



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #856

Administrative Funding for College Savings and College Tuition and Expenses Programs (State Treasurer)

[LFB 2001-03 Budget Summary: Page 622, #1 (part), #3 (part); Page 623, #5 and #6]

CURRENT LAW

The 2000-01 appropriated level for the college tuition and expenses program consists of a GPR appropriation for \$85,000 and an appropriation of \$150,000 SEG from the tuition trust fund. In addition, as a result of 1999 Wisconsin Act 44, there is a separate GPR appropriation of \$85,000 in 2000-01 for the new college savings program. There are a total of 3.0 authorized positions for the two programs (2.0 SEG and 1.0 GPR).

GOVERNOR

Provide a total of \$85,400 GPR in 2001-02 and \$15,400 GPR in 2002-03 as additional GPR support for administrative costs of the college tuition and expenses program. Provide a total of \$70,900 GPR in 2001-02 and \$73,000 GPR in 2002-03 as additional GPR support for administrative costs of the college savings program. These amounts included the application of applied base budget reductions for the two GPR appropriations of \$8,100 GPR in 2001-02 and \$4,600 GPR in 2002-03. Provide a total of \$321,800 SEG in 2001-02 and \$493,200 SEG in 2002-03 from the tuition trust fund for administrative costs of the two programs. Provide that all three existing positions for the two programs be funded from the tuition trust fund (salary and fringe benefit costs for these positions are included in the total SEG administrative costs above).

DISCUSSION POINTS

1. For both the college tuition and expenses program and for the newer college savings program, the intent of the Legislature has been for these programs to finance the administrative costs of program operations through the assessment of fees on program participants. However, because no fees can be collected until a program has been established, start-up GPR funding has had to be provided for each of the programs. Participation in the college tuition and expenses program has not yet been sufficient to totally fund the annual operating costs of the program. As a consequence, some GPR funding has been provided to the program since its inception, up to and including the proposed funding under the Governor's budget for 2001-03. The college savings program has not yet officially started receiving deposits for college savings program accounts, but now, with the recent passage of AB 321 (2001 Act 7), it is projected that it will begin doing so by July of this year. The revenue from these fee assessments to participants under this new program will then begin to be collected for the administrative costs of that program.

2. For the current calendar year, the one-time enrollment fee for the college tuition and expenses program is \$20. In addition, there is an annual fee, based on the age of beneficiary, which averages around 0.7% of the account value. These fees are the sources of financing for the administrative costs of that program. For the college savings program, there is a similar one-time enrollment fee of \$20 and an annual fee of 0.25% of the account value. These fees are to be the sources of financing for the administrative costs of that program.

3. The levels of funding provided under the Governor's budget were developed based on the budget request submitted for the administrative operations of the college savings and college tuition and expenses program. The GPR appropriation levels were developed based on requested overall funding for the two programs, including marketing and other start-up costs associated with the new college savings program, and an estimation of the level of revenues from program fees that were expected to be collected under the two programs. Since that time, the arrangements with the outside investment and account manager have been finalized and the program administrator in the Treasurer's Office has re-examined program funding needs for the two programs. A single staff unit in the Treasurer's Office handles the two programs, so costs are actually apportioned between the two programs. Some previously anticipated funding needs have been reduced or eliminated based on activities that the vendor will now undertake. In addition, expected participation in the two programs, particularly the new college savings program, has been re-examined by the program administrator and updated estimates of expected fee revenues have been made.

4. Using the salary and fringe benefit costs recommended under SB 55 for the 3.0 existing authorized positions for the two programs and the updated estimates developed by the program administrator for all other program costs such as marketing, office expenses, audit and actuarial costs and other miscellaneous expenses, total funding need for each of the two programs has been developed by this office. This estimated cost is shown in the table below and compared to the total funding levels (SEG plus GPR subsidy) recommended by the Governor.

TABLE 1

**Total Proposed Budget
College Savings and College Tuition & Expenses Programs
(All Funds)**

	<u>Governor's Recommendation</u>		<u>Re-estimated Need</u>	
	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
Salaries	\$130,600	\$130,600	\$130,600	\$130,600
Fringe Benefits	46,300	46,300	46,300	46,300
Supplies & Services	<u>309,300</u>	<u>409,300</u>	<u>168,600</u>	<u>172,100</u>
Total	\$486,200	\$586,200	\$345,500	\$349,000

Note: These amounts are before the application of the GPR base budget reduction.

5. In reviewing the budget for these two programs, the Committee could choose to use the revised estimate of budget need outlined in the table above. If the Committee did that and started from the premise that the amount of GPR to be provided in 2001-03 should only be the amount of difference between the total projected budget need and projected available fee revenues, then the GPR funding supplement needed could be estimated as shown in the table below.

TABLE 2

**Estimate of GPR Subsidy Needed
College Savings and College Tuition & Expenses Programs**

	<u>College Tuition & Expenses Program</u>		<u>College Savings Program</u>	
	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
Opening Balance	\$0	\$0	\$0	\$2,500
Revenues	<u>57,700</u>	<u>65,500</u>	<u>239,900</u>	<u>344,500</u>
Total Available	\$57,700	\$65,500	\$239,900	\$347,000
Estimated Expenditures	\$110,600	\$91,100	\$234,900	\$257,900
Reserves	<u>1,500</u>	<u>3,500</u>	<u>2,500</u>	<u>6,000</u>
Total	\$112,100	\$94,600	\$237,400	\$263,900
Revenues Less Expenditures and Reserves	-\$54,400	-\$29,100	\$2,500	\$83,100
Add GPR Subsidy	54,400	29,100	0	0
Adjusted Closing Balance	\$0	\$0	\$2,500	\$83,100

Under this approach, the Committee could reduce the amount of GPR subsidy provided under the Governor’s recommendation after inclusion of GPR base budget reduction, by \$101,900 in 2001-02 and by \$59,300 in 2002-03 and reduce the SEG funding level provided under the Governor’s recommendation by \$30,700 in 2001-02 and by \$173,300 in 2002-03.

6. Under the current law appropriations structure for the programs, as modified by 2001 Act 7, there are separate GPR subsidy appropriations and SEG administrative expenses appropriations for each of the programs. Whether or not the modifications outlined in Issue Paper #857 to that appropriations structure are adopted, either the Governor’s recommended funding level for the two programs, or the alternative funding level outlined above, needs to be apportioned to the respective GPR and SEG administrative appropriations for each program.

7. If the Committee adopts the Governor’s recommended level of funding for the two programs, this office would consult with the State Budget Office as to the Governor’s intent regarding how the funds should be apportioned under the Governor’s recommended funding level to the new appropriation structure provided under 2001 Act 7. Alternatively, if Committee adopts the alternative funding levels outlined above, then that level of funding would be apportioned between the respective appropriations for the two programs as follows:

TABLE 3

Apportionment of Alternative Funding Level by Program and Appropriation

<u>Appropriation Purpose</u>	<u>Fund Source</u>	<u>2001-02</u>	<u>2002-03</u>
College Tuition and Expenses Program			
Net GPR subsidy for administrative expenses	GPR	\$54,400	\$29,100
Net funding for administrative expenses from the college tuition and expenses trust fund	SEG	<u>56,200</u>	<u>62,000</u>
Total		\$110,600	\$91,100
College Savings Program			
Net GPR subsidy for administrative expenses	GPR	\$0	\$0
Net funding for administrative expenses from the college savings program trust fund	SEG	<u>234,900</u>	<u>257,900</u>
Total		\$234,900	\$257,900

8. If the Committee adopts the alternative level of funding for the program as outlined above and the change in GPR repayment requirements as outlined in Issue Paper #855, then the Committee could also budget estimated GPR-earned of \$80,000 in 2002-03.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. For the college tuition and expenses program, provide funding of \$54,400 GPR and \$56,200 SEG in 2001-02 and \$29,100 GPR and \$62,000 SEG in 2002-03. For the college savings program, provide funding of \$234,900 SEG in 2001-02 and \$257,900 SEG in 2002-03. In addition, estimate GPR-earned of \$80,000 (installment repayment of earlier GPR financing to occur at the end of fiscal year 2002-03).

Alternative 2	GPR	SEG	TOTAL
2001-03 REVENUE (Change to Bill)	\$80,000	\$0	\$80,000
2001-03 FUNDING (Change to Bill)	- \$161,200	- \$204,000	- \$365,200

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