
Higher Education Committee

HB 1154

Brief Description: Creating the affordable college for everyone grant contract program.

Sponsors: Representatives Bergquist, Zeiger, Muri, Haler, Pollet, Moscoso, Gregerson, Tharinger, Jinkins and Santos.

Brief Summary of Bill

- Replaces the current State Need Grant (SNG) program with the Affordable College for Everyone Grant Contract (ACE) program and the current College Bound Scholarship (CBS) program with a College Bound Affordable College for Everyone Grant Contract (CB ACE) program.
- Requires that students receiving grants toward tuition (and books under the CB ACE program) agree, through a grant contract, to make contributions to the programs beginning one year after completion or discontinuation of their higher education, based on their ability to afford contributions.
- Requires that contributions to the programs are based on the recipient's total grant amount and on number of years the student received a grant, and only based on taxable income above certain thresholds.
- Provides that a recipient is not required to make contributions, unless certain state appropriations are made.
- Requires seventh or eighth graders to sign up for the current CBS program by June 30, 2015, and after that date, provides that they are only eligible to sign up for the CB ACE program.
- Directs that the changes to the SNG and CBS programs take effect on July 1, 2015.

Hearing Date: 1/28/15

Staff: Megan Wargacki (786-7194).

Background:

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.

The State Need Grant.

The primary purpose of the State Need Grant (SNG), established in 1969, is to provide the opportunity to low-income, needy, and disadvantaged Washington residents to attend an institution of higher education in the state. The Office of Student Financial Assistance (Office), within the Washington Student Achievement Council, administers the program in coordination with institutions of higher education. The Office deducts the expected family contribution from the cost of attendance to determine financial need. In 2014, to be eligible, a student's family income must not exceed 70 percent of the state's median family income. The SNG award values are based on the tuition and fee rates at Washington's public institutions of higher education and are prorated by income category and part-time enrollment. The SNG recipients are required to contribute a portion of the total cost of their education through self-help and maintain satisfactory academic progress as determined by the institution they are attending. The SNG is coordinated with other aid. During the 2013-14 academic year, 70,109 Washington students received the SNG. At the same time, there were 33,557 students who were eligible but not served.

College Bound Scholarship.

Legislation enacted in 2007 created the College Bound Scholarship (CBS). The CBS provides financial aid to cover the remaining cost of tuition at public institutions of higher education after subtracting other forms of aid and a \$500 book allowance. Students must sign up in the seventh or eighth grade, graduate high school with a cumulative GPA of 2.0, be without a felony conviction, and successfully apply to a state higher education institution. Students must qualify for free or reduced price meals when they sign up and have a family income below 65 percent of the median family income when they graduate from high school. Between 2007 and 2014, over 212,000 students had signed up for the CBS. During the 2013-14 academic year, 8,343 students received the CBS.

Federal Student Loans and Repayment Plans.

The federal government offers both grants and loans to support students to access and complete higher education. Federal loans available to undergraduates include the Subsidized and Unsubsidized Stafford Loans, the Perkins loan made through a college or university, and the PLUS loan made to parents on behalf of dependent undergraduates students. Federal loans available to graduate students include the Unsubsidized Stafford Loan, the Stafford Loan-Graduate, and the Grad PLUS Loan. All federal student loans can be consolidated into a Consolidation Loan after a borrower leaves school. The interest rate on the loan is fixed, and is set at the weighted average of the interest rates on the underlying loans. Consolidation loans also offer extended repayment terms depending on the total value of the loan. In addition, students may also be eligible for the federal Income-Based Repayment plan that allows borrowers to make monthly payments based on their income if they meet a debt-to-income test where their student loan debt is high relative their income.

Summary of Bill:

Financial Aid Programs. The SNG program is replaced with the Affordable College for Everyone Grant Contract (ACE) program, and the CBS program is replaced with the College Bound Affordable College for Everyone Grant Contract (CB ACE) program.

Contributions. Under these programs, recipients receiving grants toward tuition and fees (and books under the CB ACE program) agree, through a grant contract, to make contributions to the programs beginning one year after completion or discontinuation of their higher education, based on their ability to afford contributions. Contributions to the programs are based on the recipient's total grant amount and on number of years the student received a grant as follows:

- for two years or less, 4 percent of the student's eligible taxable income, and
- for more than two years, 5.9 percent of the student's eligible taxable income.

The contributions of a recipient must be adjusted to ensure that the combined total of their federal and state loan repayments and program contributions do not exceed 10% of the recipient's annual taxable income in any year.

A recipient must contribute to the programs until their contribution equals their total grant contract amount plus interest or 21 years have passed since the recipient completed or discontinued their higher education. A recipient who elects to contribute the remainder of their ACE contract amount plus interest in a lump sum payment receives a 10% discount as long as the remaining amount is at least \$2000.

Eligible Taxable Income. Eligible taxable income is defined according to the recipient's tax status and taxable income as follows:

- for a recipient with a federal income tax filing status of single with no dependents - over \$30,000;
- for a recipient with a federal income tax filing status of single, head of household, or qualifying widow or widow(er) with dependent child, eligible taxable income depends on the number of qualifying dependent children:
 - for 1 child - over \$40,000;
 - for 2 children - over \$50,000; and
 - for 3+ children - over \$60,000; and
- for a recipient with a federal income tax filing status of married filing jointly or married filing separately - over \$60,000.

The calculation of a recipient's eligible taxable income may include the deduction of contributions towards a Roth individual retirement account as defined in the Internal Revenue Code, to encourage savings for retirement.

Interest Rate. An interest rate of 2 percent of the recipient's total grant contract amount, minus contributions made in previous years, must be applied to the recipient's contributions for the first 10 years, and after 10 years, the interest rate must increase to 4 percent.

Deferment. A recipient with eligible taxable income may forgo making contributions for up to 2 one-year periods, though the recipient's contribution time must be increased accordingly.

State Funding Requirement. A recipient with eligible taxable income is not required to make contributions, unless the sum of \$400,000,000 is appropriated to the account used for the current SNG and CBS programs by the end of the 2015-2017 biennium, with an additional 10 percent appropriated each subsequent biennium.

Duties of the Office. The Office must annually report on the programs along with its annual financial aid report, and, by December 1, 2017, consult with the Office of the State Actuary to estimate contributions to the programs over the next 20 years.

Provisions Relevant to CBS. Seventh or eighth graders are permitted to sign up for the current CBS program by June 30, 2015, and after that date are only eligible to sign up for the CB ACE program. Provisions requiring notification of schools and students about the programs are included. The Caseload Forecast Council must estimate the anticipated caseload of the CB ACE program.

Effective Date. An emergency clause is provided, making these changes go into effect July 1, 2015.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: The bill contains an emergency clause and takes effect on July 1, 2015.