

THE GENERAL ASSEMBLY OF PENNSYLVANIA

HOUSE BILL

No. 2

Session of
1991

INTRODUCED BY O'DONNELL, SCRIMENTI, COWELL, DeWEESE, THOMAS, HALUSKA, MRKONIC, BUNT, JOHNSON, COLAIZZO, WAMBACH, S. H. SMITH, JOSEPHS, STISH, CAPPABIANCA, BATTISTO, WOGAN, KASUNIC, ROEBUCK, MERRY, RAYMOND, RUDY, PESCI, GERLACH, PRESTON, TIGUE, LEVDANSKY, ITKIN, E. Z. TAYLOR, ROBINSON, HANNA, BELARDI, KENNEY, R. C. WRIGHT, STEIGHNER, D. W. SNYDER, JAMES, HASAY, TRICH, VEON, BROUJOS, SERAFINI, ADOLPH, TANGRETTI, HUGHES, TELEK, KOSINSKI, GEORGE, LINTON, McNALLY, LaGROTTA, CORRIGAN, FAIRCHILD, MAIALE, GLADECK, STUBAN, DALEY, HAGARTY, LUCYK, FEE, BELFANTI, FARMER, STABACK, MARKOSEK, D. R. WRIGHT, HERMAN, MICHLOVIC, TRELLO, MELIO, OLASZ, HECKLER, NAHILL, VAN HORNE, FARGO, SAURMAN, O'BRIEN, DeLUCA, CORNELL, BISHOP, HAYES, DERMODY, PERZEL, GIGLIOTTI, REINARD, REBER, COLAFELLA, HAYDEN, LAUGHLIN, KRUSZEWSKI, CLYMER AND LESCOVITZ, FEBRUARY 12, 1991

REFERRED TO COMMITTEE ON EDUCATION, FEBRUARY 12, 1991

AN ACT

1 Providing for the issuance and sale of certain bonds; and
2 further providing for duties of the Pennsylvania Higher
3 Education Assistance Agency.

4 The General Assembly finds and declares that, for the benefit
5 of the people of the Commonwealth of Pennsylvania, the conduct
6 and increase of their commerce, the protection and enhancement
7 of their welfare, the development of continued prosperity and
8 the improvement of their health and living conditions, it is
9 essential that this and future generations of youth be given the
10 fullest opportunity to learn and to develop their intellectual
11 and mental capacities and skills; and that, to achieve these
12 ends, it is of the utmost importance that Pennsylvania residents

1 be provided with investment alternatives to enhance their
2 financial access to institutions of higher education. It is the
3 intent of this act to encourage enrollment in institutions of
4 higher education located within Pennsylvania.

5 The General Assembly of the Commonwealth of Pennsylvania
6 hereby enacts as follows:

7 Section 1. Short title.

8 This act shall be known and may be cited as the College
9 Savings Bond Act.

10 Section 2. Definitions.

11 The following words and phrases when used in this act shall
12 have the meanings given to them in this section unless the
13 context clearly indicates otherwise:

14 "Agency." The Pennsylvania Higher Education Assistance
15 Agency.

16 "Bond." A certificate or evidence of a debt on which the
17 issuing governmental body promises to pay the bondholders a
18 specified amount of interest for a specified length of time, and
19 to repay the loan on the expiration date.

20 "College savings bonds." A class of bonds issued by the
21 Commonwealth as zero coupon bonds pursuant to any unissued debt
22 authorization and the provisions of this act.

23 "Institution of higher education." All public and private
24 colleges and universities located within this Commonwealth,
25 including, but not limited to, State-owned and State-related
26 colleges and universities, member institutions of the State
27 System of Higher Education and community and junior colleges.
28 The term does not include any educational institution engaged in
29 sectarian instruction, or any place of religious teaching or
30 worship.

1 "Issuing officials." The Governor, the Auditor General and
2 the State Treasurer.

3 "Zero coupon bond." A bond sold at an initial purchase price
4 below its maturity value which does not entitle its holder to
5 receive periodic payments of interest but whose maturity value
6 is payable in one payment on a fixed date.

7 Section 3. Issuance and sale of college savings bonds.

8 (a) General rule.--In order to provide investors with
9 investment alternatives to enhance their financial access to
10 institutions of higher education located within this
11 Commonwealth, and in furtherance of the public policy of this
12 act, a portion of the bonds issued should be designated as
13 college savings bonds. Where feasible, the issuing officials
14 shall follow the recommendation of the agency and designate the
15 issue, in whole or in part, as college savings bonds.

16 (b) Annual recommendation.--The agency shall annually
17 recommend the amount needed to carry out this act and shall so
18 notify the issuing officials.

19 Section 4. Nature of bonds.

20 Bonds to be issued and sold as college savings bonds shall be
21 designated by the issuing officials as college savings bonds in
22 the proceedings authorizing the issuance of such bonds. College
23 savings bonds may be sold at such prices and in such manner as
24 may be determined by the issuing officials.

25 Section 5. Sale of college savings bonds.

26 (a) General rule.--College savings bonds may be sold at
27 competitive or negotiated sale, as directed by the issuing
28 officials, for prices as the issuing officials shall determine.
29 However, a negotiated sale shall be authorized only upon a
30 determination by the issuing officials that a negotiated sale

1 will result in either a more efficient sale of college savings
2 bonds or greater access to the bonds by investors who are
3 residents of this Commonwealth. Prior to the initial sale of the
4 college savings bonds, the issuing officials shall develop a
5 plan that will insure purchasing access to the individual
6 investor as well as equitable geographic availability to all
7 citizens of this Commonwealth.

8 (b) Subscriptions.--Whether college savings bonds are sold
9 by competitive or negotiated sale, the issuing officials may
10 direct the State Treasurer, the agency, a department or agency
11 under the jurisdiction of the Governor, or may enter into any
12 agreement or agreements with banks, trust companies or other
13 firms capable of performing such duties, to accept subscriptions
14 and payments for the purchase of college savings bonds. At the
15 option of the issuing officials, the subscriptions shall be
16 filled by the college savings bond underwriters; or the issuing
17 officials shall sell bonds to subscribers residing in this
18 Commonwealth at market prices and rates of accretion as the
19 issuing officials shall establish.

20 (c) Accretion rates.--College savings bonds may bear a fixed
21 or variable accretion rate. To the extent variable rate debt is
22 issued, the issuing officials are empowered to enter into
23 contractual arrangements with third parties, whereby such
24 parties agree to absorb accretion rate risk in exchange for
25 assuming a fixed-rate payment schedule or other consideration
26 pursuant to accretion rate swaps, hedges and other financial
27 devices, in order to reduce accretion rate risk to the
28 Commonwealth. No agreement or arrangement with third parties to
29 absorb accretion rate risk as described in this subsection shall
30 be entered into unless, in the judgment of the State Treasurer,

1 adequate provision has been made to collateralize or otherwise
2 protect the ability of the Commonwealth to realize its interests
3 under the agreement or arrangement consistent with the
4 provisions of the act of April 9, 1929 (P.L.343, No.176), known
5 as The Fiscal Code.

6 Section 6. Maximum bonds to be issued.

7 College savings bonds shall not be issued in any given fiscal
8 year in an aggregate principal amount greater than 1/3 of the
9 total aggregate principal amount of general obligation bonds
10 projected to be issued by the Commonwealth during that fiscal
11 year or \$100,000,000, whichever is greater. For purposes of
12 calculating the aggregate principal amount of college savings
13 bonds for purposes of this act or for calculating debt within
14 the meaning of any constitutional or statutory limitation on the
15 incurring of debt, the aggregate principal amount of any
16 discount bond shall be the aggregate of the initial offering
17 prices at which such bonds are offered for sale to the public,
18 without reduction for underwriter's discount or other expenses.

19 Section 7. Bond amortization and maturity.

20 The issuing officials shall provide for the amortization of
21 debt represented by college savings bonds over the term of the
22 bonds as prescribed by the Constitution for debt to be amortized
23 in substantial and regular amounts. The first amortization shall
24 be due prior to the expiration of a period equal to 1/10 of the
25 term of the debt. For the purposes of this act, bonds are
26 amortized in substantial and regular amounts if they mature
27 annually or semiannually and the largest initial principal
28 amount scheduled to mature in any one bond year does not exceed
29 an amount equal to three times the average of the annual initial
30 principal amounts for all other bond years of the college

1 savings bond issue. Within the limits imposed by the
2 Constitution and this act, the issuing officials shall establish
3 periodic maturity amounts so as to reasonably meet anticipated
4 demand by individual investors for the various maturities; but
5 in no case shall a college savings bond have a maturity date
6 greater than 20 years following the date of original issue.

7 Section 8. Financial aid.

8 No contributions toward the purchase of the first \$25,000 in
9 maturity value of college savings bonds shall be considered in
10 evaluating the financial situation of a student, or be deemed a
11 financial resource of, or a form of financial aid or assistance
12 to, the student for purposes of determining the eligibility of
13 the student for any scholarship, grant or monetary assistance
14 awarded by the agency, the Commonwealth or any agency thereof;
15 nor shall the first \$25,000 in maturity value of college savings
16 bonds provided for a qualified student under this act reduce the
17 amount of any scholarship, grant or monetary assistance which
18 the student is entitled to be awarded by the agency, the
19 Commonwealth or any agency thereof as provided by law.

20 Section 9. Additional financial incentives.

21 The Governor and the agency shall also provide for additional
22 financial incentives to be provided to holders of bonds to
23 encourage the enrollment of students at institutions of higher
24 education in this Commonwealth. These financial incentives shall
25 be in such forms as determined by the agency at the time of the
26 authorization of such college savings bonds and may include,
27 among others, supplemental payments to the holders of such bonds
28 at maturity to be applied to tuition costs at institutions of
29 higher education. These financial incentives shall be provided
30 only if, in the sole judgment of the Governor and the agency,

1 the cost of such incentives shall not cause the cost to the
2 Commonwealth of the proceeds of the college savings bonds being
3 sold to be increased by more than 0.05%.

4 Section 10. Other law.

5 Except as inconsistent with this act, all other provisions of
6 law relating to debt authorization apply to bonds issued under
7 this act.

8 Section 11. Effective date.

9 This act shall take effect immediately.