
College & Workforce Development Committee

HB 1542

Brief Description: Establishing a state student loan program.

Sponsors: Representatives Sullivan, Appleton, Tarleton, Doglio, Stanford and Valdez.

Brief Summary of Bill

- Establishes the Washington Student Loan Program to issue 1 percent student loans to resident students who graduated from Washington high schools pursuing a postsecondary certificate or undergraduate degree at a public or private, not-for-profit institution.
- Permits the Office of Student Financial Assistance to contract with a third-party entity to provide loan servicing.
- Increases the Real Estate Excise Tax on properties that sell for \$1 million or more and devotes the revenue to the Washington Student Loan Program.

Hearing Date: 2/6/19

Staff: Megan Mulvihill (786-7304).

Background:

State Student Loan Programs.

Washington has two laws granting the state the authority to develop state educational loans. In 2007 the Washington Higher Education Facilities Authority (WHEFA) was granted permission to issue taxable and tax-exempt bonds to acquire or originate student loans. The law prohibits the state from guaranteeing the loans. The WHEFA never used the authority because the auction rate security market in which student loan bonds were issued ended in 2007. In addition, in 2010 the federal government made the Stafford student loan program a Direct Loan program administered by the government rather than a private enterprise. Without a state guarantee or significant

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reserve fund, the interest rate on the student loans would not be comparable to the federal Direct Loan program.

In 2009 the Higher Education Loan Program (HELP) was created to issue low-interest educational loans and was to be administered by the Student Achievement Council. However, the program was never funded.

The state also administers the Aerospace Training Student Loan Program, the Medical Student Loan Program, and provides student loan repayment under the Health Professional Loan Repayment Program. The state also administers a variety of conditional scholarship programs in which the scholarships are turned into loans if the student fails to complete a required service obligation.

Real Estate Excise Tax.

The Real Estate Excise Tax (REET) is assessed on the sale of real estate. The REET is assessed on the selling price, including the amount of any liens, mortgages, or other debts. The REET is typically paid by the seller of the property, although the buyer is liable if the REET is not paid. The REET also applies to transfers of controlling interest in entities that own property in the state. The state REET rate is a flat 1.28 percent. Revenue from the REET funds the Public Works Assistance Account, the Education Legacy Trust Account, City-County Assistance Account, and the State General Fund.

Summary of Bill:

Washington Student Loan Program.

The Washington Student Loan Program is established and administered by the Student Achievement Council's Office of Student Financial Assistance (Office). Beginning with academic year 2021-22, the Office may award student loans to resident students who graduated from a Washington high school, are enrolled in an eligible program in an eligible higher education institution, and complete either the Free Application for Federal Student Aid or the Washington Application for State Financial Aid. Eligible programs include postsecondary education programs that lead to a certificate, associate's degree, or bachelor's degree. Eligible higher education institutions include the public four-year institutions, the community and technical colleges, and private not-for-profit institutions authorized to participate in state financial aid programs.

The student loans issued under the program are to have 1 percent interest rates that begin accruing six months after the borrower is no longer enrolled on at least a half-time basis at a higher education institution. The Office has a variety of responsibilities as administrator, including selecting students to receive loans and establishing loan limits, but a loan must not exceed the student's cost of attendance, minus other gift aid. In addition, the Office must define the terms of repayment, collect and manage repayments from borrowers, establish an appeals process, and exercise discretion to revise repayment obligations in cases of economic hardship or disability. However, in no event is the repayment period to exceed ten years from the borrower's termination of enrollment or 15 years from the date of the borrower's first student loan, whichever is less.

The Office may contract with a third-party to provide loan servicing for the student loans issued under the program. The third-party entity must comply with the requirements for student loan servicers under the state's Consumer Protection Act.

The Office must collect data on the student loan program and submit annual reports to the Legislature, beginning December 1, 2026.

Real Estate Excise Tax.

The Real Estate Excise Tax (REET) is modified in the following way:

- For properties that sell for \$1 million dollars or less, the tax is 1.28 percent.
- For properties that sell for over \$1 million dollars, the tax is 1.5 percent.

By December 1st of each year, the Department of Revenue (DOR) must calculate three things: first, the amount of revenue collected from the REET during the most recent completed fiscal year; second, the amount of revenue that would have been collected from the REET during the most recent completed fiscal year had the tax rate been 1.28 percent for all transactions; and third, the amount of revenue remaining from the REET after deducting the second calculation from the first.

The DOR must notify the State Treasurer of the calculations by December 31st of each year. The State Treasurer must allocate the revenue collected from the REET as follows:

- For the amount of the REET collected had the tax rate been 1.28 percent for all transactions:
 - Until June 30, 2023:
 - 2 percent must be deposited in the Public Works Assistance Account;
 - 4.1 percent must be deposited in the Education Legacy Trust Account;
 - 1.6 percent must be deposited in the City-County Assistance Account; and
 - The remainder must be deposited in the state General Fund.
 - Beginning on July 1, 2023, and thereafter:
 - 6.1 percent must be deposited in the Public Works Assistance Account;
 - 4.1 percent must be deposited in the Education Legacy Trust Account;
 - 1.6 percent must be deposited in the City-County Assistance Account; and
 - The remainder must be deposited in the state General Fund.
- The amount of the REET collected based on the DOR's third calculation must go into the Washington Student Loan Account.

The Washington Higher Education Loan program is repealed.

Appropriation: None.

Fiscal Note: Requested on January 22, 2019.

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