

Bowman: GOP tuition questions 'irrelevant'

By Tim Richard
staff writer

"A red herring." That's how state Treasurer Robert Bowman describes Senate Republican questions about his boss's tuition investment program.

Bowman, a former Wall Street investment banker, is the chief architect of what Gov. James J. Blanchard calls "BEST" — for baccalaureate education system trust.

Senate Republicans, saying the plan is "hype" without substance, are holding it in Sen. Norm Shinkle's finance committee and publicizing a list of questions they've addressed to Bowman.

"I've answered them," Bowman said in an interview. "It's not my style to publicize my letters to senators."

UNDER BEST, the family of a potential college student would invest a small sum in a state-managed trust fund, where it would earn compound interest.

The state would guarantee the future fund would pay four years of tuition at a Michigan public college — estimated at \$20,000 by the time a newborn youngster reaches 18.

There are political complications. The House of Representatives last spring gave 89-11 bipartisan support to the BEST bill. (Its sponsor, Rep. James Kostecki, D-Canton, last month became the father of twins.)

Among House supporters was Rep. Colleen Engler, now the Republican nominee for lieutenant governor. Her husband, Senate Majority Leader John Engler of Mount Pleasant, is now the program's chief critic, calling it "nebulous at best, a deception at worst."

The Senate version was introduced by Patrick McCollough, D-Deerborn, and had 26 co-sponsors (out of 38 senators).

Blanchard is making it an issue in his re-election campaign. Shinkle's finance committee hasn't held a public hearing on the bill and probably won't until the Legislature reconvenes Nov. 12, following the election. Here are the questions (in boldface type) raised by Sen. Shinkle and Engler, followed by Bowman's quoted answers:

1. Will the contracts be tax-exempt under federal tax law?
"That's irrelevant to the bill," Bowman said. "It's an important question but irrelevant now."

"The bill requires me to get a ruling from the Internal Revenue Service (before the state sells contracts). IRS often waits 'til they have a bill before ruling. It's a red herring to say we can't move on the bill before the IRS rules."

2. Will the contracts be in violation of federal securities law?
Important but irrelevant to Senate debate, Bowman said. "It's in the bill that we have to have a ruling on transferability of contracts from the Securities Exchange Commission before we offer contracts."

The plan contemplates that contracts can't be transferred. For example, it would be unfair and actuarially unsound for a parent to try to transfer a contract from a 4-year-old to an 8-year-old sibling.

OU sets new admissions deadline

Oakland University on Nov. 14 will close admissions for new freshmen and transfer students for the winter semester.

Normally the date is Nov. 28, but it was moved up as part of an effort to maintain enrollment at near current levels. This fall's enrollment is about 12,700 compared to last fall's 12,586.

A \$20 application fee for admission and all transcripts must be on file with the OU admissions office by the deadline.

Registration for winter is Jan. 5, and classes begin the next day.



Robert Bowman
'fiduciarly sound'

3. How many advance tuition contracts will be sold?
"We don't know. Somewhere between 10,000 and 80,000 — the more, the better."

4. If the demand for the contracts exceeds the amount available, how will the contracts be allocated?
"Demand will exceed supply in the initial years. First come, first served."

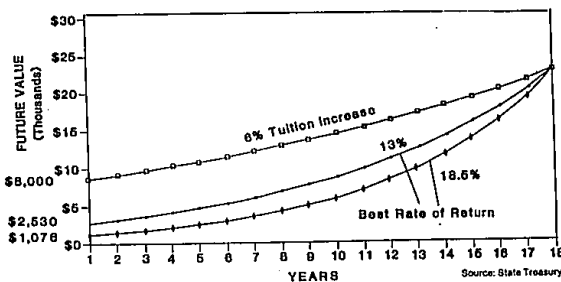
"The private sector will continue to offer its investment vehicles."

5. What are enrollment projections for the various universities?
"How is this relevant to how the program works?" Bowman asked in reply.

He expects enrollment increases, but not of gigantic proportions.

6. What assumptions have been made regarding instructional costs of students, and are these assumptions reasonable?
"We're talking about price (tuition), not cost," Bowman said, calling the question another "red herring."

He has worked out charts for various rates of tuition increases from 6 to 9 percent. Most often he uses the 6 percent figure (see chart) to illustrate the plan's workings.



A governing board would assure each year that the plan is fiduciarly sound, making adjustments in new contract prices.

"If there's an unfunded liability, it's to be made up by new participants," Bowman said. "Any corrections will be so minor that we don't think they will keep people from getting in."

He calls the BEST plan better conceived than Social Security, which didn't require annual adjustments in taxes to cover costs. "That's why you and I are paying so much for Social Security today," he said.

7. How will ownership of advance tuition contracts affect federal and state scholarship eligibility?
"It should affect eligibility, if Bob Bowman has his way," he said. "Your financial situation is better (with a BEST contract). I don't think that's bad."

"It (the existence of BEST contracts) will free up more scholarship money."

8. How will the trust decide who will be able to sell their contracts when a child does not attend college and who cannot?
"You can't sell them. You can get

out of it at (the child's age of) 18. The child has to certify he doesn't want to go to college."

"The money is meant for the child's higher education. You can't sell it (the contract) or you've got SEC violations."

9. What estimates have been made regarding the effect of the BEST program on private college enrollment in the late 1990s?
"If a kid decides to go to Hope (a private college at Grand Rapids), he could go, but it (BEST) won't guarantee it will cover four years of tuition — it might cover 2 1/2 at Hope." Goal of the plan is to guarantee tuition

Here is how the Baccalaureate Education System Trust would work:

Top line assumes college tuitions increase from the current \$8,000 for four years to \$22,835 in 18 years.

Second line shows that if state investments continue to earn 13 percent compounded, as they have since 1977, today's lump-sum investment of \$2,530 would yield the required \$22,835 in 18 years.

Third line shows how \$1,076 would grow to \$22,835 in 18 years if the fund earns 18 percent compound, as it has for the past five years.

will be covered at one of the 15 state four-year colleges and universities.

BOWMAN WAS asked what would prevent universities from imposing all sorts of fees for applications, enrollment, laboratories and computers that wouldn't be covered by the BEST tuition program.

"Our goal is to cover tuition only," he said. "We're trying to walk before we run."

He held out the possibility of expanding the program later to cover other college costs besides tuition, but insisted the first priority is to "eliminate parents' financial concerns regarding tuition."

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