

HOUSE BILL REPORT

HB 1372

As Reported By House Committee On:
Higher Education

Title: An act relating to the Washington advanced college tuition payment program.

Brief Description: Creating the Washington advanced college tuition payment program.

Sponsors: Representatives Carlson, Mason, Radcliff, O'Brien, Dunn, Kenney, Sheahan, Talcott, Hatfield, Schoesler, Mitchell, Costa, Cooper, Dickerson, Keiser, Wood and Kessler.

Brief History:

Committee Activity:

Higher Education: 2/7/97, 2/13/97 [DPS].

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Carlson, Chairman; Radcliff, Vice Chairman; Mason, Ranking Minority Member; Kenney, Assistant Ranking Minority Member; Butler; Dunn; O'Brien; Sheahan and Van Luven.

Staff: Marilee Scarbrough (786-7196).

Background: The 1996 Legislature directed the Higher Education Coordinating Board to develop a proposed statute for a prepaid tuition and fee program in Washington. The budget provision stated:

A recommended program design and draft legislation shall be submitted to the Office of Financial Management by September 30, 1996, for consideration in the 1997 legislative session. The development of the program shall be conducted in consultation with the state's Investment Board, Office of the State Treasurer, Office of the State Actuary, the Office of Financial Management, private financial institutions, and other qualified parties with experience in the areas of accounting, actuary, risk management, or investment management.–

Fourteen states currently operate prepaid tuition programs. They are Alabama, Alaska, Colorado, Florida, Louisiana, Massachusetts, Michigan, Mississippi, Ohio, Pennsylvania, Tennessee, Texas, Virginia, and Wisconsin. The following states are

considering programs: California, Maine, Maryland, Missouri, New York, Rhode Island, South Carolina, and Washington.

Summary of Substitute Bill: Administration. The Washington Advanced College Tuition Payment Program is established. The program allows families to buy tuition units. The units are redeemable for future tuition at a Washington institution of higher education at no additional cost. Units redeemed out of state or for graduate programs will be redeemed at the current weighted average tuition.

The board will determine the cost of each unit and the redemption value at institutions of higher education. The number of units purchased may be limited by the board, but the limit cannot be less than four years at a state institution of higher education. The board may also limit the number of tuition units used in any one year; impose administrative fees; use advisory committees; consider advance payment for room and board contracts; consider a college savings program; purchase insurance; contract for services with state and non-state entities; employ persons to carry out the act; contract with financial consultants, actuaries, auditors; and solicit and accept cash donations and grants from any person or organization. All board activities related to the trust must maintain the actuarial soundness and integrity of the program.

The board will determine conditions of transfer to other family members and publicize the program. The board may allow an organization to purchase tuition units for future scholarships. The board shall consult with the State Investment Board, the Office of the State Treasurer, the Office of the State Actuary, the Office of Financial Management, and institutions of higher education regarding operation of the program. After two years the board will recommend whether the program should stay with the board or be assigned to another state agency.

State Obligation. The board's contract is legally binding on the state. Tuition contract means a contract between the purchaser and the board. If the money in the account is insufficient to pay the state's obligation for a given biennium, the legislature shall appropriate to the account the amount necessary to cover such expenses.—

Advance College Tuition Payment Account. The account is created in the custody of the Office of the State Treasurer. All interest from the account shall be deposited in the account. Payments from the account shall be made to the institutions of higher education on behalf of the qualified beneficiaries.

The State Investment Board. The State Investment Board has power to invest, reinvest, manage, contract, sell, or exchange investment money in the account. The State Investment Board shall consult and communicate with the board on the investment policy, earnings of the trust, and related needs of the program.

Accountability. The board shall annually evaluate the program. If funds are inadequate, the board shall adjust the price of subsequent tuition credit purchases to ensure soundness. If there are insufficient purchases, the board shall request such funds from the Legislature as required to ensure the integrity of the program.

Program Termination. If the state determines the program is not financially feasible or terminates the program, the board shall stop accepting any contracts or purchases. The board will honor all tuition contracts for beneficiaries enrolled or within four years of graduation from a secondary school or for 10 fiscal years from the termination date. Other contract holders will receive a refund equal to the value of the current weighted average tuition unit. Excess funds will be deposited in the general fund.

Refunds. If the beneficiary chooses not to attend college, the beneficiary will receive 95 percent of the current weighted average tuition and fees in effect at that time. The refund is limited to 100 tuition units per year. The refund shall be made 90 days after certification of non-attendance.

Upon death or disability of the beneficiary, the board will refund 100 percent of unused tuition units. If the student graduates or completes the academic program, the board will refund up to 100 percent of any remaining unused weighted average tuition units.

If the beneficiaries receive tuition and fee scholarships, the board will refund 100 percent of the current weighted average tuition unit. Incorrect or misleading information may result in a refund of the purchaser's investment.

Substitute Bill Compared to Original Bill: The substitute adds a definition of "contractual obligation" and clarifies that participants enter into a contractual obligation with the state.

Appropriation: None.

Fiscal Note: Available.

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

Testimony For: This program is distinguishable from the Washington State College Savings Bond Program. The bond program is a savings program that is not dedicated to higher education. The Advanced College Tuition Program is targeted specifically to higher education use. There is no comparable product for in-state institutions of higher education. The historical investment data indicates that this program would have been successful if implemented in 1976, however, past results do not project

future returns. The State Investment Board welcomes the opportunity to create a portfolio to meet the needs of the account. The program will allow families and students to save and plan for their college experience. This is an innovative solution to improve access to higher education in our state.

Testimony Against: None.

Testified: Representative Don Carlson, prime sponsor (pro); Mike Murphy, State Treasurer (pro); Jim Parker, Washington State Investment Board (pro); and Amit Ranade, Washington Student Lobby (pro).