

SENATE APPROPRIATIONS COMMITTEE FISCAL NOTE

BILL NO. Senate Bill 1090

PRINTER'S NO. 2089

AMOUNT

No Fiscal Impact

FUND

General Fund

DATE INTRODUCED

June 8, 2011

PRIME SPONSOR

Senator Corman

HISTORY OF BILL

Referred to FINANCE, June 8, 2011
Reported as amended, April 3, 2012
First consideration, April 3, 2012
Re-referred to APPROPRIATIONS, May 2, 2012
Re-reported as committed, May 8, 2012

DESCRIPTION AND PURPOSE OF BILL

Senate Bill 1090 amends the act of April 3, 1992 (P.L. 280, No. 11), known as the Tuition Account Programs and College Savings Bond Act (act), to explicitly require that the Commonwealth shall meet any obligation where the Tuition Account Guaranteed Savings Program has insufficient funds to meet its obligations.

The Pennsylvania 529 College Savings Program is comprised of two programs. They are the Tuition Account Guaranteed Savings Program (GSP) and the Tuition Account Investment Program (IP). The GSP allows for citizens to save for future college expenses with a guarantee that their savings will grow at least at the rate of tuition inflation. The IP plan is similar to a mutual fund – potentially providing greater growth than the Guaranteed Savings Program, but which would be subject to the risks of the financial markets.

Under existing law, the GSP is guaranteed only by the GSP Fund itself and not the Commonwealth. The Tuition Account Programs and College Savings Bond Act specifically provides that the credit or taxing powers of the Commonwealth shall not be pledged for the GSP and IP plans, and that any obligation or debt of the PA 529 Program shall not be deemed an obligation or debt of the Commonwealth, nor shall the Commonwealth be liable to pay principal and interest on obligations or to offset any loss of principal and interest earnings on investments of the program.

SENATE APPROPRIATIONS COMMITTEE

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Senate Bill 1090 adds new section 306(g) to the act, which states the following:

(g) Commonwealth obligation.--If the Tuition Account Guaranteed Savings Program Fund does not have sufficient funds to meet the obligation to make a payment under section 309 or the obligation to make a refund under section 313, the Commonwealth shall meet that obligation.

In addition, the legislation amends section 306(f) to clarify that the existing prohibition against Commonwealth backing of the PA 529 Program remains in place for the Tuition Account Investment Program.

FISCAL IMPACT:

Senate Bill 1090 will have no adverse impact on Commonwealth funds in the foreseeable future. According to the Pennsylvania Treasury Department's most recent PA 529 College Savings Program Annual Report, the GSP is 98% funded at June 30, 2011.

Because the GSP is created by state law, is promoted and administered by a state agency, and is named the "Guaranteed" program, there is a high probability that the Commonwealth would have a moral obligation to make good on the GSP Fund in the unlikely event that it was unable to meet its obligations. However, the lack of any statutory Commonwealth support, coupled with the absence of any provision in the act regarding what would happen if the GSP could not meet its obligations, results in investor uncertainty regarding the program, thereby impeding the program's performance.

If the Commonwealth does have a moral obligation to back the Guaranteed Savings Program, it may be prudent to expressly place this guarantee in statute so as to reap the benefits of an express guarantee by providing investor certainty, which is likely to have a positive impact on the GSP's marketability and growth.