

HOUSE BILL REPORT

E2SHB 2605

As Passed House
February 14, 1994

Title: An act relating to higher education.

Brief Description: Changing higher education statutory relationships.

Sponsors: By House Committee on Appropriations (originally sponsored by Representatives Jacobsen, Brumsickle, Dorn, Bray, Ogden, Dunshee, Pruitt and J. Kohl).

Brief History:

Reported by House Committee on:
Higher Education, February 3, 1994, DPS;
Appropriations, February 7, 1994, DP2S;
Passed House, February 14, 1994, 95-1.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 18 members: Representatives Jacobsen, Chair; Quall, Vice Chair; Brumsickle, Ranking Minority Member; Sheahan, Assistant Ranking Minority Member; Basich; Bray; Carlson; Casada; Finkbeiner; Flemming; Kessler; Mastin; Mielke; Ogden; Orr; Rayburn; Shin and Wood.

Staff: Susan Hosch (786-7120).

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The second substitute bill be substituted therefor and the second substitute bill do pass. Signed by 24 members: Representatives Sommers, Chair; Valle, Vice Chair; Carlson; Appelwick; Ballasiotes; Basich; Cooke; Dellwo; Dorn; Dunshee; G. Fisher; Foreman; Jacobsen; Lemmon; Linville; H. Myers; Peery; Rust; Sehlin; Sheahan; Stevens; Talcott; Wang and Wineberry.

Minority Report: Do not pass. Signed by 1 member: Representative Wolfe.

Staff: Sherie Story (786-7142).

Background:**HIGHER EDUCATION COORDINATING BOARD**

The Higher Education Coordinating Board's (HECB) purpose is to provide planning, coordinating, monitoring and policy analysis for the state's higher education system. The board has recommended and adopted a variety of higher education policies for the state. Most of those policies have been reviewed by the Legislature, and adopted either through statute or concurrent resolution. In addition, the board must review and recommend operating and capital budget requests for the state-supported baccalaureate institutions and the community and technical college system. The board has contracted with public institutions to provide upper division programs in the Port Angeles area. The board does not have the authority to contract with independent institutions.

HIGHER EDUCATION POLICIES

In 1988, by concurrent resolution, the Legislature adopted a goal that Washington's system of higher education would be among the five best in the country. The goal was never adopted in state law.

TUITION AND FEES

In Washington, tuition is established in statute as a fixed percentage of educational costs. The percentage varies according to type of student and type of institution attended. Institutional governing boards must charge students the tuition rate driven by that statutory formula. The boards may, however, vary the rates charged for services and activities fees, under an overall statutory fee limit. The boards may also charge special fees for special purposes. But, except for self-supporting programs, the boards do not have the authority to vary tuition by program, by campus, or by academic term.

Within an overall statutory revenue limit established for each four-year university and college and for the community college system as a whole, each institution may waive tuition and fees for students in about 35 waiver programs.

LAWS GOVERNING HIGHER EDUCATION BUDGETS AND SERVICE CONTRACTS

State institutions of higher education are subject to many laws and regulations governing the operations of all state agencies. The institutions must comply with the budget allotment and reserve procedures adopted by the Office of

Financial Management. They must return to the state general fund any appropriated money that is not spent at the end of a biennium. In addition, by law, state agencies are required to create spending plans designed to use appropriated and non-appropriated money in a way that conserves the appropriated money.

FINANCIAL AID: Needy Washington residents attending accredited Washington public and private vocational schools and institutions of higher education are eligible to receive state funded student financial aid. Since 1977, funding for state programs has been guided by legislative intent language in statute. The language indicates that an amount that equals or exceeds 24 percent of the revenue from tuition increases at public colleges and universities should be added to financial aid programs funded from the general fund.

At the time the 24 percent intent language was adopted, about 24 percent of the full-time students attending public colleges and universities were receiving financial aid. In 1992, that percentage was about 38 percent. The percentage climbed to more than 40 percent when full-time resident students at private institutions were included. With the revision of federal financial aid eligibility requirements, the percentage of students receiving assistance is expected to continue to climb.

During the 1993-95 biennium, \$126.3 million was appropriated for student financial aid programs. Most of the funds are used to support the state need grant and work study programs. The maximum family income for a family of four of students aided by the need grant program is about \$22,000 per year. During the 1993-94 academic year, about 38,000 low income students will receive assistance through the program. In addition, about 7,700 will be assisted in the work study program.

Summary of Bill:

GOALS FOR HIGHER EDUCATION

Eight new state higher education goals are adopted. However, implementation of the goals is subject to available funds.

State Funding Goals: By 2002, Washington's system of higher education and workforce training will be among the five best systems in the country in providing access and high quality programs to the state's citizens. By the same year, state funding per student, for students attending public colleges and universities will equal or exceed state funding at the

90th percentile of each institution's peers. Any increased funding needed to reach the goal will be phased over six years, beginning in the 1995-97 biennium.

Budget Goals: Beginning in the 1995-97 biennium, each four-year institution of higher education will receive the same amount of state general fund money as in the previous biennium, adjusted for inflation, one-time costs and other policy initiatives adopted by the Legislature. Most new enrollments will be reserved for resident students. The Legislature will adopt no salary restrictions and a minimum number of budget provisos for the four-year institutions.

Goals for Management Flexibility: Four-year institutions of higher education will be relieved from laws and rules governing state agencies if those laws inhibit effective management and the institutions meet other statutory accountability measures.

Goals for Competitive Grants: When selecting institutions to provide educational programs or services, the Higher Education Coordinating Board will consider public and independent institutions that offer the highest quality cost-effective program or service.

Financial Aid Goal: Washington residents who are prepared and who desire postsecondary education and training will not be denied an education due to their financial status.

MANAGEMENT FLEXIBILITY

The statutory requirement that agencies spend appropriated and non-appropriated funds in a way that conserves the appropriated funds does not apply to state institutions of higher education. In addition, the Office of Financial Management is directed to adopt a simplified allotment and reporting procedure for four-year institutions of higher education. The procedure may exempt the institutions from allotment controls required for public funds.

TUITION AND FEES AT THE FOUR-YEAR INSTITUTIONS

The four-year universities and colleges may charge program fees. The fees may vary by program, campus and student category. Beginning in the 1995-96 academic year, four-year institutions may increase the percentage of tuition dedicated to building fees.

Beginning in the 1995-96 academic year, each four-year institution of higher education may adjust tuition fees above or below current statutory rates under certain conditions. First, the institution must consult with

students through a process adopted in rule, and must provide 60 day notice before implementing any tuition changes. Next, the level of state appropriations per student must be below a percentile of the institution's peers. In the 1995-96 academic year, the revenue must be below the 65th percentile of the peers. The percentiles increase by 5 percent per year until the 2000-01 academic year and thereafter, when the revenue must be below the 90th percentile of the peers.

In any year, revenue per student from a combination of tuition, program fees and state appropriations cannot exceed revenue from the same sources for the peers at the percentile levels set for that year. In addition, tuition cannot be increased more than 10 percent per year for any student category. If an institution adjusts tuition, tuition levels may vary by term, by student category, and by campus. Finally, if an institution exercises this authority, it must increase its contribution to its local financial aid fund from 2 1/2 percent to 5 percent of revenue collected from tuition, services and activities fees.

Residency statutes are revised to permit the spouse and dependents of Washington residents in the military or civil service of the country to retain the ability to pay resident tuition rates if they return to the state within one year of discharge from the service.

Tuition waiver laws are revised. Within the overall limits placed on all waiver programs, "internal" limits placed on certain waiver programs are removed. Within overall waiver limits, there will be no limit on the amount of revenue that may be used to assist needy students or other students at four-year institutions, except on the basis of intercollegiate athletics. Also within the overall waiver limits, no limit is placed on the number of international students that may receive waivers at four-year institutions. Finally, the requirement is removed that students on a one year exchange program must attend comparable institutions and must be upper division students.

HIGHER EDUCATION COORDINATING BOARD

The Higher Education Coordinating Board will establish and revise a set of peer institutions for each four-year institution of higher education and for the community and technical college system as a whole.

The board will develop and submit a budget to the Governor and the Legislature for the higher education system as a whole. The budget submitted by the board will be separate

from the budgets submitted by each four-year institution and the State Board for Community and Technical Colleges.

The board may contract with independent colleges and universities under certain conditions. The conditions: the contract is the most cost-effective way of providing a service to resident students in a particular locality; only resident students will be served; tuition for the service is comparable to tuition at state institutions; the content of the program does not contain any religious or sectarian instruction; and the contract has been approved by the Attorney General. Participation is limited to independent institutions that are located in the state, are accredited by the Northwest Association of Schools and Colleges or by an accreditation association recognized by the board. Participation institutions cannot be pervasively sectarian, and cannot restrict entry or employment on the grounds of race, gender, religion or disability.

FINANCIAL AID: The Legislature intends to restructure and fully fund the state's financial aid system. The restructured system, known as college promise, will be implemented beginning in the 1996-97 academic year. Funding levels for the state's system of financial aid are subject to available funds.

GOALS: The goals of college promise include limiting debt for undergraduate students to no more than one-half of a student's cost of attendance; sheltering home equity, and some portion of savings and farm or business net worth; simplifying financial aid applications; and striving to preserve a range of educational options for needy students. Another goal is to provide more self-help than grants to middle-income students and approximately equal amounts of grants and self-help to low and lower middle-income students. In addition, students with disabilities may receive assistance with equipment and assistance needed for college. Future college students will receive information about college costs and opportunities for financial aid.

Under college promise, middle-income undergraduate students would become eligible for financial aid, and needy graduate and professional students would become eligible to participate in the need grant program. Through college promise, the state work study program would be expanded. In addition, financial aid may be provided to some needy students whose parents did not graduate from college.

A standard for classifying students by income levels is adopted. The standard is based on the state's median family income. Under the standard, low-income students are those whose family income does not exceed one-half the state's

median family income. Lower middle-income students are those whose family income is between 51 and 75 percent of the state's median family income. Middle-income students are students whose family income is between 76 and 125 percent of the median family income. The income standard will be adjusted annually for family size and changes in the state's median family income. Priorities for student funding, methodologies for determining need, and goals for funding types of aid will vary for students in different income categories. Financial aid officers may vary aid packages for individual students if necessary.

PROGRAM CHANGES: In the need grant program, the HECB will, to the extent permissible by law, exclude home equity and shield a portion of savings and farm or business net worth from asset calculations. In addition, as funding is available, first middle-income undergraduate students, then graduate and professional students will be added to the program.

FUNDING MECHANISM: By September 30 of each even-numbered year, the HECB will estimate and report the amount of money needed to fully fund state financial aid programs during the next biennium. Those programs include the state need grant, work study, educational opportunity grant, aid to blind students, and future teachers conditional scholarship programs. A demonstration project for providing grants to needy first generation scholars may be included if funding is approved for the project.

It is the intent of the Legislature to fully fund college promise. However, funding levels are subject to available funds.

Private institutions must equally match the amount of state funded grant aid received by their student body with grant funds raised from nongovernmental sources. The matching funds must be awarded to needy Washington residents attending the institutions.

FINANCIAL AID COST STUDY: By January 1, 1995, the HECB, in consultation with legislators and the institutions, will develop a detailed implementation plan and cost estimates for the expansion of the state's financial aid system. The elements of the plan are described. By June 30, 1995, the plan will be deemed to be approved unless legislation is enacted to alter the policies in the plan.

NATIONAL GUARD CONDITIONAL SCHOLARSHIP PROGRAM:

The Washington State National Guard Conditional Scholarship Program is created. The program will be administered by the

Office of the Adjutant General of the state Military Department. Through the program, members of the National Guard below the rank of major may receive conditional scholarships to attend an institution of higher education in Washington. The institution attended may be any public or private college or university accredited by the Northwest Association of Schools and Colleges. Participants must repay the scholarship, with interest, unless they serve in the National Guard for one additional year for each year of scholarship received. The interest rate on any repayments will be 8 percent.

Funding for the scholarships may come from federal funds, private donations, or repayments from participants who do not meet their service obligation. No state general fund money may be used for conditional scholarships. Program definitions and the powers and duties of the adjutant general under this program are described. The responsibilities of the adjutant general in collecting and managing repayments are also described.

Fiscal Note: Available. New fiscal note requested for second substitute on February 9, 1994.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: (Higher Education) State government is entering an era of constrained resources. During this era, the challenge to colleges and universities: how to maintain quality and increase access to residents who need the education, credentials, training and retraining provided by state colleges and universities. The tools provided through this legislation will significantly enhance the ability of institutions to meet the challenge. It provides flexibility, decentralized management with accountability and gives the institutions the ability to adjust tuition levels if state funding is insufficient to fund programs and services. It provides incentives for saving state and student funds and provides a means for creating a reserve fund that may be used in fiscally lean times. It removes some of the bureaucratic restrictions that are used to micromanage institutions. It contains an ambitious funding goal and reaffirms the state's commitment to having one of the best higher education systems in the country.

(Appropriations) This bill provides the kind of flexibility in both management and funding of institutions that will be needed to face an era of limited resources but increasing demand for higher education. The Council of Presidents does not have a consensus position on this bill, but wants to go on record in conceptual agreement with the direction this

bill takes in providing more management flexibility and placing important funding issues on the table for discussion. All of the institutions support the contracting out provision contained in this bill and do not support the contracting out language proposed by the Governor's Task Force on Civil Service Reform. All of the institutions support the provision allowing retention of savings in tuition accounts. Most of the four-year institutions support the change to local tuition rate setting authority, but The Evergreen State College does not.

Testimony Against: (Higher Education) Institutions should not contract for services that historically have been provided by public employees. The Legislature should be cautious about enacting this provision because this topic is under consideration in other bills before the Legislature. The level of tuition charged at public colleges and universities is an important element of the state's education policy. The state's elected policymakers, the Legislature, should retain control over the formula that drives those tuition rates. Before the state departs from current tuition policies and permits institutions to charge program fees, more study is needed. Any new policy should protect a student's ability to plan for future tuition costs. Current laws governing bid limits for facility projects costing \$25,000 should remain unchanged (original bill). The role of the HECB should remain unchanged (original bill).

(Appropriations) The Legislature should continue to determine the level of tuition at public institutions as they are elected policymakers and responsive to student constituents. The Governor's Task Force on Civil Service Reform proposed legislation that includes proposals on both contracting out and collective bargaining. The Legislature should consider these topics together, not separately as in this bill. If the institutions are given authority to raise tuition, this should be accompanied by sufficient notice to allow students to plan.

Witnesses: (Higher Education) Craig Cole, Western Washington University; Scott Morgan, State Board for Community & Technical Colleges; George Durrie, Eastern Washington University; Tom George, Washington State University; Wayne Clough, University of Washington; Tom Parker, Association of Individual Colleges & Universities; Mary Marcy, Central Washington University; Larry Richardson, Council of Faculty Representatives; Kelly Egan and Robert Edie, University of Washington; Duke Schaub, Associated General Contractors; Dick Ducharine, Utility Contractors Association (all pro); Gary Moore, Washington Federation of State Employees; Randy Parr, Washington State

Council; Jennifer Jaech, The Evergreen State College; and Dan Steele and Heather Flodstrom, Washington Student Lobby (concerns).

(Appropriations) Terry Teale, Council of Presidents; Bob Edie, University of Washington; Al Froderberg, Western Washington University; Larry Ganders, Washington State University (all pro); Steve Lindstrom, Washington Student Lobby (concerns); Gary Moore, Washington Federation of State Employees; and Eugene St. John, Washington Public Employees Association (con, contracting out section).