

SENATE BILL REPORT

SB 5106

As Reported By Senate Committee On:
Higher Education, February 10, 1997
Ways & Means, March 10, 1997

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

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

Sponsors: Senators McAuliffe, Wood, Kohl, Prince, Patterson, Hochstatter, Bauer, Sheldon, Brown, Rasmussen, Long, Goings, Haugen, Franklin, Thibaudeau, Loveland, Snyder, Winsley and Oke.

Brief History:

Committee Activity: Higher Education: 2/3/97, 2/10/97 [DPS].
Ways & Means: 2/27/97, 3/10/97 [DP2S]

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: That Substitute Senate Bill No. 5106 be substituted therefor, and the substitute bill do pass.

Signed by Senators Wood, Chair; Winsley, Vice Chair; Bauer, Hale, Kohl, Patterson, Sheldon and West.

Staff: Jean Six (786-7423)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5106 be substituted therefor, and the second substitute bill do pass.

Signed by Senators West, Chair; Strannigan, Vice Chair; Bauer, Brown, Fraser, Kohl, Long, Loveland, McDonald, Sheldon, Snyder, Spanel, Swecker, Thibaudeau and Winsley.

Staff: Michael Groesch (786-7434)

Background: In 1989, legislation leading to a tuition prepayment program in the state of Washington was vetoed by the Governor. The increases in tuition since that time have contributed to a growing perception of a college affordability crisis.

Currently there are 12 states that have implemented tuition prepayment programs, with five more states ready to start marketing new programs. Thirty other states have proposals before their legislatures or are engaged in the self-study phase of development. While there are unique features to each program, they operate essentially as follows. Purchasers pay in advance for educational benefits that a designated beneficiary is expected to use in the future. The program pools all funds into one large fund and invests it with the goal of achieving a

rate of return that is higher than the rate of anticipated tuition increase. When the beneficiary enrolls in a higher education institution, the program pays to the school whatever it charges at that time for tuition and fees and any other prepaid expenses covered by the particular program.

The 1996 Legislature requested that the Higher Education Coordinating Board (HECB) develop a proposal for a prepaid tuition and fee program in Washington. In developing the program, the HECB consulted with the State Treasurer, the State Investment Board, the Office of Financial Management, the State Actuary and other experts.

Summary of Second Substitute Bill: The Washington advanced college tuition payment program is established, providing for the sale of tuition units redeemable at a future date for an equal number of tuition units regardless of any intervening increase in tuition. Units may be purchased by an individual for a specific resident beneficiary or by an approved nonprofit organization for scholarship awarding purposes. Businesses may contribute to the benefit of their employees. The tuition unit contract is a contractual obligation between the purchaser and the state.

The Committee on Advanced Tuition Payment administers the program, reviewing its administration at the end of two years and recommending whether or not the committee will continue its responsibility for the program. The committee is comprised of the following members or their designees: chair of the Higher Education Coordinating Board; the State Treasurer; the director of the Office of Financial Management. The committee must also promote, advertise, and publicize the Washington advanced college tuition payment program. Advisory committees and such other consultants as actuaries, auditors, and financial experts shall assist the board.

The Washington advanced college tuition payment program account, retaining its own interest earnings, is created in the custody of the State Treasurer. The account is self-sustaining and consists of payments for tuition units and funds received from other public and private sources.

The responsibility for investing the funds in the account rests with the State Investment Board. Full refunds are available in certain circumstances, such as disability or the receipt of tuition scholarships, but penalties are assessed if the student voluntarily chooses not to attend college. Also, tuition units are transferrable to other family members.

Tuition units may be used at any college or university either in-state or out-of-state: public baccalaureates, community colleges, technical colleges, proprietary vocational schools, or independent higher education institutions. Units may also be used to pay for graduate school but no units may be redeemed until two years after the purchase of the unit.

Second Substitute Bill Compared to Substitute Bill: The program is administered by the Committee on Advanced Tuition Payment. The committee is chaired by the representative from the HECB.

Substitute Bill Compared to Original Bill: The original bill was not considered.

Appropriation: None.

Fiscal Note: Requested on January 17, 1997.

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

Testimony For (Higher Education): Tuition costs have risen drastically over the past several years. Prepaid tuition is an innovative solution to help students and families cope with tuition increases through long-term planning. The program will allow for the purchase of up to four years' worth of college tuition at today's rate for use any time in the future, regardless of how much tuition has risen in the intervening years. The tuition unit contract is a contractual obligation between the purchaser and the state.

The units can be applied to private or out-of-state colleges. They can be transferred to other members of the family. The program is designed to be self-sustaining through investments by the State Investment Board. The program is largely modeled after an Ohio law.

If the program were to start today, a unit would cost about \$30. It would take about 105 units to attend one of the research universities for a year; 81 units to attend CWU, EWU, WWU, or TESC; and 47 units for a year at a community college.

Units may be purchased not only by parents and grandparents but also by an approved nonprofit organization for scholarship awarding purposes. A business can use the program as part of its benefits package.

Testimony Against (Higher Education): None.

Testified (Higher Education): Senator Rosemary McAuliffe, prime sponsor; Susan Patrick, John Klacik, HECB; Treasurer Mike Murphy; Tim Kerr, Deputy Treasurer; Jim Parker, Exec. Director, SIB; Marty Brown, Leg. Liaison for Governor Locke; Barbara Casey, WA State PTA; Bruce Ecklund, CWU, Amit Ranade, UW.

Testimony For (Ways & Means): This is a good program which fills the gap between the state need grant and those who can afford to pay as they go. The bill creates legally binding contracts between the family and the state. The financial soundness of the fund is assured in the bill.

This program is superior to the college savings bond program moving from a debt-based program to a savings program.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Senator Jeannette Wood; Senator Jean Kohl; John Klacik, HECB; James Parker, State Investment Board; Michael J. Murphy, State Treasurer; Tres Gallant, WA Student Lobby.