

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**

Senate Bill 596

(Senator Rosapepe)

Budget and Taxation

---

**Maryland Prepaid College Trust - Student 2+2 Program - Out-of-County Costs**

---

This bill requires that two-plus-two prepaid tuition contracts administered by the College Savings Plans of Maryland allow the contract benefits to be used to pay the out-of-county tuition rates at community colleges.

The bill takes effect July 1, 2010, and applies retroactively to any prepaid contract benefits received on or after July 1, 2009.

---

**Fiscal Summary**

**State Effect:** The College Savings Plans of Maryland is an unbudgeted agency. Any administrative expenses to change prepaid tuition contracts can be handled with existing resources; however, requiring contract benefits to be allowed to pay out-of-county rates will create an unfunded liability for the Maryland Prepaid College Trust. These costs will be incorporated in contract costs beginning in FY 2012. Due to the legislative guarantee for the trust, general fund expenditures for the trust will increase in the unlikely event that contract revenues are unable to cover the increased liability.

**Local Effect:** More students with eligible prepaid tuition contracts may choose to attend out-of-county community colleges, which may increase tuition revenues at some community colleges and decrease tuition revenues at others.

**Small Business Effect:** None.

---

## Analysis

**Current Law/Background:** A qualified tuition program operating under the authority of § 529 of the Internal Revenue Code, also called 529 plans, is a program set up to allow an individual to either prepay, or contribute to an account established for paying, a student's qualified education expenses at an eligible educational institution. A qualified educational institution includes any college, university, vocational school, or other postsecondary educational institute eligible to participate in a U.S. Department of Education student aid program. There are two types of 529 plans: prepaid tuition plans and college savings plans. All 50 states and the District of Columbia sponsor at least one type of 529 plan. In addition, private colleges and universities are eligible to sponsor a prepaid tuition plan.

The College Savings Plans of Maryland administer Maryland's 529 plans. Maryland's prepaid tuition program is known as the Maryland Prepaid College Tuition Trust and offers three tuition plans: the university plan (one semester or one, two, three, four, or five years); the community college plan (one or two years of community college); and the two-plus-two plan (two years of the community college plan plus two years of the university plan). Parents sign up for a plan with a specific cost and specific benefits, which are defined in the contract.

If a beneficiary attends a Maryland public college, the trust will pay the full in-state or in-county tuition and mandatory fees or the minimum benefit, whichever is greater. If a beneficiary attends a private or out-of-state college, the trust will pay either the weighted average tuition or the minimum benefit, whichever is greater.

The minimum benefit is defined as the payments made into the plan plus a reasonable rate of return. If a beneficiary's tuition is less than the minimum benefit, then the difference may be used for other qualified education expenses defined in the contract, including books, room, and board.

Generally, a student who does not live in the county that supports a particular community college must pay an out-of-county fee. The out-of-county fee must be at least equal to 60% of the county share per full-time student. **Exhibit 1** shows the difference between community colleges' in-county and out-of-county tuition and fees for Maryland residents. The difference between the in-county and out-of-county tuition and fees at community colleges ranges from \$1,593 at Carroll Community College to \$3,900 at Garrett College.

---

**Exhibit 1**  
**Difference Between In-county and Out-of-county**  
**Annual Tuition and Fees for Maryland Residents**  
**Fall 2009**

	<u><b>Fall 2009 Tuition and Fees</b></u>		
	<u><b>In-County</b></u>	<u><b>Out-of-county</b></u>	<u><b>Difference</b></u>
Allegany College of Maryland	\$3,164	\$5,654	\$2,550
Anne Arundel Community College	2,920	5,350	2,430
Baltimore City Community College	3,112	3,112	-
Community College of Baltimore County	3,102	5,892	2,790
Carroll Community College	3,565	5,158	1,593
Cecil College	2,820	5,520	2,700
Chesapeake College	3,304	5,374	2,070
College of Southern Maryland	3,690	6,420	2,730
Frederick Community College	3,267	6,627	3,360
Garrett College	3,210	7,110	3,900
Hagerstown Community College	3,220	4,870	1,650
Harford Community College	2,587	4,897	2,310
Howard Community College	3,993	6,483	2,490
Montgomery College	4,092	7,944	3,852
Prince George's College	3,801	5,931	2,130
Wor-Wic Community College	2,624	6,104	3,480
<b>State Average</b>	<b>\$3,279</b>	<b>\$5,782</b>	<b>\$2,502</b>

Source: Maryland Association of Community Colleges

---

The College Savings Plans of Maryland reports that the trust was almost fully funded (92%) as of June 2009.

**State Effect:** Requiring prepaid tuition two-plus-two contracts to cover the out-of-county tuition and fees creates an unfunded liability for the Maryland Prepaid College Trust due to the cost for the different prepaid tuition plans projected by the actuary using the weighted average of the in-state or in-county cost tuition and fees for the institutions covered by the particular plan (*i.e.* university plan, community college plan, or two-plus-two plan) and the age of the beneficiary. The in-county tuition and fees were used to determine the contract cost and benefits to keep the community college and the two-plus-two prepaid tuition plans affordable for parents. It is unknown how much

future contract costs will need to increase to cover the additional liability; however, the trust reports that approximately 12% of students using the prepaid plan are currently attending an out-of-county community college and anticipates if the out-of-county tuition and fees were covered by the contracts, more students would choose to attend an out-of-county community college.

The trust is backed by a legislative guarantee that covers the current contract benefits if the trust has insufficient revenues. Therefore, in the unlikely event that future contract revenues are unable to cover the increased liability, general fund expenditures will increase to cover the eligible benefits for students. Prepaid contract rates for fiscal 2010 and 2011 have already been set, so any potential general fund impact would be in fiscal 2011. Given the trust's funding status, no State impact is anticipated. The prepaid trust would adjust contract rates beginning in fiscal 2012 to cover the additional liability, so there would be no anticipated general fund impact; however, costs for Maryland families to purchase a two-plus-two contract would increase.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Maryland Higher Education Commission, St. Mary's County, College Savings Plans of Maryland, Department of Legislative Services

**Fiscal Note History:** First Reader - March 9, 2010  
ncs/rhh

---

Analysis by: Caroline L. Boice

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510