

R60H
College Savings Plans of Maryland

Operating Budget Data

(\$ in Thousands)

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>	% Change <u>Prior Year</u>
Non-budgeted Fund	<u>\$1,777</u>	<u>\$2,228</u>	<u>\$2,217</u>	<u>-\$11</u>	<u>-0.5%</u>
Total Funds	<u>\$1,777</u>	<u>\$2,228</u>	<u>\$2,217</u>	<u>-\$11</u>	<u>-0.5%</u>

- For fiscal 2007, the College Savings Plans of Maryland (CSPM) expects a decrease in expenditures of \$11,000. However, this does not account for an overpayment of the loan that CSPM owes to the State that is budgeted to occur in fiscal 2007. Only \$40,000 is owed and not \$120,000 as budgeted. Adjusting for this overpayment, expenditures in fiscal 2007 are expected to be \$2,136,738, or a decrease of 4.1%.

Personnel Data

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>
Regular Positions	9.50	11.50	11.50	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	9.50	11.50	11.50	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.00	0.00%
Positions Vacant as of 12/31/05	1.00	8.70%

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 number of students who are enrolled in the prepaid trust and in the investment plan has increased significantly since fiscal 2002. Also, the number of students attending college using the prepaid trust reached 1,400 in fiscal 2005.

Participation in Trust: The number of prepaid trust enrollments and contracts purchased has been uneven since fiscal 1998. Fewer contracts were purchased in the 2004 – 2005 enrollment period than in any year since fiscal 2000.

Issues

Status of the Maryland Prepaid College Trust: There were 2,419 students eligible to use the benefits of the trust for the fall 2005 semester. In fiscal 2005, the actuarial deficit of the prepaid trust has decreased to its lowest level since 2001.

Status of the Maryland College Investment Plan: As of June 30, 2005, there were 39,495 account holders in the College Investment Plan. During fiscal 2005, distributions were made to 3,282 beneficiaries totaling \$36.6 million.

Recommended Actions

1. Nonbudgeted.

R60H College Savings Plans of Maryland

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 may also enroll a child residing in Maryland or the District of Columbia. Account holders 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 as a full-time student 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, up to the average tuition of the Maryland public colleges weighted by in-state full-time equivalent student enrollment will be paid. Participants also benefit from a legislative guarantee.

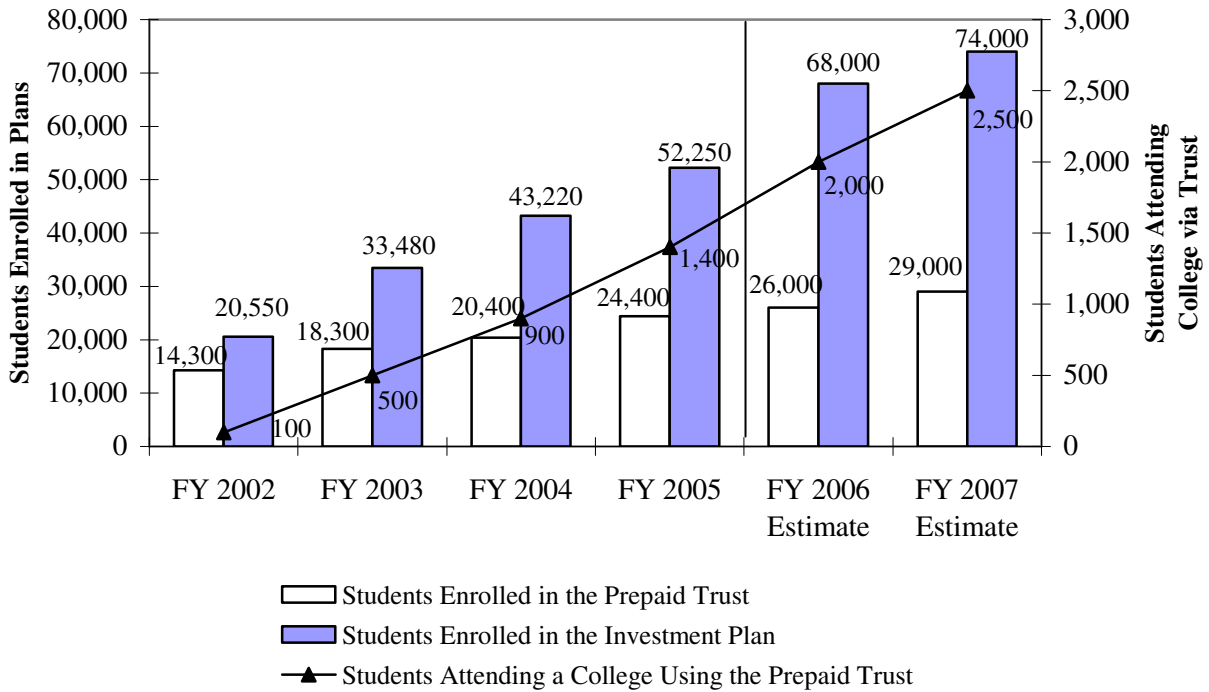
The Maryland College Investment Plan became available in December 2001. The plan allows participants to select among professionally managed investment portfolios and determine the amount and frequency of account contributions. Contributions plus investment earnings are available for eligible higher education 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 Colleges via Trust

CSPM has a goal to achieve measurable increases in college savings among Maryland families. The number of students who are enrolled in the prepaid trust and in the investment plan has increased significantly since fiscal 2002, as shown in **Exhibit 1**. In fiscal 2005 24,400 students were enrolled in the prepaid trust, and 52,250 students were enrolled in the investment plan. Also, the number of students attending a higher education institution using the prepaid trust reached 1,400 in fiscal 2005. This is an increase from 900 in fiscal 2004 and is estimated to reach 2,500 in fiscal 2007.

**Exhibit 1
Student Enrollment in Plans
Students Attending Higher Education Institutions via Trust
Fiscal 2002 – 2007**

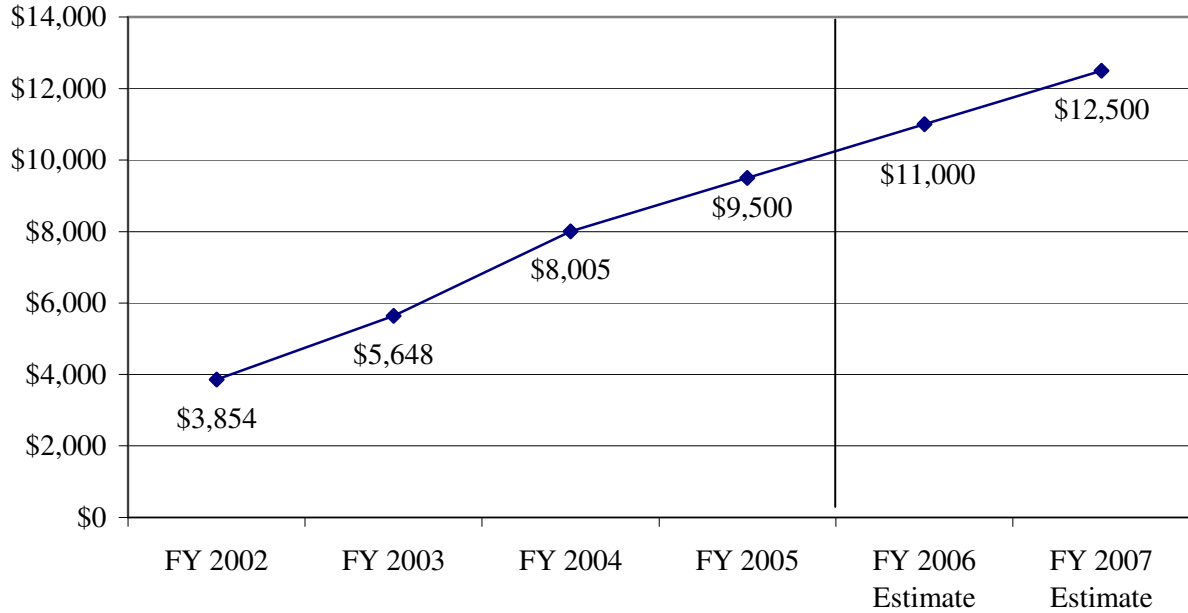


Source: Maryland State Budget Books

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CSPM also aims to increase the average amount in the investment plan accounts. The average account balance increased from just over \$8,000 in fiscal 2004 to \$9,500 in 2005, as shown in **Exhibit 2**. This average is expected to increase to \$12,500 by fiscal 2007.

Exhibit 2
Average Balance of Investment Plan Accounts
Fiscal 2002 – 2007



Source: Maryland State Budget Books

To further increase enrollment, CSPM has a goal to create and maintain statewide awareness of the plans. About 675,000 brochures and fliers were distributed to school children in fiscal 2005. The children were asked to take the brochures home to their parents to inform them of presentations about the plans that will take place in their communities. CSPM organized 101 presentations in fiscal 2005 and reached 1,000 people who attended them. This is down from fiscal 2004 when twice as many presentations were made and 4,600 people were in attendance. Eight percent of the new applicants in fiscal 2005 indicated they attended a presentation.

The CSPM marketing campaign includes 900 television and radio spots, 160,000 direct mailings, and 45,000 enrollment kits distributed in fiscal 2005. For easy access, enrollment information and forms are available on-line at the CSPM web site. In fiscal 2005, 51% of the prepaid trust applications and 30% of the investment plan applications were received on-line.

Participation in Trust Decreases in Fiscal 2005

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 mandatory fee rates. Recent decreases have coincided with steep increases in contract prices. The 2004 – 2005 enrollment period purchases continue to decrease despite the more moderate increase in contract price of 10.3%. The fiscal 2006 contract price increases 5.4% over 2005. **The director should comment on the decrease in prepaid trust enrollments.**

Applications represent the number of people who set up accounts with the trust. The number of accounts purchased may be lower than applications because accounts 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 12, 2006. Final numbers for the current enrollment period will not be available until the first contract payments are due in August 2006.

Exhibit 3 Participation in the Maryland Prepaid College Trust Fiscal 1998 – 2006

<u>Enrollment Period</u>	<u>Applications</u>	<u>Accounts 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	3,938*	3,750	-21.3%	26.0%
2004 – 2005	2,802*	2,669	-28.8%	10.3%
2005 – 2006	829**			5.4%
Total	28,423	25,959		

*Estimated.

**This compares to 854 at approximately the same point in the 2004 – 2005 enrollment period. Data for 2005 – 2006 are current as of February 12, 2006. Percent increase in lump sum 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

Governor's Proposed Budget

CSPM's administrative costs for the prepaid trust are supported by revenues from enrollment fees and fees associated with prepaid college trust payments. The fee for those enrolling in the prepaid trust during the winter 2005/spring 2006 enrollment period is \$75. This is the same as for the previous enrollment period. An administrative fee of 2.5% is factored into the contract prices to cover operating expenses associated with processing payments and managing the accounts and remains unchanged from last year.

Exhibit 4 shows enrollment fee and program contribution or management fee revenues for the prepaid trust and the investment plan. Enrollment fee revenue for the prepaid trust is expected to increase 20.5% in fiscal 2006 and is estimated to remain stable in fiscal 2007. Management fee revenue from the prepaid trust is expected to increase by 3.2% in fiscal 2007 over fiscal 2006 levels. For the investment plan, enrollment fee revenue decreased 1.6% from fiscal 2005 to 2006. A new contract with T. Rowe Price will become effective July 1, 2006, and will no longer require enrollment fees, but now T. Rowe Price will pay CSPM an amount that is based on the asset level of the investment plan, or \$636,000, whichever is higher. Overall, total revenues are expected to decrease 12.4% in fiscal 2006 and decrease again by 4.7% in fiscal 2007.

Proposed expenditures for CSPM are also shown in Exhibit 4. Fuel and utilities are expected to increase 53.3% from fiscal 2006 levels. This is related not only to increases in utility rates but also to a doubling of office space to accommodate 11 employees. The previous office space accommodated six employees. Additionally, fixed charges are expected to decrease 34.9%. The decrease reflects one-time expenses, such as moving and storage, in fiscal 2006 that were related to relocating offices. These expenses will not be incurred in fiscal 2007. Also, two additional staff positions were added in fiscal 2006. Together, these expenditures account for the additional \$236,000 in the fiscal 2006 budget above the original estimated budget that is reflected in Appendix 1. Overall, the total expenditures are expected to decrease 4.1% in fiscal 2007. The difference between total revenues and total expenditures represents excess revenues. The prepaid trust and the investment plan each have a fund for excess revenues. Excess revenues will primarily depend upon additional invested funds and, to a smaller degree, on how many new enrollments occur in fiscal 2007. Excess revenues can only be used for the benefit of the families.

The director should comment on the impact of the new T. Rowe Price contract on CSPM revenues and on the outlook for total revenues, particularly the expected decrease in fiscal 2007.

Exhibit 4
College Savings Plans of Maryland Revenues and Expenditures
Fiscal 2005 – 2007

	<u>FY 2005</u>	<u>Estimated FY 2006</u>	<u>% Increase FY 05 - 06</u>	<u>Estimated FY 2007</u>	<u>% Increase FY 06 - 07</u>
Revenues					
Prepaid Trust					
Enrollment Fees	\$173,000	\$208,500	20.5%	\$208,500	0.0%
Management Fees	1,931,000	1,317,810	-31.8%	1,359,839	3.2%
Total	\$2,104,000	\$1,526,310	-27.5%	\$1,568,339	2.8%
Investment Plan					
Enrollment Fees ⁽¹⁾	\$535,000	\$526,500	-1.6%	\$636,000	20.8%
Program Contributions	0	259,215		0	-100.0%
Total	\$535,000	\$785,715	46.9%	\$636,000	-19.1%
Total Revenues	\$2,639,000	\$2,312,025	-12.4%	\$2,204,339	-4.7%
Expenditures					
Salaries, Wages, and Fringe Benefits	\$690,998	\$827,325	19.7%	\$849,147	2.6%
Technical and Special Fees	10,155	43,500	328.4%	43,500	0.0%
Communication	129,190	148,423	14.9%	154,166	3.9%
Travel	5,150	12,000	133.0%	12,000	0.0%
Fuel and Utilities	7,923	6,684	-15.6%	10,247	53.3%
Motor Vehicle Operation and Maintenance	9,000	9,500	5.6%	9,500	0.0%
Contractual Services – Marketing	294,000	320,000	8.8%	330,000	3.1%
Other Contractual Services	373,930	507,706	35.8%	518,896	2.2%
Supplies and Materials	23,000	35,400	53.9%	36,500	3.1%
Equipment – Additional	49,000	12,000	-75.5%	12,000	0.0%
Fixed Charges	64,654	185,480	186.9%	120,782	-34.9%
Loan Repayment to State	120,000	120,000	0.0%	40,000	-66.7%
Total Expenditures	\$1,777,000	\$2,228,018	25.4%	\$2,136,738	-4.1%
Excess Revenues	\$862,000	\$84,007	-90.3%	\$67,601	-19.5%

Note: The prepaid trust and the investment plan each have a fund for excess revenues. The revenues can only be used to benefit the families that participate in the plans.

⁽¹⁾ The new T. Rowe Price contract no longer has enrollment fees, but T. Rowe Price will pay CSPM an amount based on assets or \$636,000, whichever is higher.

Source: College Savings Plans of Maryland; Maryland State Budget Books

Issues

1. Status of the Maryland Prepaid College Trust

During the 2004 – 2005 enrollment period, there were 2,669 new enrollments in the trust. The average age of new enrollees was seven years old, but there were enrollees in every age category from infants to students in the twelfth grade.

There were 2,419 students eligible to use the benefits of the trust for the fall 2005 semester. This has increased from approximately 1,400 students eligible during the fall 2004 semester. Approximately 70% of the eligible students claimed their trust benefits for the fall, and 58% of these students are attending Maryland public colleges.

Actuarial Deficit Decreases and Percent of Obligations Funded Improves

Since fiscal 2002, the prepaid trust has had an actuarial deficit and has not been 100% funded. During fiscal 2005, the actuarial deficit of the prepaid trust has decreased to its lowest level since 2001, and the percent funded is at its highest level since 2001. As of June 30, 2005, the prepaid trust had a \$26.5 million actuarial deficit and was 95% funded. This compares to a \$75 million actuarial deficit and 85% funding as of June 30, 2004.

There are three factors that contributed to these improvements. The first is that the actual weighted average for tuition increases among Maryland schools for the 2005 – 2006 academic year was lower than expected. The second is that the prediction for annual tuition increases for academic years 2006 – 2007 and 2007 – 2008 have been reduced to 7% from the original prediction of 8%. The final factor is that the rate of return on the prepaid trust was higher than predicted – 8.4% instead of the predicted 7.65%. The actuarial deficit will be reevaluated mid-year.

Amortization of Actuarial Deficit Should Eliminate It in 2.5 Years

The board decided to amortize the actuarial deficit over a 2.5-year period in contract prices. This means that if all projections hold true, the deficit would be eliminated in 2.5 years. At this time last year, the amortization was to take place over nine years.

Trust Continues Repayment of State Loan

The prepaid trust was granted interest free loans in fiscal 1998, 1999, and 2000 totaling \$650,000 from the Maryland Higher Education Commission. As of June 30, 2005, CSPM has repaid \$490,000 leaving \$160,000 to be repaid. Of this amount \$120,000 was due during fiscal 2006. Therefore, \$40,000 remains to be paid in fiscal 2007.

2. Status of the Maryland College Investment Plan

As of June 30, 2005, there are 39,495 account holders in the College Investment Plan. New enrollments during fiscal 2005 have primarily been from three counties – Montgomery, Baltimore, and Howard – but participation from other counties in Southern and Western Maryland has increased. During fiscal 2005, distributions were made to 3,282 beneficiaries totaling \$36.6 million.

T. Rowe Price Selected for Management of College Investment Plan

The Board selected T. Rowe Price to manage the investment plan accounts. This selection was made after a competitive bidding process. This decision has been approved by the Board of Public Works and will become effective July 1, 2006. This is a new contract with T. Rowe Price and will last seven years.

Recommended Actions

1. Nonbudgeted.

Current and Prior Year Budgets

Current and Prior Year Budgets College Savings Plans of Maryland (\$ in Thousands)

	<u>Nonbudgeted Funds</u>	<u>Total</u>
Fiscal 2005		
Estimated Budget	\$1,876	\$1,876
Change	-\$99	-\$99
Actual Expenditures	\$1,777	\$1,777
Fiscal 2006		
Estimated Budget	\$1,992	\$1,992
Change	\$236	\$236
Working Appropriation	\$2,228	\$2,228

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)	n/a

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>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	9.50	11.50	11.50	0	0%
Total Positions	9.50	11.50	11.50	0	0%
Objects					
01 Salaries and Wages	\$ 690,998	\$ 827,325	\$ 849,147	\$ 21,822	2.6%
02 Technical & Spec Fees	10,155	43,500	43,500	0	0%
03 Communication	129,190	148,423	154,166	5,743	3.9%
04 Travel	5,150	12,000	12,000	0	0%
06 Fuel & Utilities	7,923	6,684	10,247	3,563	53.3%
07 Motor Vehicles	9,000	9,500	9,500	0	0%
08 Contractual Services	667,930	827,706	848,896	21,190	2.6%
09 Supplies & Materials	23,000	35,400	36,500	1,100	3.1%
11 Equip - Additional	49,000	12,000	12,000	0	0%
13 Fixed Charges	64,654	185,480	120,782	-64,698	-34.9%
14 Land & Structures	120,000	120,000	120,000	0	0%
Total Objects	\$ 1,777,000	\$ 2,228,018	\$ 2,216,738	-\$ 11,280	-0.5%
Funds					
07 Non-budgeted Fund	\$ 1,777,000	\$ 2,228,018	\$ 2,216,738	-\$ 11,280	-0.5%
Total Funds	\$ 1,777,000	\$ 2,228,018	\$ 2,216,738	-\$ 11,280	-0.5%