

## **MEMORANDUM**

**TO: ALL UNIVERSITY PRESIDENTS**  
**FROM: SHEILA M. McDEVITT, CHAIR**  
**BOARD OF GOVERNORS**

### **BACKGROUND**

Beginning in late 2006-early 2007, the Chancellor and other Board of Governors staff began conversations with the Prepaid staff about ways in which we could maintain the soundness of the fund, protecting the state and the contract holders while beginning to increase tuition to bring it to a reasonable level for the times. It was upon the change in leadership of the Prepaid Board that progress began to be made. As you know, in 2007 the first differential tuition law was passed and it was again expanded in 2008. All pre-July 1, 2007, "tuition" Prepaid contract holders were exempt from the payment of the "differential tuition." Discussions resumed in the period following the 2007 Session and continued into 2008. Discussions then abated until Governor Crist announced his higher education initiatives in November, 2008. The details were finally worked out in the last couple of weeks.

### **PURPOSE AND SUMMARY**

As mentioned above the purpose of this agreement is to balance the interests of the universities by assuring the most revenue possible and capping the exposure of the prepaid fund; thus, protecting the future contract holders and the future exposure of the State of Florida. As has been made clear to all of us, we must have a solution agreed to prior to any action being taken by the Legislature on the Pruitt/Weatherford tuition bills. The Governor and the Legislature want comfort with respect to future exposure before moving ahead.

This agreement relates only to contracts purchased prior to the Effective Date of this agreement and "differential tuition fee" contracts purchased after July 1, 2007 until the Effective Date ("Covered Contract Holders"). In this case, the "Registration Fees" include the "matriculation or tuition fee," "financial aid fee", "building fee" and the "Capital Improvement Trust Fund fee". There are over 400,000 university and 2+2 Registration Fee contract holders who we may expect to use their benefits in the SUS in the next 24 years and approximately 18,000 total "Differential Tuition Fee" contract holders.

The agreement provides as follows:

(a) Establishes a base rate for the Registration Fee at the current \$90.89; the Local Fee and the Dorm Fee at the current charges and for the Tuition Differential Fee the actual amounts charged by the universities until the Fiscal Year 2012/2013 is established at \$37.03.

(b) The universities will be paid the base rates escalated and compounded annually as follows:

(i) The Registration Fee and the 2012/2013 Tuition Differential Fee would be escalated and compounded annually by 6% when the Fund's Actuarial Reserve is at 5% but less than 7.5% (the current situation); at 7.5% Reserve the escalator would be 6.25% and at 10% Reserve the escalator would be 6.5%.

(ii) The Local Fees would escalate at 5% and the Dormitory Fees at 6% regardless of the Actuarial Reserve.

Of course, the pre-July 1, 2007 contract holders are still exempt from paying any tuition differential fees and the universities would be prohibited from charging the "Covered Contract Holders" amounts above those outlined above and from modifying the manner of charging such fees in order to obtain additional revenues from the Prepaid Fund.

## **HISTORICAL AND ACTUARIAL INFORMATION**

Over the life of the Prepaid Plan (1988 to 2008) the "Registration Fee" has increased annually on average at 5.66% and over the last 10 years the increase has been 5.33%. The Dormitory Fees and Local Fees have been at or less than the actuarial assumptions of 6% and 5%, respectively, as set forth in the Agreement. Regardless of the actual growth of these tuition-related fees, the universities will receive the escalated amounts of the Registration Fees and the actual amounts of the tuition differential until 2012. The prepaid group was going to seek extension of the exemption from tuition differential for another 2 years, but they have backed away from that. That would have cost the universities \$689 million in foregone revenue over 20 years. With this Agreement, the universities cap their exposure to a maximum of \$105 million for those 18,000 differential contracts over 20 years. The universities also have the potential to gain up to \$3 billion in revenue if the "Registration Fee" remains the same as it is today and applying the compounded escalators. Even if the future rate of growth in the "Registration Fee" is equal to the last 10 years average of 5.33%, this agreement would net the SUS \$415 million over the next two decades. Any tuition increases under the new legislation for new contracts will not be affected by this Agreement.

## **RESULTS**

Since Prepaid beneficiaries account for approximately 18.6% of the total undergraduate enrollment at state universities, this agreement guarantees universities a predictable revenue source for contract holders that have a prepaid contract on the Effective Date of this Agreement. For those students, universities will be paid today's rates, escalated annually at a rate equal to or greater than the rates of increase received over the past 20 years. The Prepaid Board will price future contracts based on the actual future rates approved by the Governor and Legislature and the Boards of Trustees and Board of Governors. There is a Joint Council established in the Agreement to talk about future increases and the nature and type of products that would be sensible to sell. Further, the State keeps its promise to Florida families that have purchased prepaid contracts already and provides the means for offerings in the future.