

# SENATE BILL REPORT

## SSB 5749

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As Amended by House, April 7, 2011

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

**Brief Description:** Regarding the Washington advanced college tuition payment (GET) program.

**Sponsors:** Senate Committee on Higher Education & Workforce Development (originally sponsored by Senators Brown, Hewitt and Shin).

**Brief History:**

**Committee Activity:** Higher Education & Workforce Development: 2/16/11, 2/18/11 [DPS-WM].

Ways & Means: 2/22/11, 2/24/11 [DPS(HEWD)].

Passed Senate: 3/04/11, 47-0.

Passed House: 4/07/11, 90-2.

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### SENATE COMMITTEE ON HIGHER EDUCATION & WORKFORCE DEVELOPMENT

**Majority Report:** That Substitute Senate Bill No. 5749 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Tom, Chair; Shin, Vice Chair; Hill, Ranking Minority Member; Baumgartner, Becker, Ericksen, Kastama, Kilmer and White.

**Staff:** Aldo Melchiori (786-7439)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Substitute Senate Bill No. 5749 as recommended by Committee on Higher Education & Workforce Development be substituted therefor, and the substitute bill do pass.

Signed by Senators Murray, Chair; Kilmer, Vice Chair, Capital Budget Chair; Zarelli, Ranking Minority Member; Parlette, Ranking Minority Member Capital; Baumgartner, Baxter, Brown, Conway, Fraser, Hatfield, Hewitt, Holmquist Newbry, Honeyford, Kastama, Keiser, Kohl-Welles, Pflug, Pridemore, Regala, Rockefeller, Schoesler and Tom.

**Staff:** Maria Hovde (786-7710)

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*This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.*

**Background:** The Guaranteed Education Tuition (GET) Program is Washington's 529 prepaid college tuition plan. Families can prepay for their child's college tuition today knowing that the value of their account is guaranteed by the state to keep pace with rising college tuition. Since GET began in 1998, families have opened more than 119,000 accounts.

The state guarantees that 100 GET units will cover one year of resident undergraduate tuition and state-mandated fees at the most expensive Washington public university. GET accounts can be used at nearly any public or private college in the country. Families can buy between one and 500 units per child, and the account will benefit from tax-free growth and withdrawals. To date, 16,500 students have used their GET accounts in all 50 states.

The Higher Education Coordinating Board administers the GET Program while the State Investment Board oversees its investments. A five-member committee establishes the policies of the program and sets the price of the GET unit, currently \$117.

**Summary of Substitute Bill:** The two members of the Committee on Advanced Tuition are appointed by the Governor for four-year terms instead of an unspecified period of time.

As of August 1, 2011, the following changes apply for tuition units purchased or contracted for purchase on a custom monthly plan:

- The definition of tuition and fees includes operating fees and building fees, but no longer includes services and activities (S&A) fees. Students will pay S&A fees at the time of enrollment.
- The value of each tuition unit is the price of tuition and fees at the time of purchase multiplied by the average percentage increase in resident undergrad tuition and fees at all state institutions of higher education weighted by the number of full-time equivalent resident undergrad students.
- A limitation may be made to the number of GET units purchased. Currently, the limitation may not be less than those needed to achieve four years of full-time undergraduate tuition charges.
- The minimum purchase price may not be discounted for special circumstances.
- After the first GET unit is redeemed, the beneficiary must use the remainder within six years.
- Refunds in cases of death or disability or after a student graduates remain at 100 percent of current value minus administrative fees. In cases when the beneficiary chooses not to attend or other circumstances, the refund is for the lesser of (1) the actual dollar value of contributions plus actual interest earned, or (2) the price of tuition and fees at the time of purchase multiplied by the average percent increase in resident undergrad tuition and fees at all state institutions of higher education weighted by the number of full-time equivalent resident undergrad students.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

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

**Staff Summary of Public Testimony on Original Bill (Higher Education & Workforce Development):** PRO: The GET program has been very successful in helping families afford college. The program is 86 percent solvent at this time, so the long-term financial viability of the program may be in jeopardy. All current contracts will be honored under the new program. This would create less confusion than just switching to a pure 529 program.

CON: Students will be required to pay S&A fees and these are sometimes high. Some students take longer than 6 years to complete their academic programs, so the 6 year time limitation will make their GET investment less useful.

OTHER: The bill needs some technical amendments to make it work better. There may be some alternative models that are easier to administer. Only 4 percent of GET accounts are cancelled, so the benefit of these changes may be limited and may have the unintended consequence of discouraging enrollment in the program.

**Persons Testifying (Higher Education & Workforce Development):** PRO: Senator Brown, prime sponsor.

CON: Aivia Aikaia, student, University of Washington-Tacoma.

OTHER: Don Bennet, Executive Director, Higher Education Control Board.

**Staff Summary of Public Testimony on Recommended Substitute (Ways & Means):** PRO: The GET program is a great program for Washington State and families to invest in higher education. However, the program ties the value to the highest amount of tuition in the state and, as a result, ties investments to an institution that most students will not attend. By tagging the future payout value to the average cost of education, this is still a great investment but is not so directly tied into what is happening at the University of Washington. Under the current program, in making decisions about tuition at the University of Washington, every future legislator will need to consider the impacts to the GET program. In addition, current estimates are that the program is 86 percent funded and although that is not a serious problem, serious problems often start out as small problems. In many ways, this bill is a prevention measure so that we can keep a program like this in Washington State but not create an unfunded liability that future legislatures will have to deal with. We still guarantee that credits currently purchased will be honored contractually, but that the new program will have a slightly different and tighter set of rules. This is more fiscally responsible but is still a great opportunity for families to invest in the value of higher education.

**Persons Testifying (Ways & Means):** PRO: Senator Brown, prime sponsor.

**House Amendment(s):**

- The current GET Program is retained.
- All of the provisions modifying purchases after August 1, 2011 are removed.

- The provision that specifies the length of term for the members on the Committee on Advanced Tuition Payment (Committee) appointed by the Governor for four-year terms instead of an unspecified period of time is retained.
- The Committee:
  - utilizes the State Actuary in reviewing the GET Program rather than a national recognized actuary.
  - adjusts the price of purchases based on actuarial analysis to ensure the soundness of the account.
  - must adopt an actuarially sound and prudently predictable reserving strategy that provides long-term assets to meet the long-term obligations of the account.