

SUBJECT: State backing for Texas Tomorrow Fund

COMMITTEE: Pensions and Investments — committee substitute recommended

VOTE: 7 ayes — Telford, Woolley, Goolsby, Rangel, Sadler, Serna, Tillery
1 nay — Williams
1 absent — Berlanga

WITNESSES: None

BACKGROUND : The 74th Legislature established the Texas Tomorrow Fund to allow individuals or groups to prepay higher education tuition and fees at prices that are locked in at the time payments begin. Education Code sec. 54.619 (g) provides that if there is not enough money in the fund to pay a prepaid tuition contract in full, the Legislature may appropriate to the fund the amount necessary to pay the applicable amount of tuition and fees.

DIGEST: CSHJR 8 would amend the Texas Constitution to establish the Texas Tomorrow Fund as a program dedicated to the prepayment of tuition and fees for higher education. Assets of the fund would be held in trust for the exclusive purpose of providing benefits to participants and beneficiaries and defraying reasonable administrative expenses.

If in any fiscal year there was not enough money in the Texas Tomorrow Fund to pay the tuition and required fees for a beneficiary under a prepaid tuition contract, enough money to pay the applicable amount of tuition and fees would be appropriated out of the first money coming into the state treasury in each fiscal year not otherwise constitutionally appropriated.

The amount to be contributed by participants in the program would be provided by law but could not be less than the amount anticipated to pay for the tuition and fees, based on sound actuarial principles.

Assets of the fund could be invested by an entity designated by general law in securities considered prudent investments. Investments would have to be made based on the “prudent person” standard, not for speculation but for

permanent disposition of funds, considering probable income as well as probable safety of the capital.

The comptroller would be authorized to take any action necessary to implement the constitutional requirements. The proposed new section would control over any conflicting provision.

The proposed amendment would be presented to voters at an election on November 4, 1997. The ballot proposal would read: "The constitutional amendment to encourage persons to plan and save for young Texans' college education, to extend the full faith and credit of the state to protect the Texas Tomorrow Fund of the prepaid higher education tuition program, and to establish the Texas Tomorrow Fund as a constitutionally protected trust fund."

**SUPPORTERS
SAY:**

CSHJR 8 is necessary to demonstrate the commitment state government has to provide its citizens with opportunities to pursue higher education at affordable prices by putting the state's full financial backing behind the program. The constitutional amendment proposed by HJR 8 would allow the program to continue even in difficult financial times by committing the first non-dedicated revenue coming into the state treasury in the highly unlikely event of default. As the fiscal note points out, The Texas Veterans Land Board loan programs and Hinson-Hazelwood student loan programs also have the full faith and credit guarantee of the state, and these guarantees have never had to be used.

The cost of higher education, both public and private, is rising at seven to eight percent each year. The Texas Tomorrow Fund provides an essential service to Texas' students, offsetting rising costs and allowing the greatest number of students access to higher education. At the same time, higher education is increasingly essential to the success of Texas' economy. Providing greater opportunities for higher education for students in Texas benefits everyone. HJR 8 would help ensure the future success of this program.

Investors need assurance that their investments in the Texas Tomorrow Fund will grow over the years, and will remain secure until their children and grandchildren are able to take advantage of them. This added degree of

security will encourage more individuals to invest in the fund. The state's guarantee that tuition and fees will be paid is now only implied; the Legislature *may* cover any shortfall, but it is not required to pay. HJR 8 would make that guarantee clear and explicit in the Constitution.

The Texas Tomorrow Fund would best be managed through long-term "prudent person" investment policies. The Prepaid Higher Education Tuition Board that oversees the fund should be granted the same latitude for investing as are other funds, such as the Employee Retirement System and the Teacher Retirement System and the Permanent University Fund, with similarly long-term investment cycles. The Texas Tomorrow Fund board has been responsible in its money management during its first two years in existence and would continue to make sound, prudent investments under the well-established standard laid out in the amendment.

OPPONENTS
SAY:

The Texas Tomorrow Fund, like any other investment fund, should continue only as long as it is able to fund itself. If the state commits its full faith and credit to the program and higher education prices rise more rapidly than expected, the state could be forced to bail out the fund, potentially siphoning state money away from other important needs.

The Texas Tomorrow Fund should not be invested using the broad "prudent person" investment authority that would be locked in by the proposed constitutional amendment. The money in the fund should be invested with utmost caution in sound, safe investment securities provided by law.

NOTES:

The committee substitute differs from the original version of HJR 8 by revising the ballot language to clarify that the fund is constitutionally protected.

The Senate companion, SJR 27 by Barrientos et al., has been referred to the Finance Committee.

Also on the calendar today are HB 8, the implementing legislation for HJR 8, and HB 9 and HB 634, which would revise the Texas Tomorrow Fund program.