



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #857

Appropriations Structure -- College Savings and College Tuition and Expenses Programs (State Treasurer)

[LFB 2001-03 Budget Summary: Page 622, # 9]

CURRENT LAW

There are three SEG appropriations and one GPR appropriation for the operations of the college tuition and expenses program; and there is one GPR appropriation and one PR appropriation for the operation of the college savings program. The three SEG appropriations for college tuition and expenses programs are all financed from the tuition trust fund, which is established solely for the purposes of college tuition and expenses program.

GOVERNOR

For the college tuition and expenses program, modify current law to combine two current SEG appropriations, one for the payment of tuition and a second for the payment of refunds, into a single appropriation to allow payments for both purposes. For the college savings program, modify current law to specify that the GPR appropriation for administrative expenses for that program is only for initial administrative expenses. Modify the existing SEG appropriation which is funded from the tuition trust fund and is for administrative expenses of the college tuition and expenses program to allow the use of that appropriation also for administrative expenses of the college savings program. Create two new SEG appropriations, also to be funded from the tuition trust fund: one for use of monies received by the investment services vendor for the college savings program to make investments under the program and the second would allow payment of tuition and refunds under the program.

DISCUSSION POINTS

1. The college tuition and expenses program, referred to as the EdVest program (and now EdVest I), was originally created by 1995 Act 403 to provide an alternative means for parents and others to save for a child's future college costs by "prepaying" all or a portion of their tuition and other expenses. An individual, a trust or a legal guardian may contract with the program to purchase "tuition units" on behalf of a beneficiary named in the contract. The tuition units may then be redeemed when the beneficiary enrolls in college and applied toward the payment of undergraduate tuition and other related expenses at any public or private postsecondary institution in the country. The price of a tuition unit at the time of purchase is based on the estimated weighted average tuition and other related expenses at bachelor's degree-granting institutions within the UW System at the time of expected educational year of use and factoring in the expected investments earnings in intervening period. The stated amount of the tuition unit is set at the time of purchase. Monies paid to the program to purchase tuition units are placed in the tuition trust fund and invested by the State of Wisconsin Investment Board (SWIB). SWIB is required to invest these trust fund monies in investments with maturities and a degree of liquidity that are appropriate for the needs of the program. Consequently, SWIB has adopted investment guidelines for this trust fund that restricts investments to U. S. government and municipal obligations and corporate bonds.

2. The college savings program was created 1999 Wisconsin Act 44. It was enacted in response to a desire from parents to be able to place monies to be used for future college costs of their children in a program with investment options that could potentially earn greater returns on the monies and that would not be restricted to calculation of tuition unit amounts. Participants under this program will establish a college savings program account and select from one of six variable investment options. The value of account at the time funds are withdrawn will depend upon the investment performance of the option selected. Act 44 provided for the creation of a College Savings Board to administer the new college savings program to be located in the State Treasurer's Office, specified that under this program qualified individuals could establish a college savings account for a beneficiary and established that, in cooperation with the Department of Administration, the Treasurer's Office would contract with an outside vendor who would invest monies contributed under the program to college savings accounts and provide quarterly reports on status of individual accounts to account owners.

3. While it was expected that the new college savings program would begin operation in calendar year 2000, that did not happen. The process of selecting a vendor took longer than anticipated and then, in March of this year, it was determined that to successfully implement the program, a separate and distinct trust fund to hold college savings program assets was required. Companion bills (Senate Bill 146 and Assembly Bill 321) were introduced in the Legislature on April 18, 2001, to provide for the creation of this new fund and make other associated program and appropriation changes. Following the recent passage by the Assembly and Senate of Assembly Bill 321, that bill is now 2001 Wisconsin Act 7. As a result, certain changes in the appropriations section of the Governor's budget bill are needed to be modified to reflect current law.

4. Act 7 changed the previous law for appropriations under the college tuition and

expenses and the college savings programs as follows: (a) the continuing PR appropriation for general program operations of the college savings program was changed to a SEG appropriation funded from the new college savings program trust fund; (b) the current SEG appropriation from the tuition trust fund for "payment of tuition" under the college tuition and expenses program was re-titled to be for the "payment of qualified higher education expenses and refunds" and the separate appropriation for "payment of refunds" was repealed; and (c) a new SEG appropriation, funded from the college savings program trust fund, was created for the "payment of qualified higher education expenses and refunds". The net result of the changes in these appropriations made by Act 7 means that none of the changes to appropriations to the two programs that are proposed in SB 55 are needed because they have been superseded by Act 7. However, corrective entries to the appropriations schedule in the bill will be required to correctly reflect current law. Consequently, the Committee could delete those now obsolete appropriation change provisions and authorize corrective title entries to the appropriations schedule. Sections 921, 922, 923, 924, 925 and 926 of the bill would be deleted under this action.

5. There are two additional issues concerning the appropriations for the two programs that the Committee could consider. The first issue concerns the appropriation type for the college savings program's administrative expenses appropriation. In general, administrative appropriations are established as sum certain, annual appropriations. The administrative expenses appropriation for the college tuition and expenses appropriation is already a sum certain annual appropriation. However, as created under Act 7, the appropriation for expenditure of funds from the new college savings program trust fund would be a continuing appropriation. Under a continuing appropriation, an estimate of the amount an agency expects to expend is included in the appropriations schedule. However, the amounts shown in the schedule are not controlling and the agency can expend any amount that it has sufficient revenues to support. The Committee could include language to provide that the new SEG appropriation for the college savings program's administrative expenses, as created by Act 7, be changed to a sum certain, annual appropriation.

6. The second issue relates to the lack of uniformity in titles in the appropriations schedule for similar appropriation purposes in each program. It could be argued that greater clarity would result if the same purpose titles (such as administrative expenses) were used for each program but with the distinct programs were identified in each title. The current title structure for each appropriation (as modified by Act 7) and the changed titles as they would result under this change are shown in the table which follows.

<u>Appn.</u> <u>Alph</u>	<u>Current Title*</u>	<u>Proposed Title</u>
(2)(a)	Administrative expenses; general fund	Administrative expenses; college tuition and expenses program
(2)(am)	Administrative expenses for college savings program; general fund	Administrative expenses; college savings program
(2)(q)	Payment of qualified higher education expenses and refunds	Payment of qualified higher education expenses and refunds; college tuition and expenses program
(2)(t)	College savings program; payment of qualified higher education expenses and refunds	Payment of qualified higher education expenses and refunds; college savings program
(2)(tm)	General program operations; reimbursement	Administrative expenses; college savings program
(2)(s)	Administrative expenses; tuition trust fund	Administrative expenses; college tuition and expenses program

*Current law as amended by 2001 Act 7.

7. The Committee could include language in the budget to standardize the appropriation titles as outline above.

ALTERNATIVES

1. Approve the Governor's recommendation relating to changes in appropriation structure for the college savings and college tuition and expenses programs.

2. Delete the Governor's recommendation relating to changes in appropriations structure for the college savings and college tuition and expenses programs and include corrective title entries in the appropriations sections of the bill to reflect current law as modified by 2001 Wisconsin Act 7.

3. In addition to Alternative 2, modify current law to change the new SEG appropriation for the college savings program's administrative expenses from a continuing to an annual appropriation.

4. In addition to Alternatives 2 and 3, modify current law to make uniform the appropriation titles for the college savings and college tuition and expenses programs as shown in the table in discussion point 6 above.

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