RH.00
Maryland Prepaid College Trust

Operating Budget Data

($ in Thousands)

	FY 00 Actual	FY 01 Working	FY 02 Allowance	Change	% Change Prior Year
Nonbudgeted Fund	$1,150	$1,436*	$1,786	$349	24.3%
Total Funds	**$1,150**	**$1,436**	**$1,786**	**$349**	**24.3%**

- The Governor's budget book does not accurately reflect the trust's current fiscal 2001 budget and, as a consequence, nor does this chart. The trust's fiscal 2001 budget is $1.948 million, and it decreases by nearly $163,000 between fiscal 2001 and 2002. This decrease will result primarily from conducting a fall 2001/winter 2002 marketing campaign in partnership with the college investment plan.

*Fiscal 2001 figure differs from current spending plan.

Personnel Data

	FY 00 Actual	FY 01 Working	FY 02 Allowance	Change
Regular Positions	6.00	6.00	6.00	0.00
Contractual FTEs	0.25	0.80	2.00	1.20
Total Personnel	**6.25**	**6.80**	**8.00**	**1.20**

Vacancy Data: Regular

Budgeted Turnover: FY 02	0.06	1.00%
Positions Vacant as of 12/31/00	0.00	0.00%

- Although the Governor's budget book and, consequently, this chart show a total of two contractual positions in fiscal 2002, the Maryland Prepaid College Trust reports that it will have 2.8 contractual positions. In the past, the trust contracted for records administration services, but program staff currently provide this service. The two additional contractual positions will support this function.

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

Analysis in Brief

Issues

Trust Makes Significant Progress Toward Self-Sufficiency: With anticipated growth in enrollment and increased use of self-generated revenues, the trust has developed a fiscal 2002 budget that requires no State funding. This issue discusses enrollment projections and the trust's revenue sources. **The trust will be asked to explain its policy related to use of its investment surplus, to discuss the most recent information on participation in the current enrollment period, and to provide a report after the enrollment period on participation levels and their impact on the trust's fiscal 2001 and 2002 budgets.**

Efforts Underway to Launch Investment Plan in Fall 2001: Chapter 494, Acts of 2000 (HB 11) authorized the creation of the Maryland College Investment Plan. The Maryland Higher Education Investment Board issued a Request for Proposals in December and expects the future contractor to launch the investment plan in the fall of 2001. **The trust should discuss its efforts related to the investment plan, funding that might be needed for start-up costs, and the source of these funds.**

Recommended Actions

1. Nonbudgeted.

2. Add narrative to request a report on the results of fiscal 2001 enrollment period, its impact on the fiscal 2001 and 2002 budgets, and the selection of an investment plan contractor.

Updates

First Class of Beneficiaries to Attend College in Fall 2001: The trust expects that about 70 beneficiaries will begin using program benefits in fiscal 2002.

RH.00
Maryland Prepaid College Trust

Operating Budget Analysis

Program Description

In 1997 the General Assembly adopted legislation creating the Maryland Higher Education Investment Program, a nonbudgeted State agency. Legislation passed during the 2000 session changed the program's statutory name to the Maryland Prepaid College Trust (MPCT), the name used for marketing purposes since the program's inception. Under the trust, parents, grandparents, and other interested persons may make investments on behalf of a child to cover the full cost of tuition and mandatory fees at any Maryland public college. If the child attends a Maryland private college or an out-of-state college, the trust is designed to provide benefits equal to the weighted average of tuition and mandatory fees at the Maryland public colleges. The purchaser or beneficiary must be a resident of Maryland or the District of Columbia at the time the contract is purchased. During the 2000 legislative session, the General Assembly provided the trust with a statutory guarantee. Should contract obligations exceed the market value of program assets, the statutory guarantee obligates the Governor to include funds sufficient to cover the shortfall in the proposed budget.

Trust participants may qualify for State and federal tax benefits. A contract purchaser can take up to a $2,500 subtraction modification from Maryland income annually for each contract purchased until the total amount of payments is subtracted. At both the State and federal level, earnings on contributions accumulate tax deferred until withdrawal. Earnings are State tax exempt when used for qualified higher education expenses. For purposes of federal taxation, the earnings are taxed at the beneficiary's rate if used for qualified higher education expenses.

As authorized by statute, the trust's policies, operations, and financial decisions are made by the trust's board. Under statute, the board consists of nine members: four ex-officio members and five appointed by the Governor. The administrative functions of the board are managed by a staff of six, including an executive director and a chief financial officer. The trust contracts with private providers for actuarial duties, banking, investment, and marketing services. The responsibilities of the board have increased with the passage of the 2000 legislation authorizing it to establish a second type of college savings option, the Maryland College Investment Plan (MCIP).

Estimated Budget

Changes in the Fiscal 2001 Budget

Exhibit 1 shows a comparison of the trust's fiscal 2001 and 2002 estimated budgets. The fiscal 2001 budget shown in the exhibit differs significantly from the fiscal 2001 budget reviewed by the budget committees last session. The trust's original fiscal 2001 budget totaled $1.6 million. Because the General Assembly permitted the trust to delay its outstanding State loans until it achieved financial self-sufficiency, anticipated fiscal 2001 expenditures dropped to $1.4 million. As shown in Exhibit 1, the

Exhibit 1

Comparisons of Fiscal 2001 and 2002 Estimated Budgets

	Estimated FY 2001 Budget as of Jan. 2001	Estimated FY 2002	Change	Percent Change
Salaries and Wages	$422,576	$447,498	$24,922	5.9%
Marketing	525,238	400,000	(125,238)	(23.8%)
Fiscal Services	225,210	129,568	(95,642)	(42.5%)
Software Acquisition	217,615	175,060	(42,555)	(19.6%)
Consulting Services/Equipment for Records Administration	144,590	111,667	(32,923)	(22.8%)
Telephone/Postage/Telemarketing	195,000	172,797	(22,203)	(11.4%)
Contractual Services	97,445	135,000	37,555	38.5%
Legal Services	35,200	36,608	1,408	4.0%
Supplies	22,165	24,500	2,335	10.5%
Travel	13,465	15,000	1,535	11.4%
Maintenance/Fixed Charges	45,698	132,539	86,841	190.0%
Utilities	4,200	5,500	1,300	31.0%
Total	**$1,948,402**	**$1,785,737**	**($162,665)**	**(8.3%)**

Source: Maryland Prepaid College Trust; Department of Legislative Services

trust's current fiscal 2001 operating budget is $1.9 million, a 36% increase over the original fiscal 2001 budget without the loan repayment.

Increases in the fiscal 2001 budget resulted primarily from records administration expenses. Procurement laws required the trust to resolicit bids for this service. After reviewing the proposals, the board selected an Internet-based software system to be administered in-house by program staff. Under the previous contractor, the trust paid approximately $160,000 per year for records administration. That contractor indicated that the price would likely increase in future years under a new contract. The cost of the in-house system is nearly $380,000 per year for the first three years. Because the three-year contract includes one-time expenses, the trust expects the annual cost for records administration to decline in future years. The contract price includes consulting services for the trust to customize the system to its needs. Maintaining records in-house is also accompanied by increased costs for postage, telephone services, and contractual employees. Additional marketing expenses of $100,000 also contribute to the 36% increase in the fiscal 2001 budget.

Changes between the Fiscal 2001 and 2002 Budgets

Exhibit 1 compares the fiscal 2001 budget to the fiscal 2002 budget. The 2002 budget decreases by almost $163,000, or about 8%. The most significant dollar reduction is for marketing expenses. The trust plans to conduct a joint marketing campaign with the new MCIP, and some of the costs will be shared between the two savings plans. The exhibit also shows a significant percentage decline in fiscal services. The fiscal 2001 budget contains a partial-year payment for the records administration contractor. As discussed above, program staff now provide this service in-house using an Internet-based software system. The purchase of a maintenance agreement for the records administration system partially offsets decreases in other areas of the budget.

The trust's fiscal 2002 budget uses three sources of self-generated revenues: application fees, operating fees collected from program payments, and investment earnings. Issue #1 contains a detailed discussion of the trust's revenue sources.

Performance Analysis: Managing for Results

Performance Measures Should Focus on Outcomes Rather than Processes

The trust has expanded its Managing for Results (MFR) submission to include additional objectives and performance indicators related to marketing. The MFR, however, has omitted goals and measures focused on the anticipated outcomes associated with these marketing measures. Last year, the trust's only MFR goal was increasing program participation to 0.5% of Maryland residents by 2005. The trust should return this goal, with any necessary modifications, to its MFR submission and perhaps add a similar goal related to District of Columbia residents. The MFR should then include performance indicators that measure progress toward these goals. Last year's MFR submission also included the number of applications received and the number of contracts sold. These measures should also be maintained as permanent MFR indicators. They capture basic information needed to understand program participation and the workload of the trust. As suggested last year, the trust should add a measure tracking its success in attracting lower-income purchasers. The trust listed this as one of its goals in its October 1999 business plan, and it already collects this information for its demographic reports.

The trust has improved its MFR submission by adding efficiency measures related to marketing. However, an efficiency measure that appears under three objectives needs modification. For objectives involving public school presentations, private school presentations, and other types of presentations, the indicator tracks the percentage of new applicants that attended a presentation. A more helpful indicator would measure new applicants that attended each type of presentation as a percentage of the total number of parents or sets of parents that attended each type of presentation. This measure would capture the impact of each type of presentation on trust participation. In addition, with this change, the measure would not be negatively impacted by other successful marketing efforts. A print advertisement, for example, might attract a significant number of new applicants, and as a result, the percentage of new applicants that attended a presentation might decline. Because the trust reaches new applicants by various forms of media, for purposes of MFR measures, the trust must develop a system for determining the primary type or types of marketing that influenced a person’s decision to submit an application.

The trust should also attempt to measure the possible outcomes associated with program participation. The trust's mission includes reducing future reliance on loans for higher education expenses. Because of the difficulty associated with measuring progress toward this goal, last year's budget analysis suggested that the trust work with the Maryland Higher Education Commission (MHEC) to establish baseline data and develop a system for determining the likelihood that each student would have qualified for and accepted student loans. The first class of program beneficiaries will enter college in the fall of 2001. To collect data on the first class, the trust would need to begin developing a tracking system in the near future. The trust might also consider collaborating with MHEC to determine if program participation influences beneficiaries' decisions to attend Maryland public colleges.

The trust should comment on its ability to add the goals and performance measures discussed above and other possible ways to focus its performance measures on outcomes rather than processes. In its comments, the trust should specifically address the possibility of collaborating with MHEC to measure the trust's impact on reducing reliance on debt for educational expenses.

Exhibit 2 shows selected performance data from the trust's MFR submission. As stated above, the measures focus on marketing activities and, to some extent, the effectiveness of those marketing efforts. Between fiscal 1999 and 2000, the number of application books distributed and the number of paid television and radio advertisement spots declined. This likely occurred because the trust's budget decreased during this time period. Compared to fiscal 1999, the trust relied more heavily on direct mailings in fiscal 2000. Possibly as a result of a reduced marketing campaign, the data show a corresponding decrease between fiscal 1999 and 2000 in calls to the trust's toll-free telephone number and visits to the web site.

Between fiscal 2000 and 2001, marketing activities increase with growth in the trust's budget. The estimates on the number of application books distributed and the number of paid television and radio spots increase. This results in an anticipated increase in calls to the toll-free number and hits to the web site. Reliance on direct mailings is reduced as the trust makes greater use of other forms of advertisement. The trust anticipates continued increases in its performance measures, including the number of direct mailings, in fiscal 2002. This can be accomplished, even on a slightly reduced fiscal 2002 budget, because of plans to conduct a joint marketing campaign with the new Maryland College Investment Plan in the fall of 2001.

Exhibit 2

Program Measurement Data
Maryland Prepaid College Trust
Fiscal 1998 through 2002

	Actual 1998	Actual 1999	Est. 2000	Actual 2000	Est. 2001	Est. 2002	Ann. Chg. 98-00	Ann. Chg. 00-02
Application Books Distributed	32,500	55,000	50,000	36,300	45,000	50,000	5.7%	17.4%
Paid Television and Radio Spots	n/a	3,550	n/a	1,250	1,975	2,000	n/a	26.5%
Direct Mailings	100,000	107,000	160,000	140,000	70,000	140,000	18.3%	0.0%
Calls to Toll-free Number (See Note)	n/a	22,549	n/a	11,774	17,500	21,000	n/a	33.6%
Web Hits (See Note)	n/a	22,492	n/a	14,948	17,500	21,000	n/a	18.5%
Percentage of New Application Received On-line	n/a	n/a	n/a	n/a	15%	20%	n/a	n/a

Note: These measure activity during the enrollment periods only, not the entire fiscal year.

Source: Department of Budget and Management

Issues

1. Trust Makes Significant Progress Toward Self-Sufficiency

With annual enrollment projections showing appreciable growth and increased use of self-generated revenues, the trust has progressed toward financial self-reliance. In fact, the fiscal 2002 budget contains no State funding. The trust's current year budget, however, relies on a State grant of $370,000. In addition, prior to fiscal 2001, the trust received State loans totaling $650,000 -- $30,000 of which has been repaid. Language in the fiscal 2001 budget bill deferred the remaining loan payments until the trust is financially self-sufficient. The trust has not budgeted a loan repayment in fiscal 2002 nor does it anticipate including this item in its fiscal 2003 budget. However, to the extent that enrollment exceeds assumptions, the trust may make repayments sooner than anticipated.

Budgets Rely on Significant Increases in Enrollment

Because of lower than anticipated enrollment, the trust has historically had to supplement its revenues with general funds to support its operating costs. The trust attributed the low participation levels to the program's lack of a guarantee and the State's requirement that this fact be clearly disclosed in bold face type in all marketing materials. Chapter 494, Acts of 2000 (HB 11) addressed this issue by providing the trust with a statutory guarantee. If the program is unable to meet its payment obligations for participants, the guarantee requires the Governor's proposed budget to include the funds needed to cover the shortfall.

The trust expects the guarantee to positively affect participation in the current enrollment period and for its impact to increase in future years as awareness and understanding of the legislative guarantee grows. For the current enrollment period, running from October 10, 2000, to February 28, 2001, the budget assumes 4,000 applications. This is over twice the number received in the previous enrollment period and, as shown in **Exhibit 3**, higher than the number of applications received in any enrollment period to date. However, in calendar 1999, the trust held two enrollment periods, and this may partially explain the low response to the fall 1999/winter 2000 campaign. As of December 31, 2000, the trust had received 860 of the 4,000 applications expected for fiscal 2001. By December 31, 1999, the trust had received only 200 applications. Even accounting for the fact that this year's enrollment period began one month earlier than last year, the response to the fiscal 2001 marketing campaign shows remarkable improvement over previous years' efforts. Importantly, the trust typically receives a vast majority of its applications at the end of the enrollment period. If this same pattern holds true for the fourth enrollment period, applications submitted may well exceed the 4,000 assumption. **The trust should provide the committees with the most recent enrollment data for the current enrollment period.**

The fiscal 2002 budget assumes 8,000 applications, twice the number of the fiscal 2001 budget. As stated above, the trust anticipates that the legislative guarantee will continue to attract a record number of participants. Also, in fiscal 2002, the trust plans to conduct a joint marketing campaign with the Maryland College Investment Plan, a second college savings plan authorized by Chapter 494, Acts of 2000 (HB 11). (See Issue #2 for a discussion of the Maryland College Investment Plan.) Through a marketing effort partly funded by the future investment plan contractor, the trust will access the advertising resources needed to reach a larger audience. During fiscal 2002, the marketing campaign will

Exhibit 3

Participation in the Maryland Prepaid College Trust

Enrollment Period	Applications	Contracts Purchased
Spring 1998	1,356	1,102
Spring 1999	2,720	2,527
Fall 1999/Winter 2000	1,795	1,511 *
Fall 2000/Winter 2001	984 **	n/a
Total	**6,855**	**5,140**

*Estimated by the Department of Legislative Services.
**As of December 29, 2000.

Source: Maryland Prepaid College Trust; Department of Legislative Services.

present potential participants with two college savings options. Although the trust may lose potential participants to the savings plan, it believes that the benefits of an enhanced marketing campaign and the legislative guarantee will generate more than enough applications to compensate for any competition introduced by the existence of an investment plan. In addition, the trust anticipates that many families will not choose one program over the other but, instead, will develop a college savings strategy that involves participation in both programs.

Trust Makes Greater Use of Self-Generated Revenues

During the trust's first three years of operation, application fees were the only source of self-generated revenue that supported the budget. As shown in **Exhibit 4**, the trust relied heavily on State grants and loans until fiscal 2001. Language in the fiscal 2001 budget required the trust to spend all available revenues generated from administrative fees prior to accessing additional State funds. The trust's fiscal 2001 and 2002 budgets contain three sources of self-generated revenues: application fees, operating fees from contract payments, and investment earnings. Each of these sources is described below.

- ***Application Fees:*** Those applying to the prepaid program during the fall 2000/winter 2001 enrollment period must pay a $90 fee. The fee had been set at $75 for the trust's first three enrollment periods, but the board increased it by $15 to reflect inflation and other increases in administrative costs. Exhibit 4 shows that the trust has used this revenue source since its first year of operation.

- ***Operating Fees from Contract Payments:*** Contract prices include fees to cover the trust's operating expenses. Therefore, a small percentage of every payment made by a contract holder is to be spent by the trust while a vast majority of the payment is invested for tuition and mandatory fees of the beneficiary. For the first three enrollment periods, an administrative fee of 2% was factored into the

Exhibit 4

Program and State Support for the Maryland Prepaid College Trust
Fiscal 1998 through 2002

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Budget	FY 2002 Budget	Total
Carryforward	$0	$280,686	$446,083	$219,343	$0	
Program Support						
Application Fees/Other Fees	$45,754	$267,552	$156,643	$360,000	$720,000	$1,549,949
Operating Fees from Contract Payments*	0	0	0	899,059	733,737	1,632,796
Investment Surplus	0	0	0	100,000	332,000	432,000
Subtotal	**$45,754**	**$267,552**	**$156,643**	**$1,359,059**	**$1,785,737**	**$3,614,745**
State Support						
Grants	$1,209,194	$1,250,000	$420,000	$370,000	$0	$3,249,194
Loans	0	400,000**	250,000	0	0	650,000
Contingent Fund	0	40,000	0	0	0	40,000
Total State Support	**$1,209,194**	**$1,690,000**	**$670,000**	**$370,000**	**$0**	**$3,939,194**
Total Revenues	**$1,254,948**	**$2,238,238**	**$1,272,726**	**$1,948,402**	**$1,785,737**	**$8,500,051**
Total Expenditures	**$974,262**	**$1,792,155**	**$1,116,383**	**$1,948,402**	**$1,785,737**	**$7,616,939**
Revenues Minus Expenditures	$280,686	$446,083	$219,343***	$0	$0	

*There is a decrease between fiscal 2001 and 2002 because the fiscal 2001 figure represents operating fees collected during three fiscal years, whereas the fiscal 2002 figure reflects fees collected during fiscal 2002 only.
**A loan in the amount of $150,000 was granted in fiscal 1998 and incorporated into the fiscal 1999 budget.
***Adjustment made in the amount of $63,000 to fiscal 2000 budget. A limited number of receipts and disbursements are not captured in this table.
Note: Numbers do not necessarily match those presented in trust's audited financial statements.

Source: Maryland Prepaid College Trust; Department of Budget and Management; and Department of Legislative Services contract prices. The board increased the percentage to 2.5% for subsequent enrollment periods to reflect inflation and other increases in operating expenses. Virginia's contract prices include 3% for operating expenses, so Maryland's increase seems reasonable.

Prior to fiscal 2001, the trust invested these operating fees to help build an investment surplus. To ensure that these fees were used as intended and to reduce reliance on State funds, the General Assembly required the use of all operating fees from contract payments prior to spending the fiscal 2001 State grant. As shown in Exhibit 4, the trust's fiscal 2001 budget consists of nearly $900,000 in operating fees collected through contract payments. This reflects fees collected during three fiscal years, a majority of which must be withdrawn from the trust's investment surplus. (Contract holders that enrolled during the enrollment period in fiscal 1998 did not make contract payments until fiscal 1999.) The fiscal 2002 budget includes almost $734,000 in operating fees collected from contract payments. To generate sufficient operating fees for fiscal 2002, the trust must meet its enrollment projections for the fall 2000/winter 2001 enrollment period.

- ***Investment Surplus:*** Although the law does not require the trust to access its investment surplus as a condition of using its fiscal 2001 State appropriation, the 2001 budget commits $100,000 from the surplus for the fall 2000/winter 2001 marketing campaign. In addition, the fiscal 2002 budget contains $223,000 from the investment surplus to purchase a perpetual license for the trust's new records administration system. Last session, the trust expressed concerns about using its investment surplus for operating costs. The trust stressed the importance of maintaining the actuarial soundness of the trust, even if the General Assembly created the statutory guarantee. With a healthy reserve, the trust indicated it would minimize the risk of needing to invoke the guarantee. During fiscal 2001, in addition to the $100,000 committed for marketing, the trust must withdraw the operating fees from contract payments that it had invested in the trust.

  At the end of fiscal 1999, the actuarial surplus for the trust was $4.8 million. By June 2000, the actuarial surplus dropped to $3.9 million, but the trust is still actuarially and financially sound. Each year the board develops assumptions involving factors such as investment earnings, participation levels, and projected increases in tuition and mandatory fees for use in calculating the actuarial surplus and setting contract prices. The decrease in the surplus between fiscal 2001 and 2002, therefore, may reflect changes in these assumptions rather than a decline in the financial health of the trust. **The trust should explain its policy related to use of its investment surplus for operating costs.**

In addition, committee narrative is recommended to ensure that the budget committees are informed about the final results of the trust's current enrollment period and any affect that participation levels might have on the fiscal 2001 and 2002 budgets.

2. Efforts Underway to Launch Investment Plan in Fall 2001

Chapter 474, Acts of 2000 (HB 11) authorized the Maryland Higher Education Investment Board to develop a second type of college savings program, Maryland College Investment Plan (MCIP). The plan would allow a parent, grandparent, or other interested person to establish an investment account on behalf of a beneficiary to pay for future college expenses.

MCIP differs from MPCT in several important ways. First, whereas the prepaid program is designed

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Updates

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Current and Prior Year Budgets

Maryland Prepaid College Trust

($ in Thousands)

	Nonbudgeted Fund	Total
Fiscal 2000		
Estimated Budget	$915	$915
Deficiency Appropriation*	420	420
Cancellations	(219)	($219)
Actual Expenditures	**$1,116**	**$1,116**
Fiscal 2001		
Estimated Budget	$1,432	$1,432
Change**	516	516
Working Budget	**$1,948**	**$1,948**

*Appropriated in the Maryland Higher Education Commission's budget and transferred to the Maryland Prepaid College Trust.

**Change results from an increase in revenues from application fees and contract payments that support operating costs and use of investment earnings. Increased revenues will primarily support records administration services.

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