

# Ohio Tuition Trust Authority

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- Funding for FY 2006 is 4.9% above FY 2005
- Funding for FY 2007 is 7.0% above FY 2006
- Funding is entirely provided by fee revenues
- The increased funding will allow for the hiring of four new staff members over the biennium

## OVERVIEW

### Duties and Responsibilities

The Ohio Tuition Trust Authority (OTTA) provides a means for Ohio families to save for their children's college education. The Authority's board of directors is comprised of 11 members: 6 members appointed by the Governor, 2 appointed by the Speaker of the House of Representatives, 2 appointed by the President of the Senate, and the Chancellor of the Board of Regents. The Board appoints an Executive Director, who oversees the daily operations of the OTTA and the 36 employees (35 full-time and 1 part-time) on the staff with an annual budget of approximately \$5.2 million in FY 2005.

The OTTA is responsible for two programs that promote private savings for the payment of college tuition: the Guaranteed Savings Plan (formerly known as the Prepaid Tuition Program) and the Variable Savings Plan (which include multiple offerings from Putnam Investments and the Vanguard Group). The Guaranteed Savings Plan and the Variable Savings Plan are collectively referred to as the College Advantage Savings Plan. Funds in both plans can be used at any college in the country, and both plans qualify as a 529 college savings program. A 529 college savings program is a state-operated investment plan named after the section of the federal Internal Revenue Code that specifies the various tax advantages from participating in the program.

These advantages include tax-free growth while the value of the account accumulates, as well as withdrawals being exempt from both federal and state income taxes if the distributions are used to pay for qualified higher educational expenses. These qualified expenses include tuition, room and board, plus any other fees or costs that are required for enrollment or attendance at the college or university. In addition, Ohio residents can deduct up to \$2,000 per beneficiary per year (with unlimited carry forward) from Ohio taxable income for contributions into the program.

### Agency in Brief

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Number of Employees*	Total Appropriations-All Funds		GRF Appropriations		Appropriation Bill(s)
	2006	2007	2006	2007	
36	\$5.72 million	\$6.11 million	\$0	\$0	Am. Sub. H.B. 66

\*Employee count obtained from the Department of Administrative Services (DAS) payroll reports as of June 2005.

## ANALYSIS OF THE ENACTED BUDGET

For budget purposes, as detailed below, the Ohio Tuition Trust Authority is considered a single program series agency and its activities are not subdivided into separate programs.

### Program Series 1

### Ohio Tuition Trust Authority

**Purpose:** To administer savings programs that help provide financial assistance for a college education.

The following table shows the line items that are used to fund the agency, as well as the appropriations approved in the enacted budget.

Fund	ALI	Title	FY 2006	FY 2007
<b>State Special Revenue Fund</b>				
SSR: 5AM	095-603	Index Savings Plan	\$2,866,240	\$3,104,865
SSR: 5P3	095-602	Variable College Savings Fund	\$2,042,486	\$2,118,568
SSR: 645	095-601	Operating Expenses	\$807,260	\$891,173
<b>State Special Revenue Fund Subtotal</b>			<b>\$5,715,986</b>	<b>\$6,114,606</b>
<b>Total Funding: Ohio Tuition Trust Authority</b>			<b>\$5,715,986</b>	<b>\$6,114,606</b>

The enacted budget appropriates \$5,715,986 for FY 2006, a 4.9% increase over FY 2005 and \$6,114,606 for FY 2007, a 7.0% increase over FY 2006. The appropriations for all three line items are for the operating expenses of the OTTA, with each line item representing its own program. The money paid in for the purchase of tuition credits, or funds in the Variable Savings Plan are held separate from the state budget. The OTTA receives no GRF dollars, and its operations are entirely funded through fee revenue generated from operating its three college tuition savings programs.

The increase in the funding levels will allow for the OTTA to hire a total of four additional employees over the biennium. The OTTA plans to hire an assistant network administrator, an outreach coordinator, and a customer care representative in FY 2006, and an additional customer care representative in FY 2007.

The assistant network administrator will perform after-hours network duties and monitor data exchanges, which have increased with the addition of the Vanguard Group investment options. The outreach coordinator will have responsibility for coordinating initiatives and work with the Board of Regents to provide scholarships to low-income students, and coordinate outreach efforts toward difficult-to-reach populations. The customer care representatives will keep up with the processing and communication with account holders, which are expected to increase because of the anticipated growth in the Putnam and Vanguard Group investment options.

### **Program 1: Guaranteed College Tuition Savings Plan**

Ohio's Guaranteed College Tuition Savings Plan began in October 1989, and is the third oldest program of its type in the country. Beginning on July 1, 1994, the Guaranteed Savings Plan program allowed for the purchase of tuition units that were based on 1% of the weighted average tuition of Ohio's 13 public universities at the time of purchase, and could be redeemed at 1% of the weighted average tuition at the time of the redemption of the units. The program guarantees that approximately 100 tuition units will pay for one year of tuition at an average-priced Ohio public university. In addition, Article VI, Section 6, division (B) of the Ohio Constitution pledges the full faith and credit and taxing power of the state behind the redemption value of the tuition units. Thus, any future shortfall would require an appropriation from the General Assembly in order to make the full payment on the value of the tuition credits.

The costs of operating the Guaranteed Savings Plan are funded through line item 095-601, Operating Expenses. The enacted budget appropriates \$807,260 for FY 2006, which represents a 53.7% decrease over FY 2005, and \$891,173 for FY 2007, which is a 10.4% increase over FY 2006. The decrease from FY 2005 to FY 2006 can be contributed to the suspension of new enrollments to the Guaranteed Savings Plan beginning on October 8, 2003, and the suspension of additional contributions beginning on December 31, 2003. These suspensions are a result of an actuarial deficit within the Guaranteed Savings Plan that amounted to \$294.6 million in FY 2004. The suspensions are currently set to remain in effect through December 31, 2005.

The enacted budget makes a number of changes to the Revised Code relating to the Guaranteed Savings Plan. It changes the method of recalculating and processing refunds when a tuition payment contract is terminated, renames the "tuition credits" that are purchased under the Guaranteed Savings Plan to "tuition units," and specifies that tuition units include tuition credits that were purchased prior to July 1, 1994. These changes are generally technical in nature. For a more complete description of the Revised Code changes, see the Legislative Service Commission's *Main Operating Budget Bill Analysis* of Am. Sub. H.B. 66.

### **Program 2: Variable College Tuition Savings Plan**

The Variable Savings Plan offers individuals market-based choices to save for college. This program began in October 2000, with investment options being offered by Putnam Investments. Funds in the Variable Savings Plan are not backed by the full faith and credit of the state of Ohio. In May 2004, the OTTA added the Vanguard Group as an additional provider of investment options. As a result, participants currently have a choice of 30 investment options, 15 in various Putnam mutual funds, and 15 in various Vanguard Group mutual funds.

The costs of operating the Putnam Investment options are funded through line item 095-602, Variable Savings Plan. The enacted budget appropriates \$2,042,486 for FY 2006, which represents a 35.1% increase over FY 2005, and \$2,118,568 for FY 2007, which is a 3.7% increase over FY 2006. The costs of operating the Vanguard Group investment options are funded separately (see Program 3).

The enacted budget changes the procedures for rollovers and termination of accounts under the Variable Savings Plan (both the Putnam Investment and Vanguard Group options). For a more complete description of the Revised Code changes, see the Legislative Service Commission's *Main Operating Budget Bill Analysis* of Am. Sub. H.B. 66.

**Program 3: Index College Tuition Savings Plan**

The costs of operating the Vanguard Group investment options are funded through line item 095-603, Index Savings Plan. The enacted budget appropriates \$2,886,240 for FY 2006, which represents a 30.8% increase over FY 2005, and \$3,104,865 for FY 2007, which is an 8.3% increase over FY 2004.

The enacted budget also formally creates the Index Savings Fund (Fund 5AM) under section 3334.19 of the Revised Code. The fund was originally created by the Controlling Board on July 12, 2004 after the OTTA began offering the new set of investment options from the Vanguard Group.