 percent to 15 percent.

How it works elsewhere

State plans vary around the country.

Ohio's plan is similar to the one proposed in Schobinger's bill.

Parents who pay $4,100 this year are guaranteed their investment will cover a year at a Ohio public university, even if they don't redeem the investment for more than a decade.

Most plans work with monthly deposits. Volume discounts are offered in many states. All of the plans offer refunds minus a penalty if a child doesn't choose to go to a college or if the child isn't accepted anywhere or flunks out.

A board of directors appointed by the governor, the bank and the Senate's president pro tempore would manage the accounts. The board also would include the state treasurer.

A similar bill introduced by Schobinger two years ago was narrowly defeated in the Senate.

savings that they're used to, that they've done all their lives with other things," said William W. Montjoy, executive director of Florida's program.

The Florida program, whose popu-

percent. But this year, with investments earning 14.5 percent, they're delighting in their shrewdness.

In Ohio, proceeds from the prepaid program are invested by the state's pension system and thus risk

would be siphoning money they need for immediate essentials when the likelihood is their children will qualify for state grants.

"To me this is a middle-class empowerment thing that needs to be

cause you can do better than thing that just keeps up with tion," Mr. Sweet said. "But know of any mutual fund backed up by the full faith and of the state of Ohio."

How to Be Ready for Those Giant Tuition Bills

By PATRICE DUGGAN SAMUELS

FOR the average family, the thought of putting away hundreds, perhaps even thousands, of dollars every month until their children reach college age is overwhelming.

Raymond Loewe, president of College Money in Marlton, N.J., suggested looking at the prospect another way. "Paying for college is like buying a house," he said. "No one pays for a house in cash." The larger the down payment, of course, the smaller the debt burden, which may carry well into retirement years. So it still is best to save as much as possible now.

For those who feel they absolutely cannot spare much of their income for college savings, Mr. Loewe begins by taking out $25 a month, then keeps doubling up until the family can't bear any more. "It's amazing what people can save if they don't see the money," he said.

saving is only the beginning. ext important decision is name to put the money in. Since the "kiddie" tax was put into place in 1987, there has been little reason to put large amounts of money into accounts in your child's name. For a child under 14, the first $650 of income is tax free. The next $650 is taxed at 15 percent, but anything above that amount is taxed at the parents' rate. Furthermore, money saved in the child's name can disqualify the child for financial aid. Schools consider about a third of the child's assets to be available each year for college, but only about six percent of parents' assets, excluding retirement accounts and home equity, are considered available.

And financial aid is not only for the impoverished. A family with one child in an expensive private college could receive financial aid even if its income is $100,000. So unless you are wealthy, it is best not to assume there will be no aid, at least until your child is 14. At that point you can do a financial aid test and determine whether you are better off leaving investments in your name or gradually giving them to your child, who, after age 14, will be taxed at his own income rate.

Carol C. Pankros of CCP Inc., a financial adviser in Palatine, Ill., suggested putting no more than $10,000 in a child's name, not just because of financial aid, but also in case the child does not go to college.

Grandparents should also think twice about giving money to their grandchildren. Better to make the gifts in the parents' names. (wise, the parents may end up ing out money that might have from financial aid.

The next step is to decide h invest college savings. For a child, most experts agree that jority of savings should go into ties where growth potential fa strips that of fixed-income i ments. Jennifer Saslaw, a fina planner in Chicago, suggeste percent in equities until the chil years old. At that point, one s trim stocks to 70 percent. Onc child is 14, it is important to s move assets into less volatile, income instruments to assure capital is there at college time. it in tranches, the experts ad Your child will be spending the ey over at least four years. If yo seeking financial aid, reme that selling stock the year b your child goes to college will up on your income statement capital gain. Since up to 47 perce a parent's adjusted income is co ered available for college, that will decrease the amount of aid receive.

Next, parents need to deter how to invest the money. Most a ers suggest mutual funds. W many parents and grandpar choose zero coupon bonds for lege, these investments don't the same growth potential of sto "The advantage is that you k how much you will have at the en the time," Ms. Pankros said. that security may cost you a lo returns over 18 years of investing college. The same goes for savi bonds.

Another possibility is life in ance. Variable universal life in ance policies offer the ability to m age your savings in mutual fu They also have the potential for h tax savings, since the cash builds in the policy while taxes are ferred. And you can borrow aga the policy to pay for college with incurring taxes, as long as you ne allow the policy to lapse. But you borrowing against your future de benefit, so if you allow the policy lapse before you die, you may be with an enormous tax bill when least expect it.

A Worksheet for Parents

To begin a college saving plan, parents may want to estimate how much college will cost for their children.

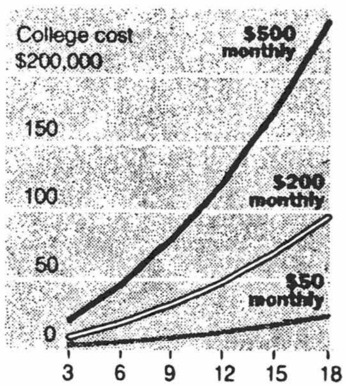
1. **Child's current age** ________
2. **Years until college** ________
   18 minus line 1
3. **Annual college costs** $________
   Public school: $10,422*
   Private school: $21,776*
4. **Rising cost factor** ________
   Obtain factor from chart on the right
5. **Future annual college cost** $________
   Multiply line 3 by line 4
6. **Total cost of college** $________
   Multiply line 5 by number of college years planned

Years to college	Rising cost factor
1	1.08
2	1.17
3	1.26
4	1.36
5	1.47
6	1.59
7	1.71
8	1.85
9	2.00
10	2.16
11	2.33
12	2.52
13	2.72
14	2.94
15	3.17
16	3.43
17	3.70
18	4.00

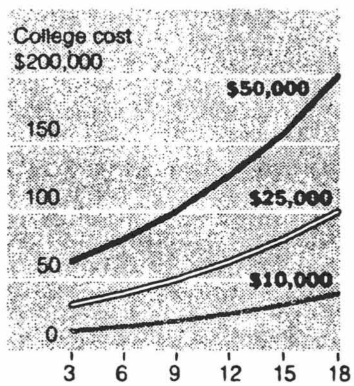
*Estimated annual cost for 1995-96 provided by the College Board.

Then they should look for the number of years they have to save on the grids below. By seeing where that line intersects with the amount from line 6, they can gauge how much they would have to put aside in a lump sum now or monthly to pay the full freight.†

Gradual investment



Lump sum investment



Number of years until college

†These figures assume an 8% yield compounded annually.

Source: Mutual Fund Education Alliance

NEW YORK TIMES

United States Senate
WASHINGTON, DC 20510

January 14, 1999

Dear Colleague:

We are writing to seek your cosponsorship of a bill that will encourage families to save to meet the rising cost of higher education. This legislation will make the earnings invested in qualifying state tuition plans entirely tax exempt.

This legislation builds on the success we achieved in the last two Congresses to make college education more affordable to American families. While we are proud of our past success, our goal still remains to make the college savings in state-sponsored plans entirely tax free in order to maximize its effectiveness.

Increasingly, middle-class families find it difficult to finance their childrens' education without seeking thousands of dollars in loans. Between 1980 and 1997, tuition at public colleges rose 107 percent, while the median income rose just 12 percent. We strongly believe savings is a critical element in helping families keep pace with the growing cost of higher education.

Today, 43 states have tuition savings programs in operation or will have a plan in operation in the near future. These states recognize that families need a safe, disciplined approach to savings that will help them provide for their childrens' educational needs. These affordable tuition savings plans typically serve middle class families who contribute an average of just $50 per month. It is estimated that by 2006, over $6 billion will be invested in these state programs benefitting nearly 2 million students.

We urge you to join us by supporting this important savings initiative. Attached is a list of state programs and a resolution of endorsement from the National Association of State Treasurers. If you have any questions please contact Scott O'Malia (4-8292) with Sen. McConnell or Kate Mahar (4-1536) with Sen. Graham.

Sincerely,

Mitch McConnell | Bob Graham

MITCH McCONNELL
UNITED STATES SENATOR
Kentucky

BOB GRAHAM
UNITED STATES SENATOR
Florida

MISSISSIPPI TREASURY NEWS

For immediate release:

February 6, 1998

Mississippians Respond to Prepaid Affordable College Tuition

A recent national survey indicated that two-thirds of the adult population were concerned about being unable to save enough money to put a child through college. Mississippi, I am happy to say, is among a growing number of states offering its citizens the benefit of prepaid college tuition. MPACT, the Mississippi Prepaid Affordable College Tuition Program, allows parents or grandparents to lock-in the cost of a future college education at roughly today's tuition prices, with the full guarantee of the state that tuition costs will be covered at participating colleges and universities. Tax benefits, flexibility and convenience make MPACT a program unmatched by any other savings plan. In fact, MONEY magazine recently recognized MPACT as one of the most flexible programs in the nation. Nineteen states currently offer prepaid college tuition programs with another twenty-two state plans pending.

Congress recently expanded rules governing state college tuition plans to allow for accounts to be used to pay for room and board as well as tuition and books. At this time, MPACT covers tuition and mandatory fees only. All investment earnings from the MPACT program are exempt from Mississippi income tax, and payments made to MPACT by plan purchasers are deductible for Mississippi income tax purposes. Earnings from the plan are taxable as income for federal income tax purposes, but the tax liability is deferred to the time of tuition payment and will be taxed to the student, who may pay lower tax rates. Payments of benefits by MPACT to the college or university will qualify for the new HOPE education tax credit of $1500 per child for the first two years and up to $1000 in subsequent years. The phase-out of the HOPE credit applies to taxpayers with adjusted gross income between $40,000 and $50,000 ($80,000 and $100,000 for joint returns.) MPACT purchasers may elect to apply MPACT benefit payments to the Lifetime Learning tax credit. Both tax credit plans result in a dollar-for-dollar reduction in taxes owed to the government.

MPACT enrolled over 8000 Mississippi children during its first year. Contracts totaling $24,000,000, represent $56,000,000 of future tuition payments. Here are some facts about 1997 MPACT enrollment:

- 38% of contracts were purchased by grandparents

- 40% were purchased by parents of 2nd, 3rd, and 4th grade children
- 10% of contracts were purchased by residents of the Gulf Coast area
- 7% of contracts were purchased by residents of the Tupelo area
- 5% of contracts were purchased by residents of the Hattiesburg area
- 40% of contracts were purchased by residents of the Jackson metro area

The MPACT program is pro-growth, helping prepare Mississippi's students for the high-tech jobs of the 21st century, motivating a higher percentage of our citizens to obtain college educations, and encouraging our students to stay in Mississippi.

-end-

(Treasurer Bennett serves as Chairman of the College Savings Plan Network (CSPN), the national organization of states with college savings programs.)

Home|Marshall Bennett|Departments|MPACT|Press Releases|Newsletters|Telephone/Addresses

COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE TREASURER
HARRISBURG, PA 17120-0018

BARBARA HAFER
TREASURER

January 26, 1999

The Honorable Randy Schobinger
Member
Senate of North Dakota
600 East Boulevard
State Capitol
Bismark, ND 58509

Dear Senator Schobinger:

You are to be commended for your sponsorship of legislation that would provide North Dakota's families the unique benefits that only state-sponsored post-secondary savings programs can provide. I encourage you and your colleagues to enact this important legislation.

As the Treasurer of Pennsylvania, I am responsible for administering our Commonwealth's pre-paid tuition program. And, I can assure you that it offers Pennsylvania's families an extremely valuable opportunity to help them meet the burden of financing their children's education.

The law authorizing Pennsylvania's program was passed in 1992 and the program – called the Tuition Account Program (TAP) — was first offered in September 1993. Currently, there are over 25,000 accounts. Over $96 million has been deposited into the TAP Fund, which, through our investments, has grown to a market value of $136 million.

Academic year 1997-98 was the first in which account holders were able to use their accounts. In that year and the current academic year, 800 students have used their accounts to attend 175 schools nationwide. The total value of the credits paid by the program on behalf of these students is approximately $3 million.

TAP's enabling legislation built in several safeguards, designed to protect the fiscal soundness of the program. Those safeguards, combined with a safe but moderately aggressive investment strategy, have kept the program actuarially sound.

The program has done so well that, after five years of experience, we are now in the position of being able to recommend legislative changes that would provide program enhancements. These enhancements would make TAP an even more beneficial way for families to save for college and vocational school. Some of the major changes we are recommending are: providing the potential for account holders to share in the investment growth of the program over and above tuition inflation, returning a portion of the growth in the account when an account is terminated, and expressly allowing saving for private and out-of-state schools.

I would be glad to provide you and your colleagues with any information about Pennsylvania's program that might be helpful to you and to be of assistance in North Dakota's establishment of a program in any way that I can.

Sincerely,

Barbara Hafer

Barbara Hafer
State Treasurer

BH:ls

LEGLTR01

TESTIMONY TO THE
SENATE APPROPRIATIONS COMMITTEE
FEBRUARY 8, 1999

SENATE BILL 2195

AL NOSBUSCH
ASSOC. DIRECTOR OF FISCAL & ADMINISTRATIVE SERVICES
STUDENT LOANS OF NORTH DAKOTA
BANK OF NORTH DAKOTA

The Bank is neutral regarding this bill, but I would like to point out several issues which should be considered. We have submitted the costs to administer the program for the fiscal note at $135,117 for the 1999-2001 Biennium and $70,802 for the 2001-2003 Biennium. These costs should be appropriated and later recouped from the tuition account fund, if possible...

You should be aware an actuarial shortfall may occur in the fund. An investment fund manager cannot guarantee that the investment returns will equal or exceed the rate of increases in tuition costs. This legislation as presented specifies that the fund ensures full tuition will be covered. That shortfall would have to be made up either by charging new plan participants more for their tuition accounts, or funded by the state.

Finally, be aware that a tuition account program will create some competition with private enterprise such as banks, insurance companies, brokerage firms, and other financial planners who try to sell various kinds of investment plans.

HOUSE EDUCATION COMMITTEE

SENATE BILL 2195

KATHI GILMORE, STATE TREASURER

Mr. Chairman, members of the ~~Senate~~ House Education Committee; for the record I am Carol Siegert, Deputy State Treasurer of North Dakota.

I am here to present testimony on Senate Bill 2195. The Treasurer's Office is supportive of the concept of this bill, but continues to recommend that the Legislature study a prepaid tuition plan, as well as, a college savings plan in the interim to determine which vehicle is needed for educational investment in North Dakota.

Indeed, it would seem that the 43 states that are already using a college plan must attest to its success. I would offer this amendment to that assessment. Forty-three states have some form of a program in place, but not all of them are tuition programs, twenty are prepaid tuition programs, sixteen are savings plans and eight are program startups for 1998 and 1999. Each plan has its own merit. A college savings plan gives tax relief on both the state and federal level. A pre-paid plan allows you to buy tomorrow's tuition at today's prices. Some states have put both a savings program and a tuition program in place.

Do we need to do something for the people of North Dakota in this area? The State Treasurer believes we do. The continued concern, however, is how we do it.

If part of our goal is to increase college participation by lower income families, it is important to note that many analysts agree that efforts to increase this type of participation will at best have a marginal impact with a prepaid plan because many of these families simply do not have the disposable income needed to participate.

We need to consider potential risks to the state. The liability for a prepaid tuition plan would remain with the state if the plan fails or the stock market goes south. That is why a study is so important. What are the dynamics which will uniquely affect North Dakota's choice. Low population, declining economy, drop in the stock market? How can we sustain what we put in place?

There is the possibility that future moneys within a states prepaid tuition plan may be inadequate to cover future growth in tuition. The interest earned on the funds principal may lag behind tuition growth, whereby the state and not the participants would be responsible for the shortfall. Prepaid tuition plans can encounter a solvency crisis when tuition inflation significantly or consistently exceeds a plan's rate of return on its investments. Tuition rates, which are the core of prepaid tuition plans, are not set in a vacuum. They are particularly susceptible to changes in state higher education appropriations, which in turn, are dependent on a state's fiscal health. When the economy is down and budgets are squeezed, states have tended to disproportionately cut higher education (relative to other state-funded services), leaving institutions and governing boards to consider options such as internal reallocations and tuition increases. Under such a scenario, the linkages between tuition rate, state appropriations, and prepaid tuition plans, could place public colleges and universities in a difficult fiscal position. Positive public perception of the program is definitely needed if it is to succeed, and a study would do this.

The State Treasurer's Office supports House Concurrent Resolution 3026 which provides for a study of both a tuition plan and a savings plan. Full assurance has been given by the National Association of State Treasurers that they are willing to participate in an interim committee study on the subject.

A study of this nature would allow us to tell the people of North Dakota that we, indeed, feel there is need and merit for some type of assistance in alleviating the cost of education at the college level. It also says to them, the Legislature will assume the fiduciary responsibility of looking at the issue from all angles to assure we have the best plan for the people of North Dakota with the most likelihood of success.

NDSA

North Dakota Student Association

SB 21~~66~~ 95
Testimony-Jason Bernhardt, North Dakota Student Association
March 1, 1999

Good morning Madam Chair and committee members. My name is Jason Bernhardt and I represent the North Dakota Student Association. NDSA is comprised of student leaders from all eleven publicly funded institutions of higher education in North Dakota.

Planning for a child's future can prove to be difficult. It can be very hard for parents to account for inflation and other costs when saving for their child's education. However, SB 21~~66~~ 95 allows them to start saving today and not have to worry about all of these costs that are out of their hands. Yet, students still have many concerns regarding this bill before they will support it.

Specifically, we have concerns over what happens to the money in several situations. What happens to the ten percent that the Bank of North Dakota keeps if you withdraw from school? What is the definition of a participating institution of higher education? Do students who go to in-state private schools get to take advantage of this program? These are a few among many concerns that the students have.

While the students understand that the general intent of this bill is good, they have concerns about the actual execution of the procedures. This is why the students can not fully support it and will ask this committee to amend page one, line twelve to read, "...and three members appointed by the governor one of which will be recommended to the governor by the North Dakota Student Association". Also, page one, line sixteen would be amended to read, "The term of each appointed board member is three years, except the student member who will be replaced on a yearly basis beginning on July first following the appointment..."

The students feel that it would be hard for anyone but a student to convey the financial challenges students face. This is why it is so important for the students to have a voting member on the tuition account program advisory board that SB 21~~66~~ 95 creates. Again, the students do not support or oppose this bill but would like to see the proposed amendments made to help insure an positive future for this program. Thank you Madam Chair and members of the committee for this opportunity to present you with the students view on the important bill.

**TESTIMONY TO THE
HOUSE EDUCATION COMMITTEE
MARCH 1, 1999**

SENATE BILL 2195

**JULIE KUBISIAK
DIRECTOR - STUDENT LOANS OF NORTH DAKOTA
BANK OF NORTH DAKOTA**

The Bank is neutral regarding this bill, but I would like to point out several issues which should be considered. We have submitted the costs to administer the program for the fiscal note at $135,117 for the 1999-2001 Biennium and $70,802 for the 2001-2003 Biennium. These costs should be appropriated and later recouped from the tuition account fund, if possible...

You should be aware an actuarial shortfall may occur in the fund. An investment fund manager cannot guarantee that the investment returns will equal or exceed the rate of increases in tuition costs. This legislation, as drafted, specifies that only the fund itself guarantees full tuition will be covered, but provides no guarantee from the State in the event of a fund shortfall. As administrator, Bank of North Dakota will need to provide a disclosure to customers that there is not a guarantee from the State. To actually guarantee that the tuition accounts will meet full tuition costs, state schools would need to agree to accept a lesser amount if the fund return does not meet the rate of increase in tuition costs.

We have again considered the provisions of the bill and have concluded that it would be possible to use Bank of North Dakota's Advisory Board augmented by the two *ex officio* members mentioned in the bill, rather than creating a separate board.