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PACT study shows 'what's doable'

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4 options to save plan outlined; board will see Wednesday

MONTGOMERY - An independent study of Alabama's troubled prepaid college tuition program concludes that the most conservative way to save the program is for the state to finance it over an 18-year period.

That would start, presumably, with the Legislature appropriating more than \$52 million in fiscal 2011 and possibly smaller amounts later, although Buck Consultants didn't recommend a specific plan or a source of funding. This would come as schools across the state are experiencing financial troubles because of mandated budget cuts.

The actuarial report for the Retirement Systems of Alabama was delivered Friday to Gov. Bob Riley and members of the Legislature.

The report is expected to be taken up Wednesday during a meeting of the Prepaid Affordable College Tuition board.

Jeff Emerson, Riley's chief spokesman, said Monday that the governor is still studying the report.

"Gov. Riley has said previously he is open to having a special session to deal with PACT because he believes these commitments must be honored," Emerson said. "Right now, he and some of his staff are reviewing the RSA study."

State Treasurer Kay Ivey, who is chair of the PACT board, could not be reached for comment Monday, but a spokeswoman, Mary Frank Crew, said Ivey had not received a copy of the report.

Another member of the PACT board, Dr. Gregory Fitch, executive director of the Alabama Commission on Higher Education, also said he had not received a copy.

Buck Consultants offered four options to sustain the program, but all would be expensive for a state that is borrowing money from an oil and gas trust fund to offset part of a plunge in tax revenue for schools.

The PACT options range from an 18-year financing proposal to an immediate cash infusion of \$641.8 million in fiscal 2011 to make the program fiscally sound. A third option would require the state to provide \$100 million a year over the next seven years. A fourth option would allow the state to pay nothing until fiscal 2015, when as much as \$1 billion would be due, depending on the rate of tuition increases.

Assuming a 7.25 percent increase in tuition, investment returns ranging from 3 percent to 5 percent and a cancellation rate of 1 percent, the PACT program would likely run out of money in fiscal 2015 without any action to preserve the program.

"We're going to have to find some money, no doubt," said Patti Lambert, a Huntsville Realtor who is president and co-founder of Save Alabama PACT.

Marc Reynolds, deputy director of the RSA, said the report merely illustrates to the governor and the Legislature "what's good, what's bad, what's doable and what it will take to run it right."

Reynolds said the report gives lawmakers some flexibility to develop a plan that would be actuarially sound. "It gives you a pretty good indication of the scenarios of what can be done.

"The key is to get the players together - the Legislature, the governor, the four-year universities," he said.

Otherwise, the report shows nothing new from what the PACT board already knew - the program with 48,147 accounts doesn't have the money to cover \$459.1 million in commitments.

For the two months ended May 31, the plan's market value increased by \$30 million.

"It gained overall," Lambert said. "The picture looked a bit better."

State Sen. Roger Bedford, D-Russellville, chair of one of the Senate appropriations committees, said he was pleased that David Bronner, CEO of the RSA, got the report to legislators quickly and "did not differentiate between contracts."

The RSA said those who bought contracts after 1995 have the same legal rights as those who bought theirs earlier. The earlier contracts specifically guarantee returns.

The report said that contract holders have filed four lawsuits, but that they are likely to be unsuccessful because of the state's immunity defense.

Bedford criticized Ivey "and her management team that ran this in the ground." He called for Bronner's office to take control of the program.

Lambert said Ivey discouraged PACT parents in phone calls from attending the board meeting Wednesday.

"She told us to save our gas money and donate it to the program," Lambert said. "I said, 'Kay, I haven't come for years, and look what happened.' "

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