

# SENATE BILL REPORT

## SB 6508

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As Reported By Senate Committee On:  
Higher Education, January 24, 1996  
Ways & Means, January 30, 1996

**Title:** An act relating to the advance college payment program.

**Brief Description:** Establishing the advance college payment program.

**Sponsors:** Senators McAuliffe, Bauer, Goings, Wood, Drew, Loveland, Prince, Sheldon, Hale, Snyder, Finkbeiner, Rinehart, West, Rasmussen, Winsley and Kohl.

**Brief History:**

**Committee Activity:** Higher Education: 1/22/96, 1/24/96 [DPS-WM].  
Ways & Means: 1/25/96, 1/30/96 [DP2S].

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### SENATE COMMITTEE ON HIGHER EDUCATION

**Majority Report:** That Substitute Senate Bill No. 6508 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Bauer, Chair; Drew, Hale, McAuliffe, Prince, Rasmussen, Sheldon and Wood.

**Staff:** Jean Six (786-7423)

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** That Second Substitute Senate Bill No. 6508 be substituted therefor, and the second substitute bill do pass.

Signed by Senators Rinehart, Chair; Loveland, Vice Chair; Bauer, Drew, Fraser, Hochstatter, Kohl, Long, McDonald, Moyer, Pelz, Sheldon, Snyder, Spanel, West, Winsley and Wojahn.

**Staff:** Michael Groesch (786-7434)

**Background:** From 1980 to 1987, the total cost of college attendance increased across the country by an average of almost 9 percent annually, while median family income grew by an average of less than 6 percent. Student financial aid has not kept pace with rising college costs, and the mix of aid has changed from mostly grants to loans, contributing to concerns about excessive student debt. In light of these trends, a number of states adopted a tuition prepayment program.

In 1986, Michigan became the first state to create a tuition prepayment program. In 1989, Washington legislation leading to such a program for Washington was vetoed by the

Governor. The increases in tuition since that time have contributed to a growing perception of a college affordability crisis.

By 1994, seven states had implemented tuition prepayment programs. While there are unique features to each program, they operate essentially as follows. Purchasers pay in advance for educational benefits that a designated beneficiary is expected to use in the future at participating institutions. The program pools all funds into one large fund and invests it with the goal of achieving a rate of return that is higher than the rate of anticipated tuition increases. When the beneficiary enrolls in a higher education institution, the program pays to the school whatever it charges at that time for tuition and fees and any other prepaid expenses covered by the particular program.

**Summary of Second Substitute Bill:** The advance college payment program is established. The Higher Education Coordinating Board (HECB) is required to develop the program and by December 1, 1996, must submit to the Legislature recommendations and proposed legislation for implementation of the program by July 1, 1998. The HECB is directed to study the programs in other states for their applicability to Washington.

An advance college payment contract is a general obligation of the state of Washington and contains a pledge of the full faith and credit of the state. The intent of the Legislature is clarified with regard to the working members of the group charged with developing the program.

In developing the program, the HECB consults with the State Investment Board, the Office of Financial Management, the State Treasurer, the State Actuary, private financial institutions, and others including legislative staff.

**Second Substitute Bill Compared to Substitute Bill:** The \$70,000 appropriation for the cost of program development is deleted from the bill for consideration in the budget.

**Substitute Bill Compared to Original Bill:** The full faith and credit of the state guarantees the advance college payment contract. The HECB will consult with the State Investment Board, the Office of Financial Management, the State Treasurer, the State Actuary and other experts.

**Appropriation:** None.

**Fiscal Note:** Requested on January 16, 1996.

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

**Testimony For (Higher Education):** Be careful to indicate the expectations of support from SIB, Treasurer, Actuary, etc. There are companies who can provide an impartial review of the program. Significant question of full faith and credit of the state needs to be answered before we go forward. People are more willing to participate when the program is guaranteed by the state. As access becomes more difficult and more costly, the HECB welcomes an opportunity to provide a savings program. In our fiscal note, we indicate a need for an additional staff person as well as \$75,000 for fiscal, legal and actuarial advice.

**Testimony Against Higher Education):** None.

**Testified (Higher Education):** Susan Patrick, HECB (pro); Nealy Stratton, WWU, WSL (pro).

**Testimony For (Ways & Means):** None.

**Testimony Against (Ways & Means):** None.

**Testified (Ways & Means):** No one.