

# HOUSE BILL REPORT

## HB 1154

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**As Reported by House Committee On:**  
Higher Education

**Title:** An act relating to the affordable college for everyone grant contract program.

**Brief Description:** Creating the affordable college for everyone grant contract program.

**Sponsors:** Representatives Bergquist, Zeiger, Muri, Haler, Pollet, Moscoso, Gregerson, Tharinger, Jinkins and Santos.

**Brief History:**

**Committee Activity:**

Higher Education: 1/28/15, 2/20/15 [DPS].

**Brief Summary of Substitute Bill**

- Requires the Office of Student Financial Assistance (Office) to design the Affordable College for Everyone Grant Contract (ACE) program based on certain parameters by December 31, 2015.
- Provides that students are eligible if they meet the requirements to sign up for the College Bound Scholarship during middle school and their family income exceeds 65 percent of the median family income at the time of high school graduation.
- Requires that students receiving grants toward tuition and fees agree, through a grant contract, to make contributions to the program beginning one year after completion or discontinuation of their higher education, based on their ability to afford contributions.
- Requires that contributions to the programs are based on the recipient's total grant amount and taxable income above certain thresholds.
- Provides that 100 grant contracts may be made per year between 2016 and 2019, and if 250 or more students have signed grant contracts by January 1, 2020, then the ACE program must be made available to all eligible applicants.
- Creates the ACE Grant Contract Account in the custody of the State Treasurer.

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**HOUSE COMMITTEE ON HIGHER EDUCATION**

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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.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Hansen, Chair; Pollet, Vice Chair; Bergquist, Gregory, Reykdal, Sells and Tarleton.

**Minority Report:** Without recommendation. Signed by 5 members: Representatives Zeiger, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Hargrove, Holy and Stambaugh.

**Minority Report:** Do not pass. Signed by 1 member: Representative Van Werven.

**Staff:** Megan Wargacki (786-7194).

### **Background:**

#### College Bound Scholarship.

Legislation enacted in 2007 created the College Bound Scholarship (CBS). The CBS is administered by the Office of Student Financial Assistance (Office). 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 grade, graduate high school with a cumulative grade-point average of 2.0, be without a felony conviction, and successfully apply to a state higher education institution. Students must receive free or reduced price meals 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 2014, over 212,000 students signed up for the CBS. In 2012-13 (the first cohort in the first year), 59 percent of enrolled students received payment (4,690 of 7,910). However, some enrolled students were not paid for a variety of reasons, such as:

- they were ineligible due to income (21 percent);
- they received other state aid to fulfill the maximum award (12 percent);
- they enrolled out-of-state (1 percent); or
- they enrolled in-state at a non-state-aid participating institution (7 percent).

#### 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 undergraduate students. Federal loans available to graduate students include the Unsubsidized Stafford Loan, the Stafford Loan-Graduate, and the Graduate 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 where their student loan debt is high relative to their income.

## **Summary of Substitute Bill:**

### Provisions Relevant to CBS.

Eighth graders are permitted to sign up for the CBS program, in addition to seventh graders. To remain eligible, students must qualify for, rather than receive, free or reduced-priced lunches. If at graduation from high school an eligible students' family income exceeds 65 percent of the state median family income, the student may be eligible for the Affordable College for Everyone Grant Contract (ACE) program.

### Affordable College for Everyone Grant Contract Programs.

The Office must design the ACE program based on certain parameters by December 31, 2015. The first grant contracts must be made with eligible students graduating in 2016. Students are eligible if they meet the requirements to sign up for the CBS during middle school and their family income exceeds 65 percent of the median family income at the time of high school graduation.

The Office may award recipients up to \$10,000 per year for four years, calculated as the difference between the student's tuition and required fees, less the value of any state-funded grant or scholarship. The institutions of higher education must award eligible students all need-based and merit-based aid for which the students would otherwise qualify. The value of a grant contract must be used within five years of receipt.

*Contributions.* Under the ACE programs, recipients receiving grants toward tuition and fees agree, through a grant contract, to make contributions to the programs beginning one year after completion or discontinuation of their higher education, based on their ability to afford contributions. Contributions to the programs must be made at a rate of 5.9 percent of the student's eligible taxable income each year. The contributions of a recipient must be adjusted to ensure that the combined total of their federal and state loan repayments and program contributions do not exceed 10 percent of the recipient's annual taxable income in any year.

A recipient who elects to contribute the remainder of their ACE contract amount plus interest in a lump sum payment receives a 10-percent discount as long as the remaining amount is at least \$2000.

*Eligible Taxable Income.* Eligible taxable income is defined according to the recipient's tax status and taxable income as follows:

- for a recipient with a federal income tax filing status of single with no dependents - over \$30,000;
- for a recipient with a federal income tax filing status of single, head of household, or qualifying widow or widow(er) with dependent child, eligible taxable income depends on the number of qualifying dependent children:
  - for 1 child - over \$40,000;
  - for 2 children - over \$50,000; and
  - for 3+ children - over \$60,000; and
- for a recipient with a federal income tax filing status of married filing jointly or married filing separately - over \$60,000.

The calculation of a recipient's eligible taxable income may include the deduction of contributions towards a Roth individual retirement account as defined in the Internal Revenue Code, to encourage savings for retirement.

*Interest Rate.* An interest rate of 2 percent of the recipient's total grant contract amount, minus contributions made in previous years, must be applied to the recipient's contributions each year until the recipient contributes an amount equal to their total grant contract amount plus interest, or 21 years have passed since the recipient completed or discontinued their higher education.

*Deferment.* A recipient with eligible taxable income may forgo making contributions for up to two one-year periods, though the recipient's contribution time must be increased accordingly.

*Duties of the Office.* The Office must enter into up to 100 grant contracts per year between 2016 and 2019. If, by January 1, 2020, fewer than 250 students have signed grant contracts, the Office must not enter into any more grant contracts. If 250 or more students have signed up, then the ACE program must be made available to all eligible applicants.

The Office must:

- implement and administer the ACE program;
- distribute to all students who completed the CBS pledge and whose family income exceeds income requirement upon graduation from high school a grant contract application form that can be completed and returned to the Office;
- develop and implement a student application, selection, and notification process for grant contracts, which prioritizes grant contracts to applicants with the lowest family income;
- track grant contract recipients to ensure continued eligibility and determine student compliance for awarding of grant contracts;
- develop measures to recover contributions from and impose penalties on recipients who do not make contributions in a timely manner;
- deposit funds into the ACE Grant Contract Account;
- purchase tuition units under the Guaranteed Education Tuition program to be owned and held in trust for the purpose of ACE grant contracts;
- distribute program funds to institutions on behalf of recipients, as long as the recipients maintain satisfactory academic progress;
- report on the ACE program along with the annual financial aid report; and
- estimate in consultation with the Office of the State Actuary, payments back to the ACE program over the next 20 years, by December 1, 2017.

*Caseload Forecast.* The Caseload Forecast Council must forecast the number of students who are eligible for the ACE program.

#### ACE Grant Contract Account.

The ACE Grant Contract Account (Account) is created in the custody of the State Treasurer. No appropriation is required for expenditures of funds from the Account for grant contract disbursements, but an appropriation is required for expenditures of costs to cover program administration by the Office. The Account is not subject to allotment procedures. The Office

must deposit all moneys received for the program into the Account, which must be self-sustaining and consist of moneys received for the program by the Office, and receipts from recipients' contributions, including principal and interest. Expenditures from the Account may be used solely for grant contract disbursements to recipients and costs associated with program administration by the Office. Disbursements from the Account may be made only on the authorization of the Office.

### **Substitute Bill Compared to Original Bill:**

The substitute bill removes: provisions replacing the SNG program with the ACE program and the CBS program with the CBS ACE program; the requirement that a recipient is not required to make contributions, unless certain state appropriations are made; and the emergency clause.

The substitute bill provides that students who sign the CBS pledge in middle school, but whose family income exceeds 65 percent of the state median family income at graduation student may be eligible for the ACE program. It also makes the following changes to the ACE program:

1. Only students that met the eligibility requirements to sign up for the CBS program during middle school, but whose family income no longer meets the income requirements upon the student's graduation, are eligible.
2. The value of a grant contract may be up to \$10,000 per year for four years, calculated as the difference between the student's tuition and required fees, less the value of any state-funded grant or scholarship. The institutions of higher education must award eligible students all need-based and merit-based aid for which the students would otherwise qualify.
3. Requires the value of the contract to be used within five years of receipt.
4. Specifies that the contributions must be 5.9 percent of the recipient's eligible taxable income each year, rather than a variable rate based on the number of years the recipient received funds under the program.
5. Provides that the interest rate is 2 percent of the total grant contract amount minus contributions made in previous years for the entire term, rather than having the interest rate increase to 4 percent after 10 years.

The substitute bill requires the Office to enter into up to 100 grant contracts per year between 2016 and 2019. If, by January 1, 2020, fewer than 250 students have signed grant contracts the Office must not enter into any more grant contracts. If 250 or more students have signed up, then the ACE program must be made available to all eligible applicants.

The substitute bill requires the Office to:

- distribute to all students who completed the CBS pledge and whose family income exceeds income requirement upon graduation from high school a grant contract application form that can be completed and returned to the Office;
- prioritize grants contracts to applicants with the lowest family income; and
- deposit funds into the ACE Grant Contract Account (Account).

The substitute bill creates the Account in the custody of the State Treasurer.

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**Appropriation:** None.

**Fiscal Note:** Available. New fiscal note requested on February 20, 2015.

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

**Staff Summary of Public Testimony:**

(In support) The CBS program is growing in numbers. Both the SNG and the CBS recipients hope everyone will be included in the opportunity. However, about one in nine students that sign up for the CBS are left out in the cold even after they have done everything right because their families make too much money. The family's income might be just over the threshold. This program helps fix that and is expanded every biennium to cover more and more students so eventually every student in Washington can be included. The thresholds for paying back are significant. Unless an individual is making \$40,000 as an individual they will not have to pay. A family of four making \$100,000 a year after tax deductions and the threshold deductions will only pay about \$25 per month. For a significant amount of people who would get this grant, it would remain a grant. Therefore a significant portion of people will not have to pay anything. Students have been asked, if they were to become financially successful, would they mind paying back to the program. All of the students asked stated they would be happy to pay back. When a student signs the CBS contract, there is wording saying they will make an effort to pay back to the program if able.

(With concerns) The SNG is nationally recognized and a model for how states should approach financial aid. The SNG has been shown to be effective, but the problem is not the delivery or design of the model. The problem is that the SNG and the CBS are not fully funded. Therefore, new options need to be explored, but creating a complicated program could reduce low-income student access. It is appreciated that the income threshold would not hurt those wanting to go into lower paying careers critical to the community, such as teachers, nurses, and social workers. But changing a grant program into a loan program is a major shift in public policy. It should not be the job of the students to backfill what the state should provide. Typically, students who receive these grants take out the maximum federal loan they can, and this program would add to the debt burden of these students. This takes away a grant and adds a loan. It is unclear whether the program would actually serve more students, and therefore, it is important to move cautiously to make sure it is the best thing for the state.

(Opposed) None.

**Persons Testifying:** (In support) Representative Bergquist, prime sponsor.

(With concerns) Steffani Hedstrom, Associated Students of University of Washington-Tacoma; Scott Copeland, State Board for Community and Technical Colleges; Paul Francis, Council of Presidents; and Tom Fitzsimmons, Independent Colleges of Washington.

**Persons Signed In To Testify But Not Testifying:** None.