

HOUSE BILL REPORT

SSB 5325

As Passed House - Amended:

April 12, 1995

Title: An act relating to higher education fiscal matters.

Brief Description: Changing higher education fiscal provisions.

Sponsors: Senate Committee on Higher Education (originally sponsored by Senators Rinehart, Bauer, Prince, Pelz, Sheldon, Kohl, Drew and Wood).

Brief History:

Committee Activity:

Higher Education: 2/7/95, 3/16/95, 3/21/95, 3/30/95 [DPA].

Floor Activity:

Amended.

Passed House: 4/12/95, 51-43.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass as amended. Signed by 7 members: Representatives Carlson, Chairman; Mulliken, Vice Chairman; Blanton; Delvin; Goldsmith; Mastin and Sheahan.

Minority Report: Do not pass. Signed by 4 members: Representatives Jacobsen, Ranking Minority Member; Mason, Assistant Ranking Minority Member; Basich and Benton.

Staff: Susan Hosch (786-7120).

Background:

TUITION FEES: In Washington State, tuition is made up of two components: building fees and operating fees. Building fees provide part of the funding for repairs, renovations, and new facilities. Operating fees are used to provide part of the funding needed for instruction and institutional operations. Tuition rates are determined by a statutory formula based on a fixed percentage of educational costs. The percentage varies according to type of student and type of institution. Tuition rates are based on the cost to the institution of educating that type of student two years previously. Institutional governing boards must charge students the tuition rate

driven by that statutory formula. Although tuition rates vary by a student's residency category and status as an undergraduate, graduate or professional student, tuition rates are uniform for students in those categories who attend one of the research universities. They are also uniform for students attending regional institutions and for students attending community colleges.

During the 1995-96 academic year, tuition rates for undergraduate students at all institutions will decrease. The decreases will range from 3 percent to 5.3 percent. Rates for graduate students at the comprehensive institutions will decrease almost 21 percent. The decreases will result in a revenue loss to the institutions of about \$13 million during the 1995-97 biennium. During the 1995-96 academic year, tuition rates for graduate and professional students at the research universities will increase by 3.2 percent. During the 1996-97 academic year, tuition rates for all students will increase. The increases will range from 1.8 percent to 4.2 percent.

OFFSETS: Under current law, the revenue that institutions are expected to receive from operating fees is subtracted from the amount of state general fund moneys they receive from the state.

OTHER FEES: Governing boards may vary the rates charged for services and activities fees. Annual increases to services and activities fees cannot exceed the percentage increase in resident undergraduate tuition rates. The boards may also charge special fees for special purposes. Governing boards do not have the authority to charge different tuition rates for undergraduate students who take more than the average number of credits needed to obtain a baccalaureate degree. Although the boards may charge laboratory fees, they do not have explicit authority to charge program fees.

PURCHASING, BUDGETS AND SERVICE CONTRACTS: State institutions of higher education are subject to many laws and regulations governing the operations of all state agencies. The institutions must comply with state agency purchasing requirements and state civil service laws. Institutions may not contract for services that have historically been performed by civil service employees. In addition, they must follow the budget allotment and reserve procedures adopted by the Office of Financial Management.

FINANCIAL AID: Needy Washington State residents attending accredited Washington State public and private vocational schools and institutions of higher education are eligible to receive state funded student financial aid. Total state funding for need-based financial aid in the 1994-95 academic year is about \$80,000,000.

Since 1977, funding for state programs has been guided by legislative intent language in statute. The language indicates that an amount that equals or exceeds 24 percent of the revenue from tuition increases at public colleges and universities should be added

to financial aid programs funded from the general fund. At the time the 24 percent intent language was adopted, about 24 percent of the full-time students attending public colleges and universities were receiving financial aid. In 1992, that percentage was about 38 percent. The percentage climbed to more than 40 percent when full-time resident students at private institutions were included. With the revision of federal financial aid eligibility requirements, the percentage of students receiving assistance is expected to continue to climb.

Needy students attending public colleges are eligible to receive aid from two institutional sources. Aid may be provided from a fund into which the institutions put 2.5 percent of the revenues from tuition and fees. Institutions may provide tuition and fee waivers to needy resident students. However, the amount of revenue that an institution may use for these waivers is limited by law. Baccalaureate institutions may use up to 4 percent and community colleges may use 3 percent of tuition and fee revenue to assist needy students. Technical colleges do not have either of these local aid programs.

Summary of Bill:

TUITION FEES: Tuition rates paid by students during the 1994-95 academic year become the base rate for any future tuition increases. Beginning with the 1995-96 academic year, there will be two types of tuition fees: base tuition fees and surcharge tuition. Base tuition fees will be determined by a statutory formula. Surcharge tuition will be determined by institutional governing boards, within statutory limits. The amount of a tuition surcharge levied in any year will not be added to base tuition fees in the following academic year.

During the 1995-97 biennium, base tuition rates will increase 5 percent at baccalaureate institutions and community colleges. In addition to base tuition, baccalaureate institutions may levy an annual tuition surcharge of up to 15 percent on students. The surcharge may vary by student category. Community colleges may levy a surcharge of up to 15 percent on nonresident students.

Beginning with the 1997-98 academic year, base tuition rates shall be set as a percentage of educational costs, with the percentage established in statute. However, if educational costs decrease or increase less than 4 percent, base tuition fee rates will increase 4 percent each year. If educational costs increase at a rate greater than 6 percent, base tuition fee rates will increase no more than 6 percent each year. In addition, beginning in that academic year, institutions may levy a surcharge of up to 10 percent for resident undergraduates, 20 percent for resident graduates, and 30 percent for nonresidents.

The State Board for Community and Technical Colleges will adopt guidelines for any community college tuition surcharges. The guidelines may permit the surcharges to vary among institutions.

OFFSETS: It is the intent of the Legislature that an institution's general fund-state appropriation not be reduced by revenue received from tuition surcharges.

EXCESS CREDIT SURCHARGES: Governing boards at the baccalaureate universities and colleges may collect a surcharge from certain students who have accumulated more than the number of the credits necessary to complete the students' degree programs. There are three different thresholds that may trigger the surcharge. Students who have accumulated more than 115 percent of the credits necessary to complete their degrees may be assessed the surcharge. The threshold is 125 percent for students who transfer from a community college with an associate degree. The threshold is also 125 percent for students who transfer from a private institution or an institution outside the state, if those students have accumulated 45 or more credit hours at those institutions.

Excess credit surcharges are limited to resident undergraduates and other resident students who are not enrolled in graduate or professional programs. Governing boards must exempt from the surcharge students who are required to take continuing education credits as a condition of licensure or state law. The surcharges are not considered as part of tuition.

State general fund support will not be provided for most resident undergraduate students and other resident students who are not enrolled in graduate or professional programs once those students have accumulated more than 150 percent of the credits necessary to achieve a baccalaureate degree. This prohibition does not apply to students who must take continuing education classes for licensure or under state laws.

PROGRAM FEES: Baccalaureate institutions may charge program fees in up to three degree programs. The fees may differ by program. The basis for the fee may be the high cost of offering the program, or higher tuition charged for that type of program at peer institutions, or other unique characteristics associated with the program. The program fees are not considered part of tuition.

NONRESIDENT ENROLLMENT POLICY: A new state policy is adopted on nonresident student enrollments. Baccalaureate institutions and the community and technical college system as a whole will maintain or improve their ratio of resident to nonresident students. No state general fund support will be provided for nonresident students above the ratio. However, additional nonresident students may be served without state support, at the option of the institutions.

FINANCIAL AID: An institution may deposit more than 2.5 percent of tuition and fees into its institutional financial aid fund. Tuition waiver laws are revised. Within the overall limits placed on all waiver programs, the "internal" limit placed on waiver programs for needy students is removed. Therefore, institutions may use any amount of their waiver authority to assist needy students.

FINANCIAL AID GOALS: The Legislature intends to restructure the state's financial aid system. The restructured system will be known as college promise. Funding levels for the state's system of financial aid are subject to available funds.

The goals of college promise include limiting debt for undergraduate students to no more than one-half of a student's cost of attendance; sheltering home equity, and some portion of savings and farm or business net worth; simplifying financial aid applications; and striving to preserve a range of educational options for needy students. Another goal is to provide more self-help than grants to middle-income students and approximately equal amounts of grants and self-help to low and lower middle-income students. In addition, students with disabilities may receive assistance with equipment and assistance needed for college. Future college students will receive information about college costs and opportunities for financial aid.

Under college promise, middle-income undergraduate students would become eligible for financial aid, and needy graduate and professional students would become eligible to participate in the need grant program. Through college promise, the state work study program would be expanded.

The goals of the restructured aid system become effective on July 1, 1997. By January 1, 1997, the Higher Education Coordinating Board will develop a detailed implementation plan, and will report to the Legislature the amount of funding that would be necessary to fully implement the goals. The goals will take effect unless the Legislature repeals or modifies them.

FISCAL AUTONOMY PILOT PROGRAM

The higher education coordinating board will design and administer a fiscal autonomy pilot program for one research and one regional university. The board will work with state agencies to identify rules and laws that inhibit effective fiscal decisions and to exempt participating institutions from those rules, where permitted by law.

Participating institutions are exempt from state agency purchasing requirements. They may contract for services if the contracts will not result in increased expenditures of state funds or the termination of state employees employed on the effective date of the act. The office of financial management will adopt simplified budgeting and allotment procedures for the participants.

Participating institutions may increase base tuition up to 15 percent per year during the 1997-99 and 1999-2001 bienniums. Any revenue that results from raising tuition above statutory rates will not be subtracted from the institution's general fund appropriation.

The board will present a preliminary report to the governor and appropriate legislative committees by December 1, 1996. The pilot program expires on June 30, 2001.

TECHNICAL CHANGES: The Higher Education Coordinating board is directed to calculate educational costs for the Evergreen State College. Statutes defining and limiting governing board authority over services and activities fees are moved to the statute governing services and activities fees. Definitions are adopted for state college and first professional programs.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Bill: The bill contains an emergency clause and takes effect on July 1, 1995, except for section 203, relating to the restructured financial aid system, which takes effect July 1, 1997.

Testimony For: (on SSB 5325) In order to ensure student access to high quality higher education programs, the state needs to maintain and steadily enhance its funding commitment to higher education. Money from the state general fund is critical to maintaining access and quality. Affordable tuition is another critical component of access. Any tuition increases should be modest and predictable, and based on an economic indicator that reflects a family's ability to pay for tuition. The increase in personal per capita income is one such indicator. The level of tuition charged at public colleges and universities is an important element of the state's education policy. The state's elected policy makers, the Legislature, should retain control over the formula that drives those tuition rates.

As tuition and other educational costs increase, financial aid programs become even more crucial in ensuring access to low and middle income students. Providing more locally based sources of financial aid would assist colleges in their efforts to meet the needs of their students. Raising the lid on need-based waivers, and providing more money to the 2.5 percent aid fund are some of those local financial aid tools.

Testimony Against: (on SSB 5325) Elements of this legislation raise possible Initiative 601 issues.

Testified: John Terrey, Evergreen State College Board of Trustees; Scott Morgan, State Board for Community and Technical Colleges; Terry Teale, Council of

Presidents; Larry Ganders, Washington State University; Evelyn Reider, Washington Federation of Teachers; Mica Hall and Claudia Carruthers, University of Washington Graduate and Professional Student Senate; Brad Boswell, Washington Student Lobby; and Nathan LeBallister, Associated Students of Washington State University (all in favor). Bob Williams, Evergreen Freedom Foundation (concerns).