

JLARC Meeting

June 11, 2018 – MINUTES

JLARC Members Present:

Senator Thomas K. Norment: Chairman, Delegate R. Steven Landes: Vice-Chairman, Delegate Terry L. Austin, Delegate Betsy B. Carr; Speaker M. Kirkland Cox, Senator Emmett Hanger, Delegate Charniele Herring, Senator Janet Howell, Delegate Chris Jones, Delegate Robert Orrock, Senator Ryan McDougle, Delegate Kenneth Plum, Senator Frank Ruff, Delegate Christopher Stolle, Ms. Martha Mavredes, Ex Officio.

JLARC Staff Present:

Hal Greer, Director; Justin Brown, Senior Associate Director; Tracey Smith, Associate Director; Kimberly Sarte, Associate Director; Kate Agnelli, Lauren Axselle, Erik Beecroft, Sarah Berday-Sacks, Jamie Bitz, Danielle Childress, Drew Dickinson, Kathy DuVall, Nick Galvin, Maria Garnett, Mark Gribbin, Lila Kelso, Paula Lambert, Jeff Lunardi, Bridget Marcek, Joe McMahon, Ellen Miller, Jordan Paschal, Ellie Rigsby, Nathan Skreslet, Brittany Utz, and Nichelle Williams.

The meeting was called to order at 10:01 a.m. by Senator Norment, Chairman. Senator Norment recognized Hal Greer, JLARC staff Director, who provided the Commission with a brief overview of the meeting agenda.

JLARC Director's Report: Legislative Action 2018

Mr. Greer provided the Commission with a presentation of the 2018 Director's Report. Delegate Orrock asked if there was a reason why the early childhood development recommendations did not involve positions or funding. Mr. Greer indicated that some of the recommendations could be done with existing resources. Del. Orrock also asked why the recommendations were implemented through the budget rather than in Code. Mr. Greer responded that it was up to the legislature in terms of how they prefer to enact implement recommendations. Senator Norment expressed appreciation for the work and professionalism of the JLARC staff. Mr. Greer also directed the Commission's attention to the memo from Kimberly Sarte about JLARC fiscal impact reviews (FIRs). He noted that JLARC staff completed 13 FIRs this year. Speaker Cox commented that the low percentage of concurrence is disturbing, which demonstrates how necessary the FIRs are.

VITA: Update on State's IT Transition

Senator Norment then introduced Nelson Moe, Chief Information Officer for VITA who presented an update on the state's IT transition. David Barker (Science Applications International Corporation (SAIC)) presented information about the transition timeline, and

Eric Link (Deputy CIO, VITA) presented information about the IT sourcing budget, procurement update, and a brief litigation update. There were no questions from the Commission at the end of the presentation. Senator Norment stated that this was an update and no action was needed from the Commission.

JLARC: Virginia529 Oversight Report

Mr. Greer then introduced Joe McMahon who provided the Commission with a presentation on the *Virginia529 Oversight Report*. Senator Norment asked that Virginia529 staff provide a direct response in their presentation for why they have not leveraged the Prepaid529 program's high funded status to increase affordability of the plans.

Senator McDougle commented that Virginia is second only to Maryland in funded status and asked if there is an industry standard for the funded status of prepaid plans. Mr. McMahon indicated there is not an industry standard, however, 110% was originally chosen to set the pricing load because it was thought to signify strong fund health. He also explained that the target range for pricing reserve in most states is about 110% to 130%.

Senator McDougle then said it would be helpful to know what would happen to the funded status under different scenarios. He asked what would happen to the funded status if, for example, the pricing reserve was lowered to 0%, or 2.5%, or 5% and if the \$8.3 million was eliminated entirely. Mr. McMahon said that JLARC staff can follow up with the impact on the funded status under different scenarios.

Delegate Landes asked how much of the increase in Virginia529's operating budget is due to the recommendations made by JLARC. Mr. McMahon explained that the recommendations have had a minor impact, if any, on the spending cited in the report. He said that JLARC has had oversight of Virginia529 since 2012 and that the spending growth presented is through FY17, but Virginia529's implementation of the recommendations occurred very recently so it is likely not reflected in the spending growth cited in the report. Delegate Landes then asked what the spending increase has been in other agencies that are under JLARC's oversight. Mr. McMahon said there has been similar spending growth at VRS, as well as in non-general fund agencies overall according to JLARC's annual report on state spending.

Senator McDougle commented that when the legislature established the ABLEnow program, it was with the intention that it would be self-supporting. He asked when ABLEnow is expected to be a cost neutral program. Mr. McMahon indicated that the fee revenue for ABLEnow is very small and the cost of implementing the program was about \$1.2 million last year. As a result, it will take a while for fee revenue to cover costs and the program to be cost neutral. He noted that Virginia529 staff would be better able to answer regarding when this program is expected to be self-supporting.

Virginia529: Annual Status Report

Senator Norment then invited Mary Morris, Chief Executive Officer for Virginia529, to present an annual status report. Following her opening remarks, Senator Norment asked

Ms. Morris if Virginia529 staff are accepting JLARC's recommendations. Ms. Morris stated that they are not accepting the recommendations, as they want to obtain input from their audit committee and find a balance to make the prepaid plans more affordable. She further stated that the prepaid program remains solvent and that their actuary thinks that their 10% pricing reserve is reasonable. She said that they want to avoid being in an underfunded status so they tend to err on the side of being more conservative with the prepaid program pricing. To illustrate this point, Ms. Morris indicated that a former board member felt that a funded status of 200 percent may be the point at which the fund could be considered "safe".

Senator Norment asked what the estimated funded status is for FY18 and whether she expects it to be greater than 138%. Ms. Morris explained that June has historically typically been a bad month for the market and that she does not have an estimate for FY18 because it will depend partly on what happens to tuition rates. Senator Norment asked Ms. Morris to share this information with the Commission once it has been finalized.

Senator Norment pointed out that the fund recovered quickly from the 2008-2009 recession, as the fund was able to increase funded status in 2010 and 2011 which were years in which slow growth from the recession was still present. Senator Norment asked Ms. Morris if she concurs with JLARC's stating that there is a 98% probability of solvency. Ms. Morris said that she does concur with this, which is from their actuary. Senator Norment commented that Ms. Morris was dismissive of Mississippi and Nevada's prepaid programs, and asked if there is a way to have a formula or guidance that is more agile in adjusting the pricing reserve on an annual or biennial basis. Ms. Morris said that she will ask their actuary about this.

Speaker Cox commented that JLARC is a very conservative organization and that he feels the JLARC recommendation is a very conservative proposal. The savings to middle-class families from reducing the pricing reserve is a huge deal. He continued by stating that access and affordability to higher education are big issues for the General Assembly and stated that the JLARC reports continue to highlight the concerns about the funded status. He said the members are struggling with why Virginia529 does not have some flexibility with their pricing and wondered why Virginia529 is so rigid in regard to their pricing model. Ms. Morris said that they cannot reduce the pricing of the current prepaid program in a meaningful way, and shared the opinion that Virginia529's proposed changes to the program structure would better address affordability and make it easier and more flexible for Virginia families to get started with a plan. Ms. Morris did however acknowledge that JLARC's recommendation will be considered by the Virginia529 board.

Senator Howell asked if Virginia529 looks at family income profiles of their programs and noted that the prepaid program tends to be towards the top in terms of family income. Ms. Morris said they do surveys periodically to obtain this information and noted that about 15% to 20% of participating families have annual household income below \$50,000. She also stated that more than 90% of families have an annual household income less than \$150,000 or \$175,000. Ms. Morris said they spend a lot of time looking at demographics of their program participants.

Delegate Landes asked if the opposition to adopting JLARC’s recommendations is coming mainly from Virginia529 staff or the board. Ms. Morris stated that it is coming from both, but that opposition may not be the right word. She explained that they take into account recommendations from their actuary. Delegate Landes said that some of the members of the Virginia529 board are appointed by the General Assembly and others are appointed by the Governor. He asked Ms. Morris if Virginia529 has a responsibility to the General Assembly. She stated that they have a tremendous responsibility to the General Assembly. Delegate Landes then said there is the carrot approach, which is what JLARC has done here, and there is the stick approach. He stated that he hopes the carrot approach will work better than the alternative.

Delegate Orrock echoed the sentiment that the type of action suggested in the JLARC recommendation would have only a minor impact to Prepaid529’s funded status. He also stated that the “stick” approach referred to by Delegate Landes would involve legislation that would result in the Virginia529 board having less flexibility to decide on pricing for the program.

Following Ms. Morris’ presentation and questions from the Commission, Senator Norment requested a motion to receive the *Virginia529 Oversight Report* and authorize printing. Delegate Orrock made a motion, which was seconded by Delegate Lanes and approved unanimously by the Commission. Mr. Greer then provided some brief comments in response to Ms. Morris presentation by stating that Virginia529 needs to rethink the balance between affordability and risk avoidance.

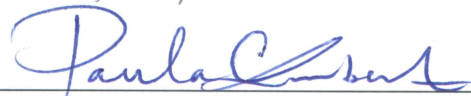
Adjournment

Lastly, Mr. Greer announced that the next Commission meeting is scheduled for Monday, July 9, which will primarily include presentations from VRS.

There being no further business, the Commission rose at 11:51 a.m.

Approved by: 
Hal E. Greer, Director

Date: 6/13/2018.

Prepared by: 
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