

HOUSE BILL REPORT

2ESSB 5954

As of Second Reading

Title: An act relating to reducing tuition.

Brief Description: Reducing tuition.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Braun, Bailey, Hill, Becker, Fain, Miloscia, Parlette, Angel, Schoesler, Brown, Litzow, Warnick, Honeyford, Sheldon, Rivers, Roach and Benton).

Brief History:

Committee Activity:

Higher Education: 3/26/15.

Brief Summary of Second Engrossed Substitute Bill

- Provides that for the 2015-16 academic year, the tuition operating fees for resident undergraduate students (RUGs) at all public institutions of higher education must be 5 percent less than the 2014-15 academic year tuition operating fee.
- Provides that for the 2016-17 academic year, the tuition operating fees for RUGs for state universities must be 15 percent less than the 2014-15 academic year tuition operating fee, and for regional universities, the state college, and applied baccalaureate degrees must be 20 percent less than the 2014-15 academic year tuition operating fee.
- Provides that beginning in the 2017-18 academic year, the tuition operating fees for RUGs may be increased by no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous 14 years as the wage is determined by the federal Bureau of Labor Statistics.
- Requires the Legislature to make higher education appropriations that are at least equal to the total state funds appropriated in the 2013-2015 fiscal biennium, plus the net revenue loss from full-time RUG operating fees received for the 2015-2017 fiscal biennium under the act, with net revenue loss adjusted for inflation in subsequent biennia.

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.

- Specifies that the Legislature does not intend to reduce the State Need Grant or College Bound Scholarship award levels for private colleges and universities below the 2014-15 academic year levels.
- Provides that, for the 2015-16 and 2016-17 academic years, the governing body of the Guaranteed Education Tuition (GET) program must set the payout value for units redeemed during that academic year at \$117.82 per unit.
- Makes provisions to ensure that the total payout value of each GET account on the effective date of the act is not decreased or diluted as a result of the initial application of any changes in tuition under the act, including requiring a report on the impact of the act to the GET program and the feasibility of establishing a different college savings program.
- Requires the Education Research and Data Center to provide the Legislature with a statistical analysis and report of the time to degree completion for each undergraduate major course of study by December 1, 2015.
- Requires the Washington State Institute for Public Policy to conduct a study on alternative RUG tuition growth factors for the Legislature to use to evaluate the median wage metric used in the act on an ongoing basis, and to report to the Legislature by December 1, 2015.

HOUSE COMMITTEE ON HIGHER EDUCATION

Staff: Megan Wargacki (786-7194).

Background:

Tuition Fees.

Tuition fees include operating fees and building fees.

Operating Fees. In 2011 the Legislature enacted the Higher Education Opportunity Act (E2SHB 1795), which provided that reductions or increases in full-time tuition fees must be provided in the operating budget for resident undergraduate students (RUGs) at the community and technical colleges (CTCs). This legislation also gave the state universities, the regional universities, and The Evergreen State College (TESC) limited authority to set tuition rates for all students through the 2014-15 academic year. For the 2015-16 through 2018-19 academic years, the legislation gave these institutions tuition-setting authority within limits based on a state funding baseline year and funding for similar higher education institutions in the Global Challenge States. Finally, the legislation provided that, from 2019 on, the RUG tuition at these institutions would be set in the operating budget.

Certain percentages of operating fees must be retained by the public institutions for specified financial aid purposes: 5 percent by a four-year institution that raises tuition beyond levels assumed in the operating budget, 4 percent by a four-year institution that does not increase tuition beyond levels assumed in the operating budget, and at least 3.5 percent by the CTCs.

Building Fees. The building fee is a percentage of total tuition fees. Each academic year, the Office of Financial Management (OFM) calculates the building fee that can be charged to students.

State Need Grant and College Bound Scholarship Programs.

The State Need Grant (SNG) program was established in 1969 to assist financially needy or disadvantaged resident students attending a higher education institution. During the 2013-14 academic year, 70,109 Washington students received the SNG. At the same time, there were 33,557 students who were eligible but not served.

The College Bound Scholarship (CBS) program was established in 2007 to provide guaranteed four-year tuition to students from low-income families. 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).

Guaranteed Education Tuition Program.

The Washington Advanced College Tuition Payment program, known as the GET program, is a 529 prepaid college tuition plan. The GET program is administered by the Committee on Advanced Tuition Payment (GET Committee). Under the GET program, the state guarantees that tuition units purchased may be redeemed at a future date for an equal number of tuition units, regardless of any increase in the price of tuition that may have occurred since the purchase. Each purchase is then worth a specific number of or, fraction, of tuition units at each state institution of higher education as determined by the GET governing body.

The current GET unit purchase price is \$172. The unit purchase price is based on an actuarial formula that includes current cost of tuition fees and other state-mandated fees, estimated tuition changes, inflation, investment returns, and administrative costs, and is adjusted to ensure the actuarial soundness of the account. Through July 31, 2015, the payout value of a GET unit is \$117.82. Since 1998, over 157,000 GET accounts have been opened, and over 38,000 students have used their accounts to attend colleges, universities, and technical schools nationwide.

Consumer Price Index.

The Consumer Price Index (CPI) measures the average change over time in the prices of all consumer goods and services purchased by urban households. The CPI is prepared and published by the Bureau of Labor Statistics, United States Department of Labor (BLS).

State Median Hourly Wage.

The BLS also prepares and publishes the median hourly wages for each state using data collected from employers in all industry sectors in metropolitan and nonmetropolitan areas in Washington. In May 2014, the median hourly wage for Washington was \$19.76.

Summary of Bill:

The act may be known and cited as the College Affordability Program.

Tuition Fees.

Operating Fees. In the 2015-16 and 2016-17 academic years, the tuition operating fees for RUGs for the CTCs, excluding applied baccalaureate degrees, must be 5 percent less than the 2014-15 academic year tuition operating fee. Beginning in the 2017-18 academic year, these operating fees may increase by no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous 14 years as the wage is determined by the BLS.

In the 2015-16 academic year, the full-time tuition operating fees for RUGs for state universities, regional universities, TESC, and applied baccalaureate degrees must be 5 percent less than the 2014-15 academic year tuition operating fee. Beginning in the 2016-17 academic year, for state universities, the operating fees must be 15 percent less than the 2014-15 academic year tuition operating fee, and for regional universities, TESC, and applied baccalaureate degrees, the operating fees must be 20 percent less than the 2014-15 academic year tuition operating fee. Beginning with the 2017-18 academic year, for state universities, regional universities, TESC, and applied baccalaureate degrees, the operating fees may be increased by no more than the average annual percentage growth rate in the median hourly wage for Washington for the previous 14 years as the wage is determined by BLS. As a result of these changes in tuition operating fees, the governing boards of the state universities, the regional universities, and TESC must not reduce RUG enrollment below the 2014-15 academic-year levels.

Building Fees. The dollar value of the building fee must not be reduced below the level in the 2014-15 academic year, adjusted for inflation based on the CPI, using the official current base, compiled by the BLS. If the BLS develops more than one CPI for areas within the state, the CPI covering the greatest number of people and covering areas exclusively within the boundaries of the state must be used.

Appropriations to the Institutions of Higher Education.

Beginning with the 2015-2017 Operating Budget, the Legislature must appropriate to the State Board of Community and Technical Colleges (SBCTC) and to each of the public four-year institutions of higher education an amount that is at least equal to the total state funds appropriated in the 2013-2015 fiscal biennium, plus the net revenue loss from full-time RUG operating fees received for the 2015-2017 fiscal biennium under the act.

In subsequent biennia, the net revenue loss must be adjusted for inflation based on the CPI, using the official current base, compiled by the BLS. If the BLS develops more than one CPI for areas within the state, the CPI covering the greatest number of people and covering areas exclusively within the boundaries of the state must be used.

State Need Grant and College Bound Scholarship Programs.

It is provided that, beginning with the 2015-17 Operating Budget, reductions in tuition levels resulting from these tuition policy changes will allow the Legislature to reduce SNG appropriations by an equal amount from the 2013-15 fiscal biennium amounts. It is stated that, by reducing the overall cost of tuition, the Legislature in future biennia is better able and intends to serve those students currently eligible but unserved in the SNG program. In addition, it is provided that the Legislature does not intend to reduce SNG or CBS award levels for private colleges and universities below the 2014-15 academic year levels.

Guaranteed Education Tuition Program.

For the 2015-16 and 2016-17 academic years, the governing body of the GET program must set the payout value for units redeemed during that academic year at \$117.82 per unit.

For academic years after the 2016-17 academic year, the governing body must make the program adjustments it deems necessary and appropriate to ensure that the total payout value of each account on the effective date of the act is not decreased or diluted as a result of the initial application of any changes in tuition under the act. In the event the GET Committee or the governing body provides additional units under the act, the GET Committee and the governing body must also increase the maximum number of units that can be redeemed in any year to mitigate the reduction in available account value during any year as a result of the act. The governing body must notify holders of tuition units after the adjustment is made and must include a statement concerning the adjustment.

By December 1, 2016, the GET Committee must review and report to the Legislature on:

- the impact of decreasing tuition rates on the funded status and future unit price of the GET program;
- the feasibility and different options of establishing a college savings program;
- alternatives and impacts for changing the tuition payment distribution policy from tuition and fees to a cost of attendance metric; and
- changing the state penalty for GET unit withdrawal.

Education Research and Data Center Study.

It is provided that the Legislature intends to make college more affordable for students and families through the implementation of the act, and, as a result, expects that RUGs are able to complete their major course of study in a timely manner. By December 1, 2015, the Education Research and Data Center must provide to the Legislature a statistical analysis and report of the time to degree completion for each undergraduate major course of study for each public four-year institution of higher education and the SBCTC.

Washington State Institution for Public Policy Study.

By December 1, 2015, the Washington State Institute for Public Policy must conduct a study on alternative RUG tuition growth factors, such as median wage, average wage, median household income, CPI, student affordability metrics, and others. The analysis should indicate how tuition is likely to change under each metric over an extended period of time. The report should also consider the relative ease of calculating or obtaining the metric for budget development purposes. It is provided that the Legislature intends to use this analysis to evaluate the median wage metric used in the act on an ongoing basis.

Global Challenge States and Financial Aid Mitigation.

The requirement that a public four-year institution retain an additional 1 percent of operating fees for financial aid purposes if the institution increases tuition above levels assumed in the operating budget is removed.

The following provisions are repealed:

- The OFM must report annually the total per-student funding level and undergraduate tuition that each represent the sixtieth percentile of funding and tuition for similar institutions of higher education.
 - Public four-year institutions that increased tuition beyond levels assumed in the operating budget must meet certain financial aid requirements through the 2018-19 academic year.
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Appropriation: None.

Fiscal Note: Available.

Effective Date: 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 state has frozen tuition rates for the past few years; however, in the 10 years prior to the freeze, tuition doubled at many institutions. Currently, tuition is unaffordable for many people. Even with significant growth in the state average wage, tuition is three times the average wage. People used to be able to pay their way through college by working, but most can no longer do that. Tuition rates can grow, but should remain affordable over time. This bill allows for different institutions to have different price points based on what they have to offer. The institutions should remain whole and not lose funding from the tuition reduction. This bill will cost the state about \$225 million, about a half a percent of the total state budget. Passing this bill is not about finding a new source of revenue; it is about making higher education a priority. When the GET program started, it was an investment, not necessarily a planning tool. The GET program became a bad investment when there was a rapid rise in tuition. The policy in the bill is to hold current GET holders harmless by allowing GET unit holders to retain the current value of their GET units. This resets the GET program by returning to a lower GET unit price with stable tuition. Average state wage is predictable and has a long history. It would probably be fine to use median wage or family wage, as long as these measures link tuition to affordability. Lower tuition is the most effective form of financial aid. This bill contemplates serving the same number of students with the SNG, but uses the savings from SNG costs to fund the tuition reduction.

(With concerns) Promoting access and social mobility is critical. Half of the RUGs at some state institutions graduate with no debt. Some institutions provide more financial aid than is required by law. There is a lot of work needed to come up with an affordability framework. It is important to setup a reliable and stable long-term plan for tuition. Unless the tuition cut proposed by this bill is backfilled with state money, some public institutions may have to reduce services. Some institutions rely primarily on state support and tuition, so it is important that the Legislature's policy links these sources. The bill does not link these funding sources; it is not enough to say that the funding would be addressed in the operating budget. The bill only addresses maintenance level funding, but the institutions need additional funding to focus on improving and adding programs and services. No funding is provided in the bill.

The bill says that GET account holders should remain whole. This could occur through a stock split, where holders get more units. The other option is to make units more valuable, so that fewer units would equal a year of tuition. Either option would create additional obligations for the state. If the bill went forward, there would need to be an actuarial analysis of what the policy would do to the GET program. If the GET program was tied to the average wage, it is unknown what the behavior of purchasers would be. The funded status of the program is only one part of the concern.

Many policy bills do not effect non-state institutions, but this bill has the potential to have significant impact on the entire state higher education system. The full impact of the bill is not fully understood and is not aligned with the strategies of the system as a whole. This bill may also impact the state's financial aid policy. Low-income students who attend independent colleges also rely on the SNG. Because of past financial aid policy changes there are already fewer low-income students attending non-state schools.

(Opposed) None.

(Other) Washington ranks fortieth in per student funding. It is critical that any higher education policy link tuition with state investment. The six public four-year institutions have agreed on a budget proposal that holds the line on tuition increases. The emphasis should be on sufficient, stable, and predictable funding. The state needs to make higher education a priority and fund tuition reductions. But if tuition is reduced, the state needs to chip in additional funding to help the institutions pay for the services they currently want and need to provide. The top priority of students is affordability: lower tuition, a metric for affordability, and a stable and predictable funding source. With this bill, there is a concern about where the millions of dollars needed to hold institutions harmless would come from. Students support the GET program. It would be unfortunate to not reduce tuition just to save this program, though. It would be better to have a null and void clause in the bill, especially given the current budget tensions.

Persons Testifying: (In support) Senator Braun, prime sponsor.

(With concerns) Genesee Adkins, University of Washington; Julie Garver, The Evergreen State College; Marc Webster, Washington Student Achievement Council; Marty Brown, State Board of Community and Technical Colleges; and Tom Fitzsimmons, Independent Colleges of Washington.

(Other) Paul Francis, Council of Presidents; Paul Bell, Students of Bellevue College; and Garrett Havens, Washington Student Association.

Persons Signed In To Testify But Not Testifying: None.