

SENATE BILL REPORT

SB 5684

As Reported by Senate Committee On:
Higher Education, February 16, 2017

Title: An act relating to creating the higher education infrastructure investment program.

Brief Description: Creating the higher education infrastructure investment program. [**Revised for 1st Substitute:** Creating the higher education infrastructure act.]

Sponsors: Senators Palumbo and Wilson.

Brief History:

Committee Activity: Higher Education: 2/09/17, 2/16/17 [DPS-WM, DNP].

Brief Summary of Substitute Bill

- Creates the Higher Education Infrastructure Program.
- Leverages state spending on capital projects in high-demand fields of study in partnership with Washington employers.

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: That Substitute Senate Bill No. 5684 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Wilson, Chair; Bailey, Vice Chair; Palumbo, Ranking Minority Member; Frockt.

Minority Report: Do not pass.

Signed by Senator Baumgartner.

Staff: Clint McCarthy (786-7319)

Background: 2016 Supplemental Capital Budget for Higher Education. The 2016 Supplemental Capital Budget has appropriated \$918 million to higher education institutions. Of that \$918 million, \$286 million was appropriated for preservation, restoration, and repair work on existing facilities and approximately \$160 million was used to create new or expand facilities specifically focused on STEM and health science disciplines.

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.

Capacity for Four-Year Institutions to Issue Debt. The University of Washington and Washington State University are authorized in statute to issue debt for capital spending, but typically only issue debt on projects that create or enhance a revenue stream that will be able to pay the debt service. The regional universities and The Evergreen State College are not authorized to issue debt.

Private Philanthropic Contributions to Higher Education Institutions. Private philanthropic contributions can be specifically made towards the construction of facilities on a college campus. However, philanthropic campaigns also are used to pay for scholarships, faculty, and other support for academic functions. Private philanthropic donations vary wildly between institutions of higher education in Washington State. The University of Washington was in the top twenty for donations received nationwide in 2015, raising \$447 million. The state's largest community college, Bellevue College, raised \$1.4 million in 2016.

There have been large corporate gifts towards capital construction in recent years. Examples include:

- the Washington State Wine Commission who among others made a \$7.4 million contribution towards building the Ste. Michelle Wine Estates Washington State University Wine Center; and
- Microsoft and Amazon who donated \$10 million each towards building a second building for the University of Washington's Computer Science & Engineering program.

Summary of Bill (First Substitute): Higher Education Infrastructure Program (Program). The Program is created. The purpose of the Program is to leverage state spending on capital projects in high-demand fields of study in partnership with Washington employers. The board that oversees the Program shall select institutions of higher education to receive grant awards.

The source of funds for the Program shall be grants and contributions from private sources and state matching funds. Institutions that receive awards from the board may not supplant existing General Fund revenues with higher education infrastructure investment awards.

Higher Education Infrastructure Program Board. The Higher Education Infrastructure Investment Board (Board) is created. The Board shall consist of 11 members appointed by the Governor. The purpose of the Board is to provide oversight and guidance of the Program, as well as to solicit project proposals and funds for setting annual fundraising goals. Five members must be appointed from foundations or businesses engaged in the following industry sectors:

- aerospace;
- manufacturing;
- health care;
- information technology;
- engineering;
- agriculture; and
- maritime.

Of the remaining six members, the Governor must consider appointing three members from lists provided by the Speaker of the House and the majority and minority leaders of the

Senate. The initial appointments must be made no later than January 1, 2018. Terms of members are for four years. Seven members represent a quorum. Appointees are subject to confirmation by the state Senate. Meetings of the Board must be held in accordance with the Open Public Meetings Act.

When awarding funding to institutions of higher education, the Board must:

- solicit, receive, and evaluate the higher education infrastructure project proposals received;
- develop criteria for evaluating proposals;
- give priority to proposals that include a partnership between public and private partnership entities that leverage additional private funds;
- give priority to proposals that are found to be innovative, efficient, and cost-effective;
- consult with and solicit input from higher education stakeholders; and
- determine which proposals will improve and accelerate the production of baccalaureate degrees, applied baccalaureate degrees, applied associate degrees, and certificates in workforce training.

Higher Education Infrastructure Program Administrator (Program Administrator). The Board shall be staffed by the Program Administrator. The Program Administrator is responsible for:

- establishing and managing the Higher Education Infrastructure Investment fund (Fund) in an account outside the State Treasury to hold funds received from private interests;
- soliciting and accepting grants and contributions from private sources;
- providing proof of receipt of grants and contributions from private sources to the Board;
- developing and implementing an application, selection, and notification process for evaluating proposals and making awards; and
- distributing funds to selected higher education infrastructure projects through grant agreements.

Higher Education Infrastructure Program Match Account. The Higher Education Infrastructure Investment Match account (Account) is created in the custody of the State Treasurer to be used solely and exclusively for the Higher Education Infrastructure Investment Program. The purpose of the Account is to provide state matching funds for grants and contributions from private sources to the Fund and for costs of the council and Board to administer the Program. Expenditures may only be made in years where:

- the state match in the amount of \$10 million or more has been received into the Account;
- the state appropriations for higher education capital construction meets or exceeds a rolling average of the last three biennia for state appropriations for higher education capital construction; and
- when the Program Administrator provides a receipt of proof of grants and contributions from private sources to the Fund for the Program.

Any state matching funds for deposit into the Account is subject to the appropriation of amounts for this specific purpose. The state is not obligated to appropriate any monies to the Account. The frequency and amount of grants and contributions from private sources creates no express or implied promise or contract by the state to appropriate matching funds.

The Board may elect to have the Washington State Investment Board (WSIB) invest funds in the Account and the Fund; the funds shall be handled in a manner consistent with how WSIB handles its other investment accounts. WSIB board members are not liable to the state, the fund, or any other person as a result of their activities.

Reporting Requirements. On December 1st of each year, the Board shall report the following information to the Governor and the Legislature:

- the proposals the Board determined were eligible for purposes of the Program;
- the number, amount, and identification of the higher education infrastructure investment projects receiving awards;
- the total amount of grants and contributions from private sources and state matching funds received from the Program;
- the interest or other earnings in accounts; and
- the administrative costs, which must be less than one percent of all revenues.

The Joint Legislative Audit and Review Committee must evaluate the Program and submit a report to the Legislature by December 1, 2024. In addition to the requirements that the Board is required to report to the Legislature on an annual basis, the report must also include the total cumulative number of additional high employer demand degrees produced in Washington State due to the Program.

EFFECT OF CHANGES MADE BY HIGHER EDUCATION COMMITTEE (First Substitute):

- The title of the bill is amended to "An act relating to creating the higher education infrastructure act."
- Adds associates degrees to the types of degree programs that the program will support in the intent section.
- Changes the name of the Higher Education Infrastructure Investment Match Account to the Higher Education Infrastructure Act Match Account.
- Further defines the definition of a Higher Education Infrastructure Investment Project to include new capital project proposals or capital equipment projects that benefit high demand programs of study.
- Adds life sciences to the list of industry sectors that the Governor must appoint Board members from.
- Adds that the capital budget leads from both the majority and minority parties in both chambers and must be appointed to the Board.
- The Governor must consider two appointees from a list prepared by the Speaker of the House, the House Minority Leader, the Majority Leader of the Senate, and the Minority Leader of the Senate.
- Adds representatives from the Council of Presidents and the State Board for Community and Technical Colleges as non-voting members to the Board.
- Removes previous informal consultation requirement with the State Board for Community and Technical Colleges.
- The initial appointments to the Board must occur no later than six months following the initial private sector donation.
- Grants cannot be awarded until after January 1, 2019.

- If vacancies on the Board were selected from a list provided by the Speaker of the House and the minority and majority leaders of the Senate, the Governor must solicit new lists of prospective appointees from those legislative stakeholders.
- Adds applied baccalaureate degrees, applied associate degrees, and certificates in workforce training to the types of degrees that a proposal must be deemed likely to increase.
- Clarifies that the Program's administrative costs are to be less than 1 percent of private funding sources.
- Removes the Joint Legislative Audit and Review Committee reporting requirement.
- Clarifies that the program director or the Board's designee as the entity authorized to make expenditures from the Higher Education Infrastructure Act Match Account.
- Clarifies that expenditures may not be used to maintain or operate facilities or equipment constructed with funds from the Higher Education Infrastructure Act Match Account. Maintenance and operations requests must be requested through the annual budget submittal process to the Office of Financial Management.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: Yes.

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

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: There is a great disconnect between our high demand jobs and the graduates with the knowledge skills and abilities to fill those jobs. This bill will create a program that will supercharge our economy by funding needed projects sooner. Investment in high demand fields is imperative to producing more degrees in these fields. Many majors are capped on campuses across the state because there is not enough space to increase enrollment in these types of majors. There are shortages for certain positions such as pilots that could be addressed if institutions have more space to expand. STEM bottlenecks are becoming significant issue on campus. The bill does a good job of ensuring that other capital funding will not go away if this program is instituted. This program will not change the process that community and technical colleges or four year institutions use to determine their priorities. Eighty percent of unfilled jobs in Washington State are in high demand fields. There is potential to add more construction jobs around the state. While there is a construction boom in Seattle, this is a way to spread construction around the state. There are 25,000 unfilled jobs in high demand fields. There is only so much you can invest in a program before the program runs out of room. The business community has a strong tradition of making donations to institutions, and a public private partnership.

OTHER: It will be difficult to attract private investment at the more remote institutions that aren't near the population centers. How do we make sure that the funds get distributed around the state? The mission of community and technical colleges is to provide basic education and provide continuing education for adults—not to produce degrees in high demand fields. It will be difficult for CTC's to score well on this type of criteria. With only

60 percent of facilities in good or fair condition, the top priority is to fund preservation projects to extend the lives of facilities that have reached the end of their useful life. There is a concern with how this bill impacts the overall amount of funds available to higher education centers. Universities need to look at how they can keep capital construction costs down. Institutions of higher education need to look at a new model for construction that is more efficient before the state invests more.

Persons Testifying: PRO: Senator Guy Palumbo, Prime Sponsor; Alicia Kinne-Clawson, Eastern Washington University; Steve DuPont, Central Washington University; Becca Kenna-Schenk, Western Washington University; Jerry VanderWood, Associated General Contractors; Neil Strege, Washington Roundtable.

OTHER: Wayne Doty, State Board for Community and Technical Colleges.

Persons Signed In To Testify But Not Testifying: No one.