

SENATE BILL REPORT

ESB 5385

As Passed Senate, March 7, 2007

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: Senators Shin, Jacobsen, Schoesler, Rockefeller, Delvin, Tom and Kohl-Welles; by request of Washington State Higher Education Facilities Authority.

Brief History:

Committee Activity: Higher Education: 2/14/07, 2/19/07 [DP].

Passed Senate: 3/07/07, 49-0.

SENATE COMMITTEE ON HIGHER EDUCATION

Majority Report: Do pass.

Signed by Senators Shin, Chair; Kilmer, Vice Chair; Delvin, Ranking Minority Member; Berkey, Schoesler and Sheldon.

Staff: Aldo Melchiori (786-7439)

Background: The Washington Higher Education Facilities Authority (Authority) was created in 1983. The statutory purpose of the Authority 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." The Authority accomplishes this by the issuance of tax-exempt, nonrecourse revenue bonds for the independent qualified institutions of higher education in Washington State.

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, SLFA was prohibited from issuing tax exempt bonds under the Federal Revenue Code (SS 150(d)) and Washington law. The state Department of Community, Trade and Economic Development (CTED) assessed the options for replacing SLFA. CTED 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. CTED found that none of the six states that offer supplemental student loans use non-profits for administration. CTED also found that 23 states have federal student loan backed bond programs administered by state agencies or authorities. The Authority was identified as a state authority with experience in bond financing.

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.

Summary of Engrossed Bill: The Authority is authorized to originate and purchase educational loans and to issue student loan revenue bonds. The Authority has the power to form non-profit special purpose corporations or may contract with non-profit corporations to accomplish these purposes. State educational loans are not guaranteed by the state and the proceeds from loan repayment may be used to make required payments to bondholders.

It still takes four of the seven members to constitute a quorum at meetings of the Authority. 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: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony: PRO: Student loans are the only choice for many students so it is important that we help them get affordable loans. Because of the tax exempt rates on the bonds, there should be an average \$5,000 savings for each loan recipient over the term of the loan. The state will have both policy and budget control. There will be no burden on the state budget and no financial risk to the state. State backed loan programs decrease interest rates from all lenders, so even students getting private loans realize a benefit.

OTHER: Independent college financial aid officers think the program should be limited to supplemental student loans.

Persons Testifying: PRO: Senator Shin, prime sponsor; Kim Herman, Paul Edwards, Washington Higher Education Facilities Authority; Mike Bogatay, Washington Student Lobby; Chris Chapman, All Student Loan.

OTHER: Greg Scheiderer, Independent Colleges of Washington.