

S B

136

STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: CSSB 136 (HESS)
PUBLISH DATE: April 7, 1989

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska Education Trust Fund
Sponsor: Kerttula and Kelly
Requestor: Senate HESS

Agency Affected: Education
BRU: Postsecondary Education
Components: General Administration

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	62.3	64.1	66.1	68.1	70.1
TRAVEL						
CONTRACTUAL		10.0	10.0	10.0	10.0	10.0
SUPPLIES		1.5	1.5	1.5	1.5	1.5
EQUIPMENT		7.4	-0-	-0-	-0-	
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING		81.2	75.6	77.6	79.6	81.6

CAPITAL						
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REVENUE	*					
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FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER		81.2	75.6	71.6	79.6	81.6
TOTAL						

POSITIONS:

FULL-TIME		1.5	1.5	1.5	1.5	1.5
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal services include one professional at Range 16 and one half-time support personnel at Range 9.

*Provided by the Department of Revenue.

Prepared by: Ronald A. Phipps, Executive Director
Division: Alaska Commission on Postsecondary Education

Phone: 465-2854
Date: April 7, 1989

Approved by Commissioner: _____
Agency: _____

Date: _____

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts; and Providing for an Effective Date."

Agency Affected: University of Alaska
BRU: SPS, UAA, UAF, UAS

Components: _____

Sponsor: Kerttula

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
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GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-

CAPITAL						
---------	--	--	--	--	--	--

REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
---------	-----	-----	-----	-----	-----	-----

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Jim Lynch *Jim Lynch* Phone: 474-6556
Division: Statewide Finance Date: 2/21/89

Approved by Commissioner: Vice President, Brian Boers Date: 2/21/89
Agency: University of Alaska

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

FISCAL NOTE

REQUEST:

Revision Date: _____
Title: Alaska education trust fund
Sponsor: Kerttula
Requestor: Senate HESS

Agency Affected: Department of Revenue
BRU: Treasury
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 88	FY 89	FY 90	FY 91	FY 92	FY 93
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	45.0	84.0	127.0	174.0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	45.0	84.0	127.0	174.0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	0	0	0	0
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	45.0	84.0	127.0	174.0
TOTAL	0	0	45.0	84.0	127.0	174.0

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: attach a separate page for analysis.

Prepared By: Milt Barker *MB*
Division: Treasury

Phone: 465-2350
Date: _____

Approved by Commissioner: Walter B. Barker for
Agency: Department of Revenue

Date: _____

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

page ___ of ___

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Title: Alaska Education Trust Fund
Sponsor: Kerttula
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Agency Affected: Education
BRU: Postsecondary Education
Components: General Administration

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CAPITAL						
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REVENUE	*					
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OTHER		81.2	75.6	71.6	79.6	81.6
TOTAL						

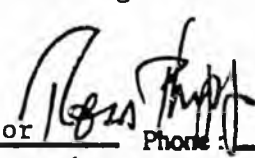
POSITIONS:

FULL-TIME		1.5	1.5	1.5	1.5	1.5
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Personal services include one professional at Range 16 and one half-time support personnel at Range 9.

*Provided by the Department of Revenue.

Prepared by: Ronald A. Phipps, Executive Director  Phone: 465-2854
Division: Alaska Commission on Postsecondary Education Date: February 14, 1989

Approved by Commissioner: _____ Date: _____
Agency: _____

Distribution (by preparer):

Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)

Alaska Education Trust Fund
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	(\$ Millions)						(\$000)				
Fiscal Year	Beginning Balance	Permanent Fund		Average Balance	Earnings	Ending Balance	Securities Safekeeping Fees	Common Stock	Performance	Audit	Total
		Dividends	Contributions					Management Fees	Measurement Fees		
FY90	0	460	23	14	1	24	1	22	12	10	45
FY91	24	477	24	39	3	51	2	60	12	10	84
FY92	51	471	24	66	5	80	3	102	12	10	127
FY93	30	466	23	95	8	111	5	147	12	10	174

Notes:

1. Column 6, prior year
2. From "Revenue Sources," Fall 1988, Department of Revenue
3. 5% of Column 2, assuming 5% participation by dividend recipients; initial participation in a similar Florida program was .37% of the population
4. Column 1 + (7.5/12)(Column 3) assuming transfer to trust fund occurs on average on November 15; also assumes no payouts during first four years of the program
5. 8% x Column 4
6. Column 1 + column 3 + Column 5
7. Column 4 x 5.25%/\$1000 per contract
8. Column 4 x .31% per contract x 50% asset allocation to common stocks
9. Per contract
10. Treasury Division estimate
11. Columns 7 + 8 + 9.



Brian Rogers
Vice President for Finance
(907) 474-7448

University of Alaska
Fairbanks, Alaska 99775-5260

April 11, 1989

APR 14 1989

The Honorable Jalmar M. (Jay) Kerttula
431 North Franklin
Juneau, AK 99811

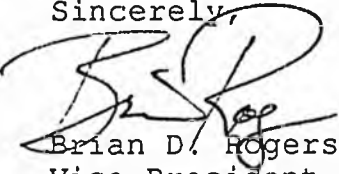
RE: Revised Fiscal Note for CSSB 136 (HESS)

Dear Senator Kerttula:

Enclosed is a copy of the University's fiscal note for CSSB 136 (HESS). A FAX copy of the revised fiscal note was sent to Senator Fischer today per his request.

If you have any questions about the note, please do not hesitate to contact me or Marsha Hubbard, director of Statewide Budget, at 474-7593.

Sincerely,


Brian D. Rogers
Vice President for Finance

BDR/pe

Enclosure

cc: Alison Elgee, Division Director for Office of Management
& Budget
Gina Spartz, Admin. Assistant for Legislative Finance
Division
✓ Senator Tim Kelly
✓ Senator Paul Fischer

FISCAL NOTE

REQUEST:

Revision Date: 4/11/89
 Title: "An Act Establishing the Alaska Education Trust-Prepaid Tuition Fund and Authorizing Advance Tuition Payment Contracts: and Providing for an Effective Date."

Agency Affected: University of Alaska
 BRU: SPS, UAA, UAF, UAS

Components: _____
 Sponsor: Kerttula, Kelly
 Requestor: Fischer

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING						

CAPITAL						
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

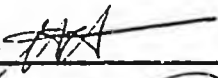
GENERAL FUND						
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OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

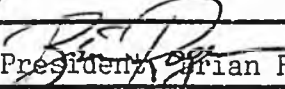
POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

The fund is self-supporting and should cost the University of Alaska nothing. Some administrative time will be required in setting up the fund, this should be accommodated through current staffing levels.

Prepared by: Marsha Hubbard  Phone: 474-6490
 Division: Statewide Budget Date: 4/11/89

Approved by Commissioner: Vice President Brian Rogers  Date: 4/11/89
 Agency: University of Alaska

Distribution (by preparer):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
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ANALYSIS: attach a separate page for analysis.

Prepared By: Milt Barker *MB*

Division: Treasury

Phone: 455-2350

Date: 4-11-89

Approved by Commissioner: *[Signature]*

Agency: Department of Revenue

Date: 4/12/89

Distribution (by preparer):

Legislative Finance

Legislative Sponsor

Requestor

Office of Management and Budget

Impacted Agency(ies)

Alaska Education Trust Fund
Investment Management Expenses

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
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11. Columns 7 + 8 + 9.



Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Official Business
March 21, 1989

TO: Senator Paul Fischer, Chair
Senate HESS Committee

FROM: Senator Jay Kerttula *J. Kerttula*

SUBJECT: Senate Bill 136, Education Trust Fund

At the March 15 committee hearing on Senate Bill 136, the members of the committee requested that I provide the following information:

- 1) What degree of participation in the program would be required in order for the administrative costs to be covered and for the program to pay for itself?
- 2) Could the University administer the program rather than the Division of Postsecondary Education?

PARTICIPATION AND ADMINISTRATIVE COSTS

The Department of Revenue fiscal note has been prepared using certain assumptions:

- a) The Department has assumed participation to be 5% of the permanent fund dividend recipients;
- b) The Department assumes an 8% rate of return on investments which the Department considers to be a conservative assumption; the state's investments are running above 9%.
- c) The Department assumes that no payments will be made during the first four years.

The fiscal note indicates that the earnings of the fund will far surpass the administrative costs.

I also asked the Department to considerably reduce the percentage of participation in the program and to tell me at what point the program would be operating at a loss. Even at a .05% rate of return (230 participants), the earnings are still sufficient to cover expenses.

As a matter of fact, at such a minimal rate of participation, the Department suggested that it would be better to forego a separate account and the resulting performance and audit fees, and pool the monies from the trust fund with the larger corpus of investments; it is sometimes difficult to get a good rate of return on a very small investment.

Furthermore, presently, the University of Alaska has an annual 5% increase in tuition costs. Even if we assume that the tuition costs increase at a rate of 7% (which is the national average), the 8% rate of return on investments as anticipated by the Department of Revenue would keep up with the tuition costs.

ADMINISTRATION OF THE PROGRAM

I have talked with the University of Alaska regarding the University's ability to administer the Education Trust Fund. From a purely technical standpoint, the University of Alaska could administer the program. However, from a policy perspective, there are several reasons why an Education Trust Fund would best be administered through the Division of Postsecondary Education:

a) other states have found a potential conflict of interest between the University and the Education Trust Fund. The thrust of an advance tuition program is to keep the tuition costs low so that the trust fund can keep up with inflation and operate in the black. On the other hand, the universities, who depend on the tuition rates, may well be interested in raising the tuition rates. This has been the case in Michigan.

b) The choice of an administrator could affect an IRS ruling. In Florida, the attorney who helped to write that state's tuition plan, has indicated that the IRS ruling on Michigan will not have a "large impact on Florida's program...because its trust is an entity of the state unlike Michigan's MET.

Similarly, if the University of Alaska were to administer the program, it would be done through a private foundation; with Postsecondary Education managing the program, the trust fund would be considered a state entity, similar to Florida's program.

c) The legislation, as presently written, is flexible; refunds may be applied to institutions other than the University of Alaska. The University has indicated that, under this circumstance, the program would best be managed by the Division of Postsecondary Education.

In sum, the University has indicated that they support the legislation as it is currently written.



NEA-ALASKA

AFFILIATED WITH THE NATIONAL EDUCATION ASSOCIATION

ANCHORAGE REGIONAL OFFICE

1411 W. 33RD AVENUE
ANCHORAGE, ALASKA 99503
(907) 274-0536

JUNEAU OFFICE

105 MUNICIPAL WAY, SUITE 302
JUNEAU, ALASKA 99801
(907) 586-3090

FAIRBANKS REGIONAL OFFICE

2118 CUSHMAN STREET
FAIRBANKS, ALASKA 99701
(907) 456-4435

March 13, 1989

To: Senator Paul Fisher, Chair
Members, Senate HESS Committee

Re: Senate Bill No. 136; "An Act establishing the
Alaska education trust fund and authorizing
advance tuition payment contracts; and providing
for an effective date."

NEA-Alaska supports and encourages your favorable
consideration of SB 136.

SB 136 effectively serves the public interest in Alaska in
at least three ways in addition to the creation of the
Alaska Education Trust Fund itself.

It provides an incentive for an individual to save money
toward the cost of attending the University of Alaska, it
focuses on the importance of planning for the financial
needs attendant to higher education, and it elevates the
significance of the University of Alaska as a legitimate
option as they and their parents and friends make plans for
post secondary education.

Additionally, it will bring greater emphasis to the
importance of the role of the University in meeting the
future needs of the State through meaningful programs and
services for its students.

Planning for higher education is essential, financial
planning even more so. SB 136 provides an incentive for
students to aspire and to attend the University of Alaska.

Thank you for your consideration of our position.

Respectfully submitted,

Bob Manners
Executive Secretary

cc: Senator Jay Kerttula



Alaska State Legislature

Senate

SECTIONAL ANALYSIS

P.O. BOX V
State Capitol
Juneau, Alaska 99811

Official Business PENNATE BILL 136

Section 1

Sec.14.42.400 Establishes the Alaska Education Trust fund. Contributions consist of an individual's permanent fund dividends, cash contributions, legislative appropriations, gifts, bequests, contributions of individual assets and earnings from the fund.

Establishes that the assets of the fund may be used to make payments to the University of Alaska for qualified beneficiaries(students)

Assets may be used to make refunds and to pay the administrative costs of the fund

Sec.14.42.410 Establishes the Commissioner of Revenue as the treasurer of the fund and sets out the duties of the Commissioner.

The Department of Revenue will administer and invest the assets of the fund and will report to the Postsecondary Education Commission

Sec.14.42.420 Sets out the provisions for contributions to the Alaska Education Fund which are either cash or permanent fund dividends.

Sec.14.42.430 The Commission on Postsecondary Education is the agency which will contract with a purchaser for an advance tuition payment for the University of Alaska.

Establishes the guidelines for payment plans and refunds

Sec.14.42.440 Establishes the provisions which are to be included in the advance tuition contracts and includes but is not limited to provisions for termination of a contract, provisions for dealing with a qualified beneficiary who is no longer a state resident

Sec.14.42.490 Definitions

Section 2 Effective date of July 1, 1989



Official Business

Alaska State Legislature

Senate

P.O. BOX V
State Capitol
Juneau, Alaska 99811

SPONSOR STATEMENT

Senate Bill 136, Alaska Education Trust Fund

As the cost of a college education steadily increases, parents have become increasingly concerned about their ability to provide a college education for their children. As a result, many states have been looking at innovative ways to provide parents and students with alternatives for financing college tuition.

Senate Bill 136 offers one such option. The legislation establishes a "guaranteed tuition plan" which assures future tuition payment to a University of Alaska campus upon an initial investment in a newly created Alaska Education Trust Fund. The amount of the initial investment is determined by the age of the child at the time of the investment; the younger the child, the cheaper the price. If the parent of an older child joined the program, the contribution would be higher because there would be less time for the money to earn interest.

The State would then invest the money, intending that, at a minimum, the tuition fund investments would have a rate of return that would equal the expected tuition cost for a child by the time he/she enrolls in college.

A contract would be made between between the state and the purchaser that would guarantee four years undergraduate tuition at the University of Alaska, no matter how much the costs rise.

Senate Bill 136 has been modeled on a similar program which was adopted and implemented by the State of Michigan. When Michigan adopted its plan in 1986, 44,000 persons applied during a two month period. In Florida, approximately 40,000 persons applied for a similar program.

While the option always exists for parents to place their money in other types of savings and investments, the guaranteed tuition plan offers low cost tuition and assurances for the future; in other words, there is a high degree of peace of mind.

GUARANTEED TUITION BILLS IN OTHER STATES

Nine states have passed guaranteed tuition bills:

FLORIDA

Florida Prepaid Postsecondary Education Expense Program (aka FL Postsecondary Cost Stabilization Fund). Includes 3 plans: 1) university plan (tuition); 2) community college plan (tuition); 3) dormitory residence plan. "Tuition" is defined as matriculation fee, financial aid fee, capital improvement fee and building fee. Single payment or monthly installments. Businesses and others may contribute to contracts for low-income students. Plans may be mixed (example: 2 years community college plus 2 years university and one year dorm). Fees not mentioned above, supplies and meals, etc., are not included. 1988 prices start at \$3,800/4 years' tuition for an infant. Contracts transferable to siblings. Refunds on principal only, no interest. Non-residents may not buy contracts; however, contracts will be honored if family moves out-of-state. Principal and interest may be transferred to a FL private school; difference in tuition to be borne by purchaser. ****IRS NOTES:** State's position: Trust monies are within the state treasury, therefore not taxable. However, there will be tax consequences at time of reimbursement. A state-specific IRS ruling is being requested.

INDIANA

Baccaulaureate Education System Trust (BEST). Modelled after the Michigan program. Working on administrative structure at this time. Indiana University and other schools also considering tuition futures.

MAINE

Student Education Deposit Plan (SEED), H.P. 581-L.D. 779. Ruling requested from Maine Attorney General on whether or not to proceed in light of Michigan ruling, or to ask IRS for own ruling. (Status of request for IRS ruling must be made known before contracts may be sold.)

SOURCE: "1988 Survey of College Savings and Guaranteed Tuition Programs," ECS, November 1988

MICHIGAN

Michigan Baccalaureate Education System Trust (BEST), Public Act No. 316. Applications accepted in August 1988, contracts entered into in September 1988. S&Ls will take payments and arrangement for loans if needed. Approximate prices: \$1,689/1 year's tuition for a newborn; \$2,055/1 year's tuition for a 10-year old. This was the first of the tuition guarantee programs to be passed, and serves as a model for the majority of others. Guarantee is good at the 15 state universities, 29 community colleges. Contracts also available for community colleges alone (at a lower rate) or combination community college/university. Refunds: Original investment minus administrative costs only, or original investment plus interest minus administrative costs, depending upon contract. A refund may also be paid directly to an independent degree-granting Michigan institution, the amount to be not less than the prevailing weighted average tuition cost at a state institution for the number of credit hours covered by the contract on date of termination. **IRS NOTES: IRS ruling of 29 March 1988: plan is tax-exempt to purchaser (although there may be a minimum tax liability to the qualified beneficiary upon redemption of the contract). Michigan Education Trust (MET) is tax liable at the corporate rate, but also benefits from corporate deductions, reducing net liability to an estimated 0-15%. MET has applied for tax exempt status based on the fact that it is a not-for-profit corporation.

MISSOURI

Missouri Access to Higher Education Act (HB 1456), sections 1 through 21 (tuition guarantee) and sections 360.015 through 360.120 (savings bonds). **IRS NOTES: IRS ruling needed before contracts may be sold.

OKLAHOMA

OK Tuition Trust Act, HB 2010, creates a prepaid tuition trust by either June 1990 or upon favorable IRS ruling, whichever occurs last. Modelled after Michigan plan.

TENNESSEE

Tennessee Baccalaureate Education System Trust Act, Public Chapter 281, (tuition futures plan). State will request a state-specific IRS ruling, and may sell contracts after the ruling is received, even if it's unfavorable. NOTE: The state is currently re-examining implementation procedures.

WEST VIRGINIA

Three tuition plans were passed; a Savings Bond Plan under the State Board of Education; a Tuition Savings Trust Fund and a Prepayment Plan similar to Michigan's. The last two are under the Treasurer's office, and implementation procedures are currently being developed.

WYOMING

Advance Payment of Higher Education Costs, Enrolled Act No. 9, provides for advance payment of resident and non-resident tuition; also for room and board. Cost for a contract maturing in 2004 are approximately \$6,393 (for 4 years) as of 1 August 1988.

State legislatures April 1987

ON FIRST READING ISSUES AND POLICY IN BRIEF

States Look at Pre-Payment Plan to Ease College Costs

Escalating education costs and runaway student debts have caused several states to consider plans in which parents can pay their children's college tuition years ahead of time.

In Pennsylvania, for instance, Senate President Pro Tem Robert Jubelirer has introduced legislation that will allow parents to pre-purchase college tuition by investing in an account managed by the state. In return, parents would be guaranteed that the future fees would be completely covered, regardless of how much costs rise.

Jubelirer says the plan insures that the emerging generation will have a chance to pursue the advanced education they will need in our "increasingly technological and competitive economic environment."

The proposal has bipartisan support and may be part of the solution to Pennsylvania's underfunding of higher education and resulting tuition hikes. *Education Daily* reports that Pennsylvania ranks 50th among all states in per-capita spending on higher education. Tuition at the 14

state-owned universities has increased 87 percent in the last decade.

Pennsylvania is not the only state considering such legislation. Maine House Majority Leader John Diamond has introduced the Student Educational Enhancement Deposit Plan, or SEED Plan, which would work much like the Pennsylvania plan. Diamond says there is a "sense of frustration" among families because the cost of a college education continues to rise.

In California, Assemblyman Tom Hayden introduced the Educational Security Account Act in January. "Parents need to know that a college education is still attainable, that they will be able to afford to send their kids to college in the year 2020," says Hayden, chair of the Assembly's Subcommittee on Higher Education. "My proposal is that California adopt an 'education security account,' just like we have with the 'individual retirement accounts.'"

Both Diamond and Hayden's proposals are patterned after Michigan's program, which hinges on a review by the Internal Revenue Ser-

vice. Experts believe, however, that interest earnings and the subsequent value of the tuition will be made exempt from federal taxation.

Part layaway plan, part mutual fund, Michigan's program offers parents steep tuition discounts if they pay ahead. The younger the child, the cheaper the price. The plan guarantees four years tuition at any public college or university in the state if parents deposit as little as \$2,000, either paid in a lump sum or installments or through payroll deductions. Parents can deduct their contribution from their income subject to Michigan income tax.

Parents who move out of the state, or whose children decide to go to college somewhere else or nowhere, or do not meet admission requirements, can get their money back. A student who decides to attend an independent college in Michigan may have payments up to the average tuition cost at a public four-year college transferred to and applied against the tuition charges of the independent college.

College-Tuition Plan in Michigan Seen as Model

YOUR MONEY MATTERS

By JOE DANINON

Staff Reporter of THE WALL STREET JOURNAL

The save-now, pay-later tuition plans offered by some private colleges are spreading to public universities—with legislators aiming to overcome parents' and educators' objections to the current programs.

The tuition plans, designed to help parents prepare for future college costs, are "hot items on many 1987 state legislative agendas," says Aims McGuinness, assistant executive director for higher education at the Education Commission of the States, a research group with 48 states as members. According to the commission, 42 states, including California, Massachusetts and New Jersey, are considering tuition-financing plans. Most are patterned after a program set to begin in Michigan.

Under the Michigan Education Trust, parents deposit with the state \$3,000 to \$1,500, depending on the age of the child and the plan chosen, either in a lump sum or through a payment plan. The state invests the money, expecting that it will grow enough to cover undergraduate tuition at any of Michigan's 13 universities and 29 community colleges.

Freedom From Worry

For Anne Burke, a Lansing mother of girls ages two and five, the trust represents a way "to assure our children of a college education and not have to worry about how much we'd have to save." Four-year tuition at state schools in Michigan now averages \$8,000 for residents. In 15 years, the state calculates that would jump to \$22,835 if tuition increases average 6%, and to \$37,737 if increases average 9%.

The Michigan program can't start until the Internal Revenue Service grants it tax-exempt status. But officials expect the first trust contract to be signed by early summer. So far the state has received more than 24,000 inquiries about the plan.

Michigan officials say a major advantage of the trust over many private plans is that the state tuition payment is guaranteed, even if the investments don't keep up with increased costs. Moreover, the program provides a moderate-cost alternative for families who can't afford similar programs at private colleges.

The Michigan program also lets students choose from a wider variety of admissions standards and academic programs than the private plans. And the trust is more flexible than private programs about students entering a college outside the plan. In such a case, the Michigan program will pay up to the average of state-school tuitions; the student must fund any difference. Many private plans allow a student to take their money elsewhere only if he transfers from the college in question and meets certain grade requirements.

But the Michigan trust has some drawbacks similar to those in the private-college plans. Under one Michigan plan, if the student dies or doesn't attend college, only the principal—minus administrative costs—would be refunded, regardless of the amount of interest earned over many years. With an alternative Michigan plan, the initial investment is higher, but some interest earnings are included in the refund if the contract is terminated.

Not for Everyone

Even the wider choice of schools under programs like Michigan's may not be enough for everyone, says Sharon Hart, a research assistant at the Education Commission. "People who move often will have problems with it," she says, because someone who moves out of state would face higher tuition at the schools in the plan.

Under the Michigan program, as in most private plans, students will still have to pay for room and board and other fees not covered by tuition. But programs in some other states are being set up to include such costs. A new Wyoming plan covers room and board as well as tuition. And if a child in the Wyoming plan chooses not to use the fund, the principal and 4% interest, compounded annually, is refunded.

Richard Anderson, a financing specialist at Columbia University's Teachers College, says the tuition plans are so popular that politicians are "stumbling over themselves" to get them passed, he says. But he worries that it is "much too easy for legislators to overpromise what can be delivered" by underestimating the amount that should be invested today for tuition nearly two decades away.

These concerns aren't primary to parents such as Mrs. Burke in Michigan. "We don't think there are too many ways you could necessarily lose," she says. "It would be easier to take the chance than to project how much you'd have to save for 13 to 15 years down the road."

Wall Street Journal
4/13/87

A M E N D M E N T

OFFERED IN THE SENATE

BY KERTTULA

TO: SB 136

Page 5, after line 22:

Insert a new bill section to read:

"* Sec. 2. TAX DETERMINATION. The Department of Revenue shall request that the Internal Revenue Service determine if the income earned by the Alaska education trust fund established in sec. 1 of this Act is taxable income under federal law. The Alaska Commission on Postsecondary Education may not contract with a purchaser for the advanced payment of tuition under AS 14.42.430, added by sec. 1 of this Act, until the Department of Revenue has received a determination from the Internal Revenue Service regarding the applicability of federal income taxes to the Alaska education trust fund."

Renumber the following bill section accordingly.

SENATE COMMITTEE REPORT

FIRST COMMITTEE OF REFERRAL

Date of 5-DAY NOTICE 3/15/89
IN ACCORDANCE WITH UNIFORM RULE 23

FURTHER FINANCE

**FISCAL NOTE(S) MUST BE ATTACHED
IN ACCORDANCE WITH AS 24.08.035

DATE TURNED INTO OFFICE 4/6/89

1/23/89

Mr. President:

HESS

Committee considered

SB 136

establishing the Alaska education trust fund and authorizing advance tuition payment contracts; efd

and recommended:

replace with CS SB (HESS) same title
 new title

attached amendment(s) and

_____ letter of intent adopted

do pass

Fiscal Note

do not pass

Forthcoming -

no recommendation

Revenue & Education

individual recommendations

further referral to _____

FISCAL NOTE(S) attached zero

appropriation no FN attached

fiscal impact

Gov. FN introduced w/ bill

MEMBERS SIGNING DO PASS

Tim Kelly

OTHER RECOMMENDATIONS

Hayden (No Rec)
Ed Adams - No Rec

Paul Trish (Do Pass)

Chairman signature and recommendation

Committee backup attached

Original sponsors: Kerttula and Kelly

1 IN THE SENATE

BY THE HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

2 CS FOR SENATE BILL NO. 136 (HESS)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act establishing the Alaska education trust fund
7 and authorizing advance tuition payment contracts;
8 and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. AS 14.42 is amended by adding new sections to read:

11 ARTICLE 3. ALASKA EDUCATION TRUST FUND.

12 Sec. 14.42.400. ALASKA EDUCATION TRUST FUND ESTABLISHED. (a)

13 The Alaska education trust fund is established as an endowment trust
14 fund separate from the general fund. The fund may be divided into
15 separate accounts for accounting purposes.

16 (b) The fund consists of

17 (1) permanent fund dividend and cash contributions made
18 under AS 14.42.420 under the terms of an advance tuition payment
19 contract;

20 (2) gifts, bequests, and contributions of cash or other
21 assets from a person; and

22 (3) income and earnings of the fund.

23 (c) Assets of the fund shall be expended in the following order
24 of priority:

25 (1) to make payments to the University of Alaska on behalf
26 of qualified beneficiaries;

27 (2) to make refunds upon termination of an advance tuition
28 payment contract;

29 (3) to pay the costs of the fund.

1 Sec. 14.42.410. POWERS AND DUTIES OF THE COMMISSIONER OF REVE-
2 NUE. The commissioner of revenue is the treasurer of the fund and has
3 the following powers and duties under this section:

4 (1) to act as official custodian of the cash and invest-
5 ments belonging to the fund by securing adequate and safe custodial
6 facilities;

7 (2) to receive all items of cash and investments belonging
8 to the fund;

9 (3) to collect the principal and income from investments
10 owned or acquired by the state treasury and deposit the amounts in
11 separate principal and income accounts for the fund;

12 (4) to invest and reinvest the assets of the fund as pro-
13 vided in this section and as provided for the investment of retirement
14 funds under AS 14.25.180(b), (c), and (e) - (h);

15 (5) to exercise the powers of an owner with respect to the
16 assets of the fund;

17 (6) to do all acts, whether or not expressly authorized,
18 that the commissioner of revenue considers necessary or proper in
19 administering the assets of the fund;

20 (7) to maintain accounting records of the fund in accor-
21 dance with investment accounting principles and with distinction
22 between the principal and income accounts of the fund;

23 (8) to engage an independent firm of certified public
24 accountants to annually audit the financial condition of the fund's
25 investments and investment transactions;

26 (9) to enter into and enforce contracts or agreements
27 considered necessary for the investment purposes of the fund;

28 (10) to report to the commission the condition and invest-
29 ment performance of the fund.

1 Sec. 14.42.420. CONTRIBUTION TO THE ALASKA EDUCATION TRUST FUND.

2 (a) Contributions to the fund under the terms of an advance payment
3 contract may be made by direct cash payments or by contributions from
4 the permanent fund dividend. The Department of Revenue shall prepare
5 the permanent fund dividend application to allow an applicant to
6 contribute all or part of a dividend to the fund under the terms of an
7 advance tuition payment contract.

8 (b) The Department of Revenue shall pay contributions directly
9 to the fund.

10 Sec. 14.42.430. POWERS AND DUTIES OF THE COMMISSION. (a) The
11 commission may contract with a purchaser for the advance payment of
12 tuition by the purchaser for a qualified beneficiary to attend a
13 branch of the university to which the qualified beneficiary is admit-
14 ted, without further tuition cost to the qualified beneficiary.

15 (b) The commission shall

16 (1) make appropriate arrangements with the university as
17 necessary to fulfill the commission's obligations under an advance
18 tuition payment contract, including arrangements for the payment of
19 current tuition rates to the university from the fund;

20 (2) establish standard payment plans to be used under
21 advance tuition payment contracts;

22 (3) establish the circumstances under which an advance
23 tuition payment contract may be terminated and the amount of the
24 refund the person entitled to terminate the contract may receive.

25 Sec. 14.42.440. ADVANCE TUITION PAYMENT CONTRACTS. (a) An
26 advance tuition payment contract shall include

27 (1) the amount of payments required from the purchaser on
28 behalf of the qualified beneficiary;

29 (2) the terms and conditions for making the payments;

(3) provisions for late payment charges and for default;

(4) the name and age of the qualified beneficiary under the contract and a statement that the purchaser, with the approval of the commission, may substitute another person for the qualified beneficiary originally named in the contract;

(5) the number of credit hours to be provided to the qualified beneficiary under the contract;

(6) the name of the persons entitled to terminate the contract, the terms and conditions under which the contract may be terminated, and the amount of the refund to which the person terminating the contract is entitled;

(7) the assumption of a contractual obligation by the commission to provide for credit hours of higher education at the university;

(8) the number of credit hours the qualified beneficiary may receive if the qualified beneficiary is not entitled to in-state tuition at the time of enrollment at the university;

(9) the period of time during which the qualified beneficiary may receive the benefits of the contract; and

(10) other terms and conditions the commission determines to be appropriate.

(b) An advance tuition payment contract may be terminated

(1) if the qualified beneficiary dies;

(2) if the qualified beneficiary is not admitted to a branch of the university after making a proper application;

(3) if the qualified beneficiary certifies to the commission that the qualified beneficiary has been accepted by a degree granting institution of postsecondary education other than the Univer-

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2 sion, after the qualified beneficiary has received a high school
3 diploma or reached the age of majority, that the qualified beneficiary
4 has decided not to attend the university;

5 (5) if the commission determines that the number of pur-
6 chasers is insufficient to maintain the fund on an actuarially sound
7 basis; or

8 (6) under other circumstances determined by the commission
9 and set out in the advance tuition payment contract.

10 Sec. 14.42.490. DEFINITIONS. In AS 14.42.400 - 14.42.490

11 (1) "advance tuition payment contract" means a contract
12 entered into by the commission and a purchaser to provide for the
13 higher education of a qualified beneficiary;

14 (2) "commission" means the Alaska Commission on Postsecond-
15 ary Education;

16 (3) "fund" means the Alaska education trust fund (AS 14.-
17 42.400);

18 (4) "purchaser" means a person who makes or is obligated to
19 make advance tuition payments under an advance tuition payment con-
20 tract;

21 (5) "qualified beneficiary" means a resident of the state
22 who has rights under an advance tuition payment contract;

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24 a community college affiliated with the university.

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28 income under federal law. The Alaska Commission on Postsecondary Education
29 may not contract with a purchaser for the advanced payment of tuition under

AS 14.42.430, added by sec. 1 of this Act, until the Department of Revenue has received a determination from the Internal Revenue Service regarding the applicability of federal income taxes to the Alaska education trust fund.

* Sec. 3. This Act takes effect July 1, 1989.

6-0557E
Ford
3/28/89

Original sponsor: Kerttula

Adopted

Passed

4/5/89

1 IN THE SENATE

BY THE HEALTH, EDUCATION AND
SOCIAL SERVICES COMMITTEE

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