

# HOUSE BILL REPORT

## HB 2239

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**As Reported by House Committee On:**  
Higher Education

**Title:** An act relating to creating a state student loan program with a dedicated revenue source.

**Brief Description:** Concerning the creation of a student loan program with a dedicated revenue source.

**Sponsors:** Representatives Wallace, Sells and Kenney.

**Brief History:**

**Committee Activity:**

Higher Education: 2/20/09 [DPS].

**Brief Summary of Substitute Bill**

- Establishes the Washington Higher Education Loan Program (HELP) funded by proceeds from the state lottery.
- Allows persons to register lottery tickets for second chance drawings using the Internet.
- Provides for the net revenues from the lottery to be deposited into the HELP Account, only after the Education Construction Account is fully funded.
- Provides that the Higher Education Coordinating Board will be in charge of HELP program administration.
- Authorizes the State Treasurer to deposit revenues up to \$10 million into public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the HELP program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients.

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**HOUSE COMMITTEE ON HIGHER EDUCATION**

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*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.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Wallace, Chair; Sells, Vice Chair; Carlyle, Driscoll, Hasegawa and White.

**Minority Report:** Without recommendation. Signed by 4 members: Representatives Anderson, Ranking Minority Member; Schmick, Assistant Ranking Minority Member; Angel and Haler.

**Staff:** Andi Smith (786-7304)

**Background:**

Lottery.

The Washington Lottery was established in 1982. Lottery revenues are used for the following purposes in addition to prizes and administrative expenses (the figures are amounts distributed in FY2008):

- education construction - \$102 million;
- stadium bonds - \$13.3 million;
- problem gambling education - \$0.3 million;
- economic development - \$3.7 million; and
- general fund - \$11.1 million.

The state Lottery Commission (Commission) has authority to determine the type of lottery to be conducted, the manner of selecting the winning tickets or shares, and the method to be used in selling tickets or shares. Legislation enacted in 2006 states that tickets or shares may not be sold over the Internet. Some tickets allow a person with a losing ticket to enter a second chance drawing. The Commission requires players to send in the ticket through the U. S. Postal Service.

Current Student Aid.

The Higher Education Coordinating Board (HECB) is in charge of almost all state-run student financial assistance programs. In 2006-07 a total of \$1.52 billion was provided to about 132,000 needy Washington students from state, federal, and other sources. This aid took the form of grants, work study awards, and loans. The federal government provided the majority of the aid, 77 percent of which was in the form of loans. The state does not currently operate a state-backed student loan program.

Roughly 10 states administer scholarship or loan programs funded by state lottery revenue. Georgia, for example, administers the Helping Outstanding Pupils Educationally (HOPE) scholarship. The HOPE scholarships and conditional loan programs have been awarded to over 1 million students since its inception in 1993.

Linked Deposit Program.

The HELP funding model is based on the Linked Deposit Program (Program). The stated purpose of the Program is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the Program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer is authorized to use up to \$190 million of short-term state treasury surplus funds for the Program. These funds are deposited in public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the Program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients.

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### **Summary of Substitute Bill:**

#### Lottery as Dedicated Revenue Source.

- Persons are allowed to register lottery tickets for second chance drawings using the Internet.
- Net revenues from the lottery are deposited into the Washington Higher Education Loan Program (HELP) Account, only after the Education Construction Account is fully funded. The new lottery proceeds are capped at \$10 million.
- The Higher Education Coordinating Board (HECB) must work with the Lottery Commission to promote students as the beneficiary of lottery proceeds

#### Program Administration.

- The HELP Program is created to be administered by the HECB.
- The HECB must determine loan repayment obligations, eligibility criteria, total loan limits, fees, or other charges related to the loan, as well as the creation of particular loan programs like conditional loans or emergency loans.
- The program is limited to Washington residents who are deemed "needy" by rule of the HECB and will attend a college or university in Washington. Public and private institutions are eligible, provided that they are accredited by an accrediting body recognized by the HECB.
- Undergraduates and graduates are eligible to participate in the HELP Program.
- Loans are capped at the resident undergraduate, graduate, or professional tuition and state-mandated fees at the most expensive Washington public institution of higher education - depending on what degree the student is pursuing.

#### Funding Mechanism.

- The HELP Account is created in the custody of the State Treasurer (Treasurer).
- Proceeds from the lottery are diverted to the newly created HELP Account.
- The Treasurer is authorized to use up to \$10 million of HELP funds. These funds are deposited in public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying loans" under the HELP Program. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients.

### **Substitute Bill Compared to Original Bill:**

The original bill contained a brief legislative intent section. The substitute bill provides all HELP program details as outlined in the "Summary of Substitute Bill" section.

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**Appropriation:** None.

**Fiscal Note:** Requested February 19, 2009.

**Effective Date of Substitute Bill:** The bill takes effect 90 days after adjournment of the session in which the bill is passed.

**Staff Summary of Public Testimony:**

(In support) The Higher Education Coordinating Board (HECB) supports this legislation. The HECB's preference is for grant aid, but also recognizes that there is a need to provide low interest loans. The HECB appreciates the flexibility to work with banks to create the right programs. The private career colleges appreciate the innovative approach to generating more capital. This presents an opportunity to provide loan counseling to students and put pressure on other entities to keep interest rates low. The Legislature might consider adding institutions licensed by the Workforce Training and Education Coordinating Board to the list of eligible institutions.

(With concerns) Western Washington University (WWU) appreciates the desire of the Legislature to expand access by providing financial assistance. Western Washington University would prefer to make more grant aid available and has concerns that loans might not show the broad access the bill sets out to achieve. Consolidation with federal loans would not be possible under this program. The Council of Presidents' office appreciates the efforts to provide capital and ensure the flow of credit. However, when aid administrators are surveyed, they indicate that their preference would be to create more grants than to create new loan programs. Some pressures regarding caps on federal loan programs have been relieved by recent federal legislation, perhaps making new loan programs less necessary.

(Opposed) None.

**Persons Testifying:** (In support) Representative Wallace, prime sponsor; John Klacik, Higher Education Coordinating Board; and Steve Lindstrom, Northwest Career Colleges Federation.

(With concerns) Jane Vroman, Western Washington University; and Mike Reilly, Council of Presidents.

**Persons Signed In To Testify But Not Testifying:** None.