

SENATE BILL REPORT

HB 2126

As Reported By Senate Committee On:
Higher Education, March 22, 2001
Ways & Means, April 2, 2001

Title: An act relating to college payment programs.

Brief Description: Authorizing a college savings plan.

Sponsors: By Representatives Kenney, Cox, McIntire and Edwards; by request of Committee on Advanced College Tuition Payment and State Treasurer.

Brief History:

Committee Activity: Higher Education: 3/22/01 [DP-WM].
Ways & Means: 4/2/01 [DPA].

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Kohl-Welles, Chair; Shin, Vice Chair; Carlson, Horn, McAuliffe, Parlette, Sheahan and B. Sheldon.

Staff: Jean Six (786-7423)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass as amended.

Signed by Senators Brown, Chair; Constantine, Vice Chair; Fairley, Vice Chair; Fraser, Hewitt, Honeyford, Kline, Kohl-Welles, Long, Parlette, Rasmussen, Regala, Roach, Rossi, Sheahan, B. Sheldon, Snyder, Spanel, Thibaudeau, Winsley and Zarelli.

Staff: Karen Barrett (786-7711)

Background: The 1996 Legislature requested that the Higher Education Coordinating Board (HECB) develop a proposal for a prepaid tuition and fee program. The 1997 Legislature created the Washington Advanced College Tuition Payment Program that is known by the name Guaranteed Education Tuition (GET). State law presently enables GET's governing board to consider additional features like a prepaid plan for room and board contracts, or a savings plan for college expenses as permitted under federal tax codes.

GET began operation in August 1998, under the administration of a committee made up of the Executive Director of the HECB, the State Treasurer, the Director of the Office of Financial Management. Two citizen members, one of whom is an account holder, were subsequently added to the governing board. The program has been self-supporting since July 1, 1999. Refunds are also available under certain circumstances.

As of February 3, 2001, Washington families have opened 11,334 GET accounts, totaling \$99.6 million. The first payout of program benefits occurred in September 2000, with benefits going to 68 students. Over 550 students are expected to be eligible to use their GET benefits in the 2001-02 academic year.

The tuition units purchased are guaranteed to cover the cost of tuition when the student enrolls in a public Washington higher education institution at a later date. Actuarial reports dating from June 30 suggest GET presently has reserves just over \$9 million; that is, assets whose value exceeds expected payout for current GET unit holders. However, tuition is only a portion of the cost of attending a college or university. Students need housing, books, and incur other costs related to obtaining a higher education. Twenty-six states offer a state-sponsored savings plan in addition to a prepaid tuition program. Sixteen other states offer only a state-sponsored savings plan.

Presently, there is a difference between the value of units if redeemed for use to attend college and the value of units refunded under special circumstances permitted in current law. The difference in the value has to do with the difference between tuition and fees to attend the state's highest cost public university and the weighted average tuition fees across all of the state's colleges and universities. Current law gives preference to refunds on a weighted average tuition fee basis. The difference in value for 100 units today is about \$300.

Summary of Amended Bill: The governing body for the Guaranteed Education Tuition (GET) Program may determine the value of prepaid tuition units refunded for extenuating circumstances outlined in current law.

Authority is also granted to establish and operate a tax-deferred college savings plan pursuant to Section 529 of the Internal Revenue Code.

Activities to design the new college savings plan shall involve the State Treasurer, a qualified actuary, legislative fiscal and higher education policy committees as well as the states' institutions of higher education. Rules may be adopted to implement the college savings program. A non-treasury account is created to receive participant deposits and administer the college savings program.

The State of Washington must not be considered a guarantor of the college savings program deposits by participants, nor shall any eligible educational institutions be held liable for a shortage of deposited funds.

Amended Bill Compared to Original Bill: No changes are made to the refund provisions of the original measure. The advanced college tuition payment program account may not be the source of start-up funds for a college savings plan. Legislative fiscal and higher education committees are added to the list of parties the GET Committee will consult as it proceeds to establish a college savings plan.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2001.

Testimony For (Higher Education): A savings plan provides funds for educational expenses beyond tuition. The bill has received significant scrutiny by both the State Treasurer and the HECB. Most states who operate a prepaid tuition program also offer a savings plan. The HECB has no timeline but is requesting authorization for the GET Committee to design a savings plan. We will look at two options: (1) in-house marketing or (2) a financial marketing firm. There will be no general fund impact.

It is important to give Washington citizens an opportunity to benefit from Section 529 of the IRS Code. National ratings of prepaid programs downgrade Washington because no savings plan is offered.

The stock market downturn may have a short-term effect. The GET program provides a fixed benefit. Forty-four states already have savings plans and we need to be able to market a savings plan when marketing the GET plan. Seventeen states have both a prepaid plan and a savings plan.

Testimony Against (Higher Education): None.

Testified (Higher Education): Representative Kenney, prime sponsor; Mike Murphy, State Treasurer; Marc Gaspard, HECB; Betty Lochner, GET Program Director; Joe Dear, Frank Russell Company.

Testimony For (Ways & Means): Concern was expressed about the striking amendment as it pertains to supporting the start-up costs of a college savings program. If assets of the GET plan were to be used as a source of start-up funding, the loan would be paid back with interest. It is not yet clear how soon such a feature could be made available. It has yet to be designed. It would be advantageous to offer citizens both the opportunity to prepay tuition on a tax-deferred basis and to save for other college expenses like room, board and books.

Testimony Against (Ways & Means): None.

Testified (Ways & Means): PRO: Bruce Botka, HECB; Mike Murphy, State Treasurer.