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## Higher Education Committee

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### HB 2619

**Brief Description:** Creating the state need pay it forward program.

**Sponsors:** Representatives Bergquist, Haler, Pollet, Muri, Magendanz, Zeiger, Goodman, Ryu, Cody and Moscoso.

#### Brief Summary of Bill

- Replaces the current State Need Grant program with a State Need Pay It Forward program and the current College Bound Scholarship program with a College Bound Pay It Forward program.
- Requires that students receiving grants toward tuition (or tuition and books for the College Bound program) agree, through a grant contract, to make contributions to the program one year after completing their higher education program or one year after discontinuation of their higher education program, based on their ability to afford contributions.
- Requires contributions to the program to be based on one percentage point of income for each year of participation in the program and only based on taxable income above certain thresholds.
- The Office of Student Financial Assistance is required to develop contribution conditions within certain parameters.
- Requires seventh or eighth graders to sign up for the current College Bound Scholarship program by June 30, 2014, and after that date students are only eligible to sign up for the College Bound Pay it Forward program.
- Directs that the changes to the State Need Grant Program and College Bound program take effect on July 1, 2015, except for the requirement that students sign up for the current College Bound Scholarship by June 30, 2014.

**Hearing Date:** 2/19/14

**Staff:** Madeleine Thompson (786-7304).

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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 State Need Grant.

The primary purpose of the State Need Grant (SNG), established in 1969, is to provide the opportunity to low-income, needy, and disadvantaged Washington residents to attend an institution of higher education in the state. The Office of Student Financial Assistance (Office), within the Washington Student Achievement Council, administers the program in coordination with institutions of higher education. The Office deducts the expected family contribution from the cost of attendance to determine financial need. In 2014, to be eligible, a student's family income must not exceed 70 percent of the state's median family income. The SNG award values are based on the tuition and fee rates at Washington's public institutions of higher education and are prorated by income category and part-time enrollment.

The SNG recipients are required to contribute a portion of the total cost of their education through self-help and maintain satisfactory academic progress as determined by the institution they are attending. If applicable, the SNG recipients must document their need for dependent care assistance after taking into account other public funds for the purpose.

During the 2012-13 academic year, 73,985 Washington students received the SNG. At the same time, there were 32,443 students who were eligible but not served. The Legislature appropriated \$303 million for the SNG for the 2013-14 academic year.

### College Bound Scholarship.

Legislation enacted in 2007 created the College Bound Scholarship (CBS). The CBS provides financial aid to cover the remaining cost of tuition at public institutions of higher education after subtracting other forms of aid and a \$500 book allowance. Students must sign up in the seventh or eighth grade, graduate high school with a C or better average, be without a felony conviction, and successfully apply to a state higher education institution. Students must qualify for free or reduced lunch when they sign up and have a family income below 65 percent of the median family income when they graduate from high school. Between 2007 and 2013, over 152,000 students had signed up for the CBS. As of November 2013, 7,106 students were receiving the CBS for the 2013-14 school year.

### Federal Student Loans and Repayment Plans.

The federal government offers both grants and loans to support students to access and complete higher education. Federal loans available to undergraduates include the Subsidized and Unsubsidized Stafford Loans, the Perkins loan made through a college or university, and the PLUS loan made to parents on behalf of dependent undergraduates students. Federal loans available to graduate students include the Unsubsidized Stafford Loan, the Stafford Loan — Graduate, and the Grad PLUS Loan.

All federal student loans can be consolidated into a Consolidation Loan after a borrower leaves school. The interest rate on the loan is fixed, and is set at the weighted average of the interest rates on the underlying loans. Consolidation loans also offer extended repayment terms depending on the total value of the loan. In addition, students may also be eligible for the federal Income-Based Repayment plan that allows borrowers to make monthly payments based on their income if they meet a debt-to-income test in which their student loan debt is high relative their income.

### Pay Forward, Pay Back Pilot in Oregon.

Legislation enacted in Oregon in 2013 directed that the Oregon Higher Education Coordinating Commission (Commission) consider the creation of a proposed pilot program called Pay Forward, Pay Back. The pilot program would:

- replace the system of charging students tuition and fees for enrollment at public institutions of higher education; and
- identify one or more public institutions of higher education to participate in the pilot program.

The Commission is charged to determine whether a pilot program is warranted, and if so, to submit a proposal to the 2015 Legislative Assembly for consideration. The proposed pilot must allow students who are residents of Oregon and who qualify for admission to an institution of higher education to enroll in the institution without paying tuition or fees. In lieu of paying tuition, students must sign a binding contract to pay to the state of Oregon or the institution a certain percentage of the student's annual adjusted gross income upon graduation from the institution for a specified number of years. The percentage of annual adjusted gross income must be specified for contracts at each participating institution. The Commission is charged to establish an immediate funding source for the first 15 to 20 years of the pilot program. A proposed pilot program may vary by institution depending on:

- the total cost of education at the institution;
- the portion of the cost that is paid by the State of Oregon;
- the number of years specified in the contract; and
- the percentage of annual adjusted gross income specified in the contract.

### **Summary of Bill:**

The State Need Grant financial aid program is replaced with the State Need Pay It Forward program. The College Bound Scholarship program is replaced with the College Bound Pay It Forward program.

Students participating in the program receive grants toward tuition (or tuition and books for the College Bound Pay It Forward program) agree, through a grant contract, to make contributions to the program one year after completing their higher education program or one year after discontinuation of their higher education program, based on their ability to afford contributions.

Contributions to the program are based on one percentage point of income for each year of participation in the program and only based on taxable income above certain thresholds.

The threshold for a participating individual is \$30,000 and for a participating individual who is married and files taxes jointly, the threshold is \$40,000. The percentage calculation for contributions is based only on the taxable income above these thresholds. Those under the income threshold are not required to make contributions.

No interest is applied to these grant contract contribution amounts. A program participant makes contributions until either the total contributed amount is equal to the total grant amount or until 21 years pass from the time of program completion or discontinuation. The Office of Student

Financial Assistance (Office) may allow students to forego making contributions for one year, up to two times, under certain circumstances of economic hardship as determined by the Office.

Seventh or eighth graders may sign up for the current College Bound Scholarship program by June 30, 2014, and after that date students are only eligible to sign up for the College Bound Pay it Forward program.

Changes to the State Need Grant Program and College Bound program take effect on July 1, 2015, except for the requirement that students sign up for the current College Bound Scholarship by June 30, 2014.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.