

R60H
College Savings Plans of Maryland

Operating Budget Data

(\$ in Thousands)

	FY 04 <u>Actual</u>	FY 05 <u>Working</u>	FY 06 <u>Allowance</u>	FY 05-06 <u>Change</u>	% Change <u>Prior Year</u>
Nonbudgeted Fund	<u>\$1,762</u>	<u>\$2,041</u>	<u>\$1,992</u>	<u>-\$49</u>	<u>-2.4%</u>
Total Funds	\$1,762	\$2,041	\$1,992	-\$49	-2.4%

- The Maryland Prepaid College Trust is one of the two plans offered by the College Savings Plans of Maryland (CSPM), and it is the plan that is directly administered by CSPM. The trust expects a \$49,000 decrease in revenues expended in fiscal 2006.

Personnel Data

	FY 04 <u>Actual</u>	FY 05 <u>Working</u>	FY 06 <u>Allowance</u>	FY 05-06 <u>Change</u>
Regular Positions	9.50	9.50	9.50	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	9.50	9.50	9.50	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.00	0.00%
Positions Vacant as of 12/31/04	0.00	0.00%

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Strong Increases for Student Enrollment in Plans; Attendance at State Colleges via Trust: The numbers of students under age 18 who are enrolled in the prepaid trust and in the investment plan have increased significantly since fiscal 2002. The number of students attending a Maryland public higher education institution using the prepaid trust reached 900 in fiscal 2004.

Participation in Trust Uneven Since 1998: The number of prepaid trust contracts purchased has been uneven since fiscal 1998.

Issues

Actuarial Deficit Increases but Percent of Obligations Funded Improves: The actuarial deficit of the prepaid trust has increased to its highest level yet. As of June 30, 2004, the prepaid trust had a \$75 million actuarial deficit. At the same time, the percent of obligations funded improved, reaching 85%. This compares to the actuarial deficit of \$70 million as of June 30, 2003, and 82% funding at that time.

Trust Continues Repayment of State Loan: The prepaid trust received loans from the State in fiscal 1998, 1999, and 2000. The trust plans to repay all but \$40,000 of the loan by the close of fiscal 2006.

House Bill 894 of 2004 Granted Exemption from State Procurement Laws: HB 894 of the 2004 session was passed and signed into law, exempting CSPM from State procurement laws related to its investment contracts for the prepaid trust. HB 109 of the 2005 session would require CSPM – and other agencies similarly exempted from State procurement laws – to maintain internal written policies and procedures for exempt procurements.

Recommended Actions

1. Nonbudgeted.

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Updates

Bids Being Accepted for Management of College Investment Plan: The Maryland College Investment Plan's management contract with T. Rowe Price will expire in July 2006. CSPM issued a request for proposals to manage the plan on February 1, 2005, to more than 120 firms in the investment and banking industries.

Prepaid Trust Offers One Semester Option: For the winter 2004/spring 2005 enrollment period, the prepaid trust began offering contracts for one semester of tuition and mandatory fees.

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Operating Budget Analysis

Program Description

The College Savings Plans of Maryland (CSPM) is an independent agency that administers the State's prepaid college trust and college investment plans, also known as 529 plans after the federal tax code section that authorizes them. These plans are beneficial ways to save because participants pay no State or federal taxes on any earnings (through at least 2010 at the federal level), plus they receive an annual State income tax deduction on contributions of up to \$2,500 per account or beneficiary depending on the plan.

CSPM was established in 1997 (Maryland Annotated Code Article 18, Section 18-1901 through 18-1916 and 18-19A-01 through 18-19A-07), and it serves the 10-member College Savings Plans of Maryland Board. The board is directly involved in administration of the prepaid trust and it oversees and has fiduciary responsibility for both plans. Five board members serve by virtue of the State office they hold, including the State Treasurer, the State Comptroller, Secretary of the Maryland Higher Education Commission, the State Superintendent of Schools, and as of July 1, 2003, the Chancellor of the University System of Maryland. The Governor appoints the five remaining members.

The Maryland Prepaid College Trust began in spring 1998. The trust provides Maryland and District of Columbia residents with a way to pay for a child's future college education based on today's tuition costs at Maryland public colleges and universities. Those who live out-of-state but apply for a child residing in Maryland or the District of Columbia also are eligible. Applicants can choose from one semester to five years of tuition and mandatory fees to be covered at a four-year institution, one or two years at a community college, or a combination. Payments into the trust accounts can be made in single, monthly, or annual installments.

If the child enrolls in a Maryland public college, the trust will pay full in-state tuition and mandatory fees to the college. If the child attends an eligible private or out-of-state college, the average tuition of the Maryland public colleges weighted by in-state enrollment will be paid. Participants also benefit from a legislative guarantee.

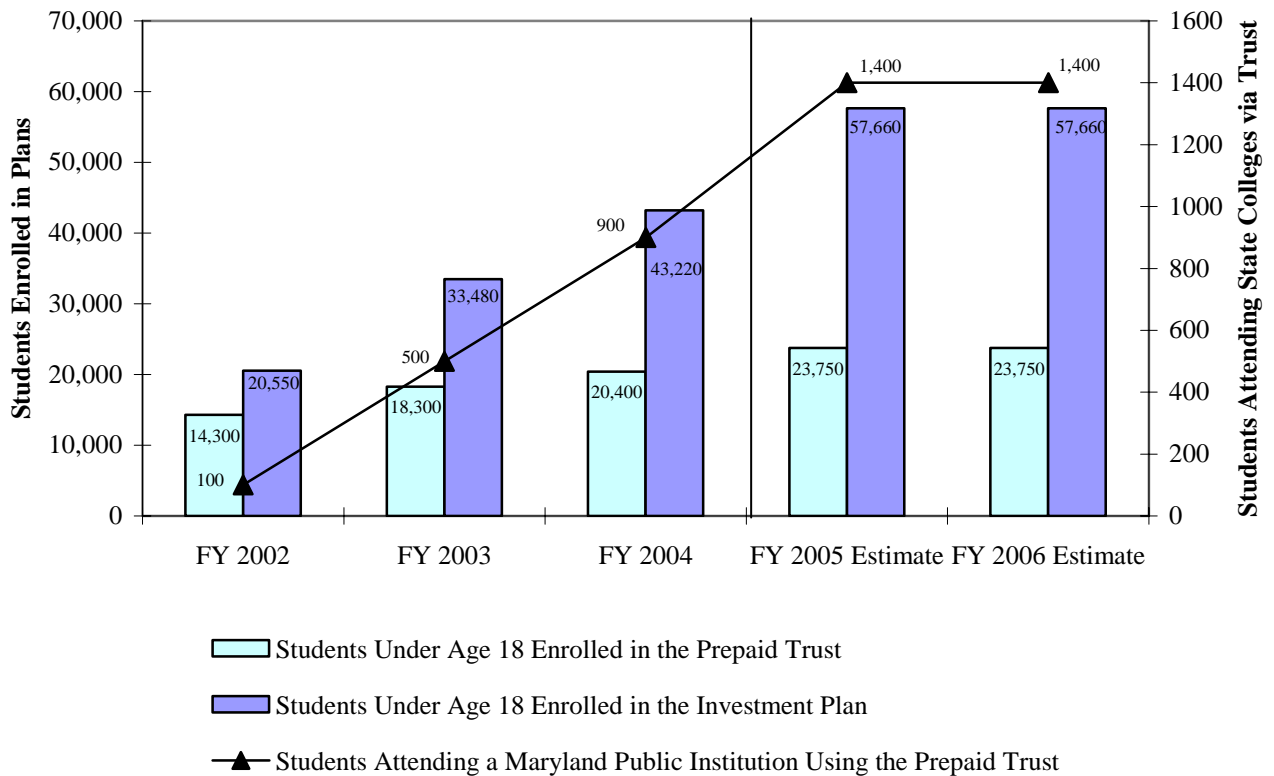
The Maryland College Investment Plan became available in December 2001. The plan allows participants to select among professionally managed investment portfolios and determine the amount and frequency of account contributions. Contributions plus investment earnings are available for eligible higher education expenses including tuition, fees, room and board, and other expenses defined by Section 529 of the Internal Revenue Code. The investment plan is not guaranteed by the State. Participants take on greater risk in exchange for the possibility of greater returns.

Performance Analysis: Managing for Results

Strong Increases for Student Enrollment in Plans, Attendance at State Colleges via Trust

CSPM has a goal to achieve measurable increases in college savings among Maryland families. The numbers of students under age 18 who are enrolled in the prepaid trust and in the investment plan have increased significantly since fiscal 2002, as shown in **Exhibit 1**. Also, the number of students attending a Maryland public higher education institution using the prepaid trust reached 900 in fiscal 2004. CSPM has not set a target level for these or other Managing for Results measures.

Exhibit 1
Student Enrollment in Plans, Students Attending State Colleges via Trust
Fiscal 2002 – 2006



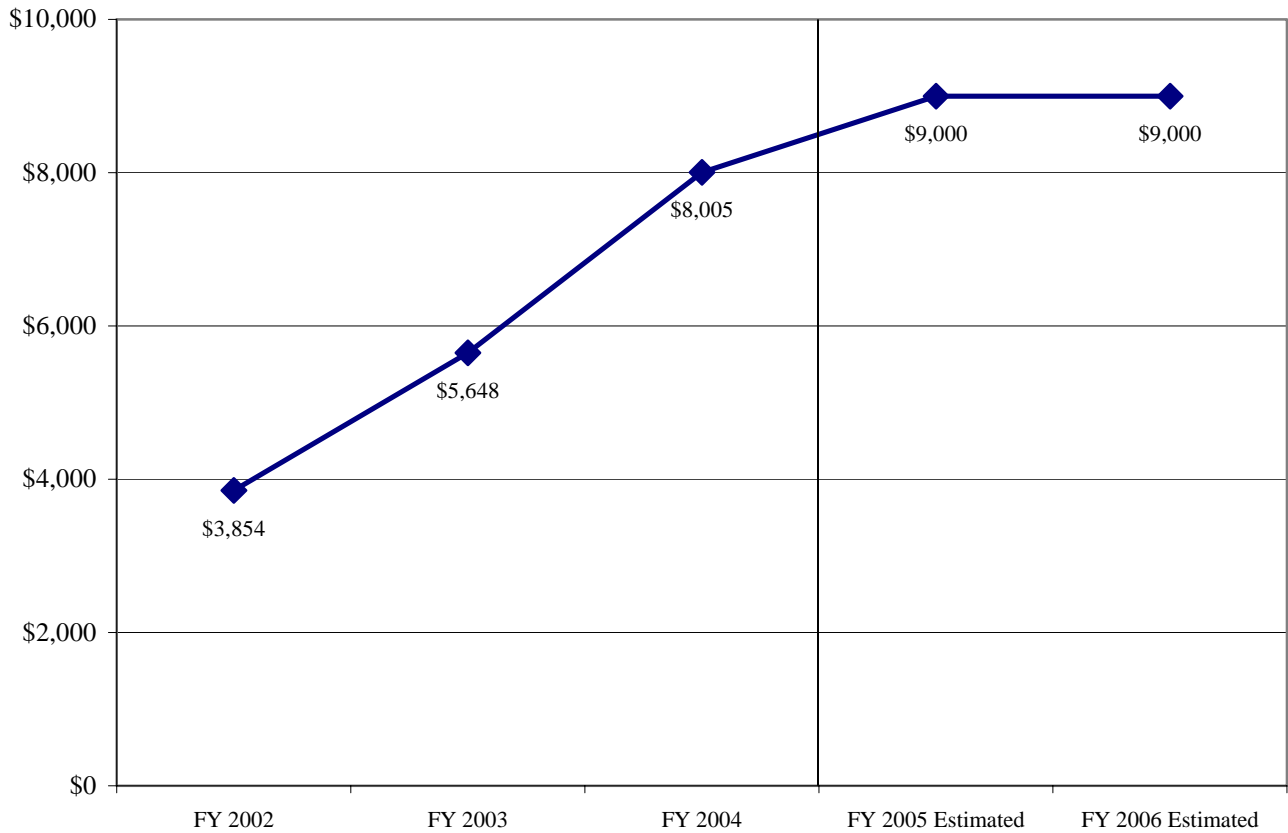
Note: Each student is counted only once in the prepaid trust and in the investment plan. There are, however, about 1,800 students enrolled in both plans.

Source: Maryland State Budget Books

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CSPM also aims to increase the average size of the investment plan accounts. Indeed, the average account balance more than doubled from \$3,854 in fiscal 2002 to \$8,005 in 2004, as shown in **Exhibit 2**.

Exhibit 2
Average Balance of Investment Plan Accounts
Fiscal 2002 – 2006



Source: Maryland State Budget Books

To further increase enrollment, CSPM has a goal to create and maintain statewide awareness of the plans. About 650,000 brochures and fliers were distributed to school children in fiscal 2004. The children were asked to take the brochures home so their parents could be informed of presentations in their communities. CSPM organized 200 presentations in Maryland schools in fiscal 2004, which were attended by 4,600 people. Twenty percent of new applicants to the plans in fiscal 2004 indicated that they attended public school presentations.

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The CSPM marketing campaign includes 2,000 television and radio advertisements and 160,000 mailings each year. For easy access, enrollment information and forms are available on-line at the CSPM web site. In fiscal 2004, 40% of the new enrollment forms for the prepaid trust were completed on-line, and 25% of the forms for the investment plan were completed on-line.

Participation in Trust Uneven Since 1998

The number of prepaid trust enrollments and contracts purchased is an important measure of CSPM performance, since the agency directly administers the trust. Purchases have been uneven since fiscal 1998, as shown in **Exhibit 3**. The sharp increase in fiscal 2001 was spurred by establishment of the legislative guarantee that contract purchases will cover future tuition and fee rates. Subsequent decreases have been caused by rising contract prices. The fiscal 2005 increase is moderate compared to the last two years.

Enrollments represent the number of people who set up accounts with the trust. The number of contracts purchased may be lower than enrollments because contracts become effective when the payment schedule begins, and not every new purchaser begins payments on time. The data in Exhibit 3 are current as of February 21, 2005. Final numbers for the current enrollment period will not be available until the first contract payments are due in August 2005.

Exhibit 3 Participation in the Maryland Prepaid College Trust

<u>Enrollment Period</u>	<u>Enrollments</u>	<u>Contracts Purchased</u>	<u>% Increase in Contracts</u>	<u>% Increase in Contract Price</u>
Spring 1998	1,356	1,102	0	0
Spring 1999	2,720	2,527	129.3%	6.5%
1999 – 2000	1,863	1,620	-35.9%	5.5%
2000 – 2001	5,599	5,319	228.3%	4.3%
2001 – 2002	4,389	4,207	-20.9%	4.3%
2002 – 2003	4,927	4,765	13.3%	24.0%
2003 – 2004	3,640*	3,467	-27.2%	26.0%
2004 – 2005	928**			10.3%
Total	22,078	20,509		

Notes: *Estimated

**This compares to 1,305 at the same point in the 2003 – 2004 period.

Enrollments for 2004 – 2005 are current as of February 21, 2005.

Data on contracts purchased in fiscal 2005 will not be available until August 2005.

Percent increase in price is based on the average of the total prices for a four-year university plan for infants and ninth graders.

Source: College Savings Plans of Maryland; Department of Legislative Services

Proposed Budget

CSPM's administration costs for the prepaid trust are supported by revenues from enrollment fees and fees associated with contract payments. The fee for those enrolling in the prepaid trust during the winter 2004/spring 2005 enrollment period is \$75. An administrative fee of 2.5% is factored into the contract prices to cover operating costs associated with processing payments and managing the accounts. In the past, CSPM has had an actuarial reserve, and these funds, when available, can be used for expenses such as marketing and information technology.

Exhibit 4 shows enrollment fee and program contribution funds. The amounts shown represent funds expended to cover administrative costs, so the actual revenues are higher. Enrollment fees are expected to decrease about 7% in fiscal 2005 and again in 2006. The enrollment fee growth rate is expected to be lower because of continued increases in contract prices. At the same time, expended revenues from contract payment fees, listed as program contributions, are expected to increase significantly in fiscal 2005 but only slightly in 2006. CSPM reports that the fiscal 2005 increase was an anomaly that represented revenues used to cover a \$150,000 technology services contract that had to be paid in advance.

The prepaid trust receives a portion of the program contribution revenues from the college investment plan. Overall, prepaid trust expended revenues are expected to increase 16% in fiscal 2005 but to drop 2.4% in 2006. **The Director should comment on the outlook for prepaid trust revenues.**

Exhibit 4
Maryland Prepaid College Trust Nonbudgeted Funding Sources
Fiscal 2003 – 2006

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u> <u>Estimated</u>	<u>% Increase</u> <u>FY 04 - 05</u>	<u>FY 2006</u> <u>Estimated</u>	<u>% Increase</u> <u>FY 05 - 06</u>
Enrollment Fees	\$1,043,457	\$894,574	\$835,200	-6.6%	\$779,335	-6.7%
Program Contributions	809,037	866,995	1,205,858	39.1%	1,212,268	0.5%
Total Revenues	\$1,852,494	\$1,761,569	\$2,041,058	15.9%	\$1,991,603	-2.4%

Source: Maryland State Budget Books

Proposed expenditures for the prepaid trust are shown in **Exhibit 5**. Contractual services besides marketing are expected to decrease from fiscal 2005, when the one-time technology contract was paid. Communications and fixed charges, among others, are set to increase.

Exhibit 5
Proposed Expenditures
Maryland Prepaid College Trust
Fiscal 2004 – 2006
(\$ in Thousands)

	<u>FY 2004</u>	<u>FY 2005</u> <u>Estimated</u>	<u>FY 2006</u> <u>Estimated</u>	<u>% Increase</u> <u>FY 05 - 06</u>
Salaries, Wages, and Fringe Benefits	\$634	\$714	\$726	1.7%
Technical and Special Fees	27	12	12	0.0%
Communication	148	159	187	17.3%
Travel	7	12	12	0.0%
Fuel and Utilities	6	7	7	2.8%
Motor Vehicle Operation and Maintenance	9	10	10	0.0%
Contractual Services – Marketing	301	296	305	3.1%
Other Contractual Services	387	611	476	-22.0%
Supplies and Materials	23	25	35	41.6%
Equipment – Additional	40	12	12	0.0%
Fixed Charges	59	64	90	40.7%
Loan Repayment to State	120	120	120	0.0%
Total Nonbudgeted Funds	\$1,762	\$2,041	\$1,992	-2.4%

Source: Maryland State Budget Books

Issues

1. Actuarial Deficit Increases but Percent of Obligations Funded Improves

The actuarial deficit of the prepaid trust has increased to its highest level yet. As of June 30, 2004, the prepaid trust had a \$75 million actuarial deficit and was 85% funded. This compares to the actuarial deficit of \$70 million as of June 30, 2003, and 82% funding at that time.

The deficit amount increased due to a rise in projected tuition rate increases. The most recent valuation of the trust reflects a 10% tuition increase in fiscal 2005, 8% annual increases for 2006 and 2007, and 6% annual increases thereafter. The previous valuation reflected an 11% tuition increase in fiscal 2004 and 6% annual increases thereafter. The projection for annual increases in mandatory fees remains at 10%.

Although the amount of the deficit has increased, the percent funded has improved. The improvement is from better than expected returns on the trust's investments. In fiscal 2004 the investments earned an overall return of 13.2%, as compared to the target of 7.7%.

The trust experienced its first actuarial deficit of \$31 million at the end of fiscal 2002 due to lower than expected investment returns, large tuition and fee increases at State public higher education institutions, and a rise in projected annual tuition increases.

Amortization of Deficit Should Eliminate It in Nine Years

The prepaid trust board decided to amortize the actuarial deficit over a nine-year period in contract prices. This means that – should all projections hold true – the deficit would be eliminated in nine years. The new amortization schedule replaces the previous schedules.

2. Trust Continues Repayment of State Loan

The prepaid trust was granted loans in fiscal 1998, 1999, and 2000 totaling \$650,000 from the Maryland Higher Education Commission. As of June 30, 2004, CSPM has repaid \$370,000. The loans are non-interest bearing. CSPM has budgeted \$120,000 in fiscal 2005 and also in 2006 for loan payments.

3. HB 894 of 2004 Granted Exemption from State Procurement Laws

Chapter 208, Acts of 2004 (HB 894) exempted CSPM from State procurement laws related to its investment contracts for the prepaid trust. The college investment plan is not affected. CSPM hires managers to invest the assets of the trust and to manage and improve the trust's assets. The CSPM exemption, which is the same as that of the State Retirement Plan, allows reallocation of assets in a timelier manner. Previously, the procurement process to change allocations could take several

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months. The trust estimates that the exemption will generate savings of \$2.3 million through fiscal 2009.

HB 109 of the 2005 session would require CSPM – and other agencies similarly exempted from State procurement laws – to maintain internal written policies and procedures for exempt procurements. The policies would include provisions on procurement methods, procurement goals, and the approval process. The policies would be submitted to the Board of Public Works annually for review.

Recommended Actions

1. Nonbudgeted.

Updates

1. Bids Being Accepted for Management of College Investment Plan

The Maryland College Investment Plan's management contract with T. Rowe Price will expire in July 2006. CSPM issued a request for proposals to manage the plan on February 1, 2005, to more than 120 firms in the investment and banking industries. Proposals are due by March 29, 2005, and the CSPM Board expects to choose a managing firm by summer 2005. The board may choose to exercise the first of two 2-year renewal options in its current contract with T. Rowe Price, or it may choose from the field of firms submitting proposals.

2. Prepaid Trust Offers One Semester Option

For the winter 2004/spring 2005 enrollment period, the prepaid trust began offering contracts for one semester of tuition and mandatory fees to be covered at a four-year or two-year institution. Previously, the smallest contract was for a single year of tuition and mandatory fees. CSPM will not know until May 1 how many semester plans have been purchased.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Maryland Prepaid College Trust
(\$ in Thousands)**

	<u>Nonbudgeted Funds</u>	<u>Total</u>
Fiscal 2004		
Estimated Budget	\$1,724	\$1,724
Change	37	37
Actual Expenditures	\$1,762	\$1,762
Fiscal 2005		
Estimated Budget	\$1,876	\$1,876
Change	165	165
Working Appropriation	\$2,041	\$2,041

Note: Numbers may not sum to total due to rounding.

Audit Findings

Audit Period for Last Audit:	July 1, 1999 – January 31, 2002
Issue Date:	June 2002
Number of Findings:	2
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	

Finding 1: Cash Receipts – the agency did not verify that all collections applicable to the trust that were received since July 2001 were deposited.

Finding 2: Wire Transfers – internal controls over wire transfers were inadequate.

Note: CSPM engages an independent accounting firm to audit its annual financial statements and these statements are included in its annual report.

**Object/Fund Difference Report
College Savings Plans of Maryland**

<u>Object/Fund</u>	<u>FY04 Actual</u>	<u>FY05 Working Appropriation</u>	<u>FY06 Allowance</u>	<u>FY05 - FY06 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	9.50	9.50	9.50	0	0%
Total Positions	9.50	9.50	9.50	0	0%
Objects					
01 Salaries and Wages	\$ 634,090	\$ 714,164	\$ 725,978	\$ 11,814	1.7%
02 Technical & Spec Fees	27,302	11,500	11,500	0	0%
03 Communication	148,069	159,387	186,906	27,519	17.3%
04 Travel	6,658	12,000	12,000	0	0%
06 Fuel & Utilities	6,350	6,500	6,684	184	2.8%
07 Motor Vehicles	9,025	9,500	9,500	0	0%
08 Contractual Services	687,841	906,718	781,210	-125,508	-13.8%
09 Supplies & Materials	22,574	25,000	35,400	10,400	41.6%
11 Equip - Additional	40,174	12,000	12,000	0	0%
13 Fixed Charges	59,486	64,289	90,425	26,136	40.7%
14 Land & Structures	120,000	120,000	120,000	0	0%
Total Objects	\$ 1,761,569	\$ 2,041,058	\$ 1,991,603	-\$ 49,455	-2.4%
Funds					
07 Nonbudgeted Fund	\$ 1,761,569	\$ 2,041,058	\$ 1,991,603	-\$ 49,455	-2.4%
Total Funds	\$ 1,761,569	\$ 2,041,058	\$ 1,991,603	-\$ 49,455	-2.4%

Note: The fiscal 2005 appropriation does not include deficiencies, and the fiscal 2006 allowance does not reflect contingent reductions.