

HOUSE BILL REPORT

HB 1436

As Reported by House Committee On:
Higher Education

Title: An act relating to authorizing the Washington higher education facilities authority to originate and purchase educational loans and to issue student loan revenue bonds.

Brief Description: Providing the Washington higher education facilities authority the ability to originate and purchase educational loans and to issue student loan revenue bonds.

Sponsors: Representatives McIntire, Chase, Dunshee, Sells, Wallace, Jarrett, Anderson, Kenney, Ormsby, Roberts, Haigh, Ericks and O'Brien; by request of Washington State Higher Education Facilities Authority.

Brief History:

Committee Activity:

Higher Education: 1/29/07, 2/15/07 [DP].

Brief Summary of Bill

- Authorizes the Washington Higher Education Facilities Authority to originate and purchase educational loans and to issue student loan revenue bonds.

HOUSE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass. Signed by 9 members: Representatives Wallace, Chair; Sells, Vice Chair; Anderson, Ranking Minority Member; Buri, Assistant Ranking Minority Member; Hasegawa, Jarrett, McIntire, Roberts and Sommers.

Staff: Jennifer Thornton (786-7111).

Background:

The Washington Higher Education Facilities Authority (WHEFA) was created in 1983. Its statutory purpose is to "enable the building, providing, and utilization of modern, well-equipped, efficient, and reasonably priced higher educational facilities, as well as the improvement, expansion, and modernization of such facilities, in a manner that will minimize the capital cost of construction, financing, and use of such facilities." It is a self-supporting

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state agency that provides low-cost capital to Washington non-profit, independent colleges and universities. The WHEFA accomplishes this by the issuance of tax-exempt, nonrecourse revenue bonds for the independent qualified institutions of higher education in Washington.

The WHEFA's staff and administrative support are provided under contract by the Washington State Housing Finance Commission (WSHFC). The WHEFA has issued more than \$800 million in tax exempt bonds, and the WHEFA and the WSHFC combined have issued more than \$7 billion in tax exempt bonds.

In late 2005, the non-profit Student Loan Finance Association (SLFA) was sold to Sallie Mae, a for-profit corporation. Based on the terms of the sale, the SLFA was prohibited from issuing tax exempt bonds under the Federal Revenue Code (SS 150(d)) and Washington law. The Office of Financial Management (OFM) initiated a Request for Information, soliciting information in order to determine the best approach to create one integrated authority to issue student loan-backed tax exempt private activity bonds and administer state and federal student loan related programs.

The State Department of Community, Trade and Economic Development (CTED) is the agency responsible for allocating federal tax-exempt private activity bonds within the state ceiling. The CTED assessed the options for replacing the SLFA, and concluded that the state should establish a new qualified issuer for student loan private activity bonds and that out-of-state non-profits offer the widest range of established capabilities.

The CTED acknowledged that none of the six states that offer supplemental student loans use non-profits for administration. The CTED also found that 23 states have federal student loan-backed bond programs administered by state agencies or authorities, the WHEFA was identified as a state authority with experience in bond financing.

Summary of Bill:

The WHEFA is authorized to originate and purchase educational loans and to issue student loan revenue bonds. The educational loans include both guaranteed federal educational loans and alternative state educational loans. The WHEFA will incur no expense or liability that shall be an obligation of the state. State educational loans are not guaranteed by the state and the proceeds from loan repayment may be used to make required payments to bondholders.

The WHEFA has the authority to form non-profit special purpose corporations or may contract with non-profit corporations to accomplish these purposes. They may also contract with an agency, financial institution, or corporation for billing, accounting, reporting or administrative services required for the educational loan programs.

Four of the seven members of the authority are still required to constitute a quorum at meetings of the WHEFA. However, members who participate by a means of communication that allows all members to hear each other during a meeting are deemed to be present in person at the meeting for all purposes.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Staff Summary of Public Testimony:

(In support) It is ideal to do this through the WHEFA. The Authority's debt authority does not lead to any obligation for the state of Washington. Control over state policy and interest rates is retained by using a state agency. The Authority is self-supporting and requires no state financial assistance. The board is chaired by the Governor and includes the Higher Education Coordinating Board. The Authority would work with stakeholders to design the program.

The Authority's goal is to establish a state supplemental program. However, to get the capital required to do this, it is necessary to begin with the federal loans. A big benefit to offering supplemental loans, is that middle and higher income could avail themselves of loan funds without having to go to an alternate financing source, and therefore save money. The exact timing for offering supplemental loans will depend on the spread earned on the federal loans.

Student debt is over \$1 billion per year, Washington received a "D-" in affordability in "Measuring Up," and ranks ninth highest nationally in average student debt. This program would improve affordability.

(Opposed) The Independent Colleges of Washington supports increasing non-federal supplemental loans. This is not the right vehicle. The state does not need more federal loans, they are an entitlement, and are offered competitively. Adding this program won't do much. Washington should invest in student financial aid and should support supplemental loans. This is not what is needed.

Persons Testifying: (In support) Representative McIntire, prime sponsor; Kim Herman and Paul Edwards, Washington Higher Education Facilities Authority; and Camille Andersen, Washington Student Lobby.

(Opposed) Greg Scheiderer, Independent Colleges of Washington.

Persons Signed In To Testify But Not Testifying: None.