

Multiple Agency Fiscal Note Summary

Bill Number: 1736 E 2S HB	Title: State student loan program
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Estimated Cash Receipts

Agency Name	2021-23			2023-25			2025-27		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Office of State Treasurer	Non-zero but indeterminate cost and/or savings. Please see discussion.								
Student Achievement Council	(300,000,000)	(300,000,000)	0	0	0	0	0	0	0
Student Achievement Council	In addition to the estimate above,there are additional indeterminate costs and/or savings. Please see individual fiscal note.								
Total \$	(300,000,000)	(300,000,000)	0	0	0	0	0	0	0

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Office of State Treasurer	.0	0	0	0	.0	0	0	0	.0	0	0	0
Student Achievement Council	1.5	300,000,000	300,000,000	300,434,000	3.3	0	0	34,901,000	2.6	0	0	68,672,000
Student Achievement Council	In addition to the estimate above,there are additional indeterminate costs and/or savings. Please see individual fiscal note.											
Total \$	1.5	300,000,000	300,000,000	300,434,000	3.3	0	0	34,901,000	2.6	0	0	68,672,000

Estimated Capital Budget Expenditures

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Office of State Treasurer	.0	0	0	.0	0	0	.0	0	0
Student Achievement Council	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Estimated Capital Budget Breakout

Prepared by: Ramona Nabors, OFM	Phone: (360) 742-8948	Date Published: Final 2/28/2022
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Individual State Agency Fiscal Note

Bill Number: 1736 E 2S HB	Title: State student loan program	Agency: 090-Office of State Treasurer
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

Non-zero but indeterminate cost and/or savings. Please see discussion.

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate) , are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☐ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.
- ☒ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☐ Requires new rule making, complete Part V.

Legislative Contact: Michele Alishahi	Phone: (360) 786-7433	Date: 02/22/2022
Agency Preparation: Dan Mason	Phone: (360) 902-8990	Date: 02/23/2022
Agency Approval: Dan Mason	Phone: (360) 902-8990	Date: 02/23/2022
OFM Review: Cheri Keller	Phone: (360) 584-2207	Date: 02/23/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency .

E2SHB 1736 creates the Washington student loan account and allows the account to retain its earnings from investments.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates . Distinguish between one time and ongoing functions .

Projected cash flows are currently unavailable; therefore, estimated earnings from investments are indeterminable.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 1736 E 2S HB	Title: State student loan program	Agency: 340-Student Achievement Council
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Part I: Estimates

☐ No Fiscal Impact

Estimated Cash Receipts to:

ACCOUNT	FY 2022	FY 2023	2021-23	2023-25	2025-27
General Fund-State 001-1		(300,000,000)	(300,000,000)		
Washington Student Loan Account-Non-Appropriated NEW-6		300,000,000	300,000,000		
Total \$					

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.0	2.9	1.5	3.3	2.6
Account					
General Fund-State 001-1	0	300,000,000	300,000,000	0	0
Washington Student Loan Account-Non-Appropriated NEW-6	0	434,000	434,000	34,901,000	68,672,000
Total \$	0	300,434,000	300,434,000	34,901,000	68,672,000

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

- ☒ If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.
- ☐ If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).
- ☐ Capital budget impact, complete Part IV.
- ☒ Requires new rule making, complete Part V.

Legislative Contact: Michele Alishahi	Phone: (360) 786-7433	Date: 02/22/2022
Agency Preparation: Marla Skelley	Phone: 360-485-1320	Date: 02/26/2022
Agency Approval: Don Bennett	Phone: 360-485-1088	Date: 02/26/2022
OFM Review: Ramona Nabors	Phone: (360) 742-8948	Date: 02/28/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency .

Engrossed Second Substitute House Bill 1736 creates a state student loan program.

- Engrossed Second Substitute House Bill 1736 differs from the Second Substitute bill in the following ways :
- Permits the Washington Student Loan Program to be considered a need-based financial aid program by removing the specification that a state student loan may not exceed a student's cost of attendance, minus all gift aid the student receives. (Sec 4 (3))
 - Removes the requirement that the state student loan be awarded before federal and private student loans. (Sec.4 (3))
 - Requires the Washington Student Achievement Council to contract with one or more state-based financial institutions for loan origination instead of a credit union. (Sec. 5)

These changes to the bill do not change the fiscal impact.

Second Substitute HB 1736 creates a state student loan program.

- The Second Substitute bill differs from the Substitute bill in the following ways:
- Sec. 1(4) changes the intended initial appropriation from \$500M to \$300M to cover annual student loan originations and expenses.
 - Sec. 2(7) expands the definition of institutions of higher education to include those authorized to participate in state financial aid programs in accordance with chapter 28B.92 RCW.
 - Sec 5 changes to the office "shall contract with a credit union as defined in RCW 31.12.005 to provide loan origination and may contract with a third-party entity to provide loan servicing for the program."
 - Sec. 7(2) changes the expenditures for origination of student loans on an annual basis from \$65M to \$34 M.
 - Sec. 10 is added to provide that if specific funding for the purposes of this act, referencing this act by bill or chapter number, is not provided by June 30, 2022, in the omnibus appropriations act, this act is null and void.

OVERVIEW

This bill creates the Washington Student Loan Program for resident undergraduate (UG) and graduate (GR) students in high demand fields to be administered by the Washington Student Achievement Council (WSAC).

This fiscal note includes the intended one-time appropriation indicated in the bill (\$300M, Section 1(4)) and describes WSAC administrative costs that can be estimated at this time. It is assumed these WSAC administrative expenses would be only a portion of the overall administrative expense, as WSAC assumes contracting with a qualified firm(s) for both loan origination with a credit union (securing of promissory notes, making required borrower disclosures, etc.) and loan servicing (deferments, borrower disclosures, billing and collection of repayments) due to the scale and expertise needed (see more details in the fiscal note "Expenditures" section). Contracted costs are indeterminate as they are dependent on program design elements – still to be determined – and market rate for these services that would be determined through a competitive procurement process. Additional indeterminate costs would be incurred to develop a Request for Proposals (RFP) with assistance from an individual or agency that has specialized knowledge of loan origination and loan servicing.

This loan will be established as a low interest, state funded loan for students whose median family income (MFI) is at or below the 100% threshold. The loan will begin during the 2024-25 academic year. Loans would have no interest accruing for borrowers while attending an institution at least half-time, until six months after the borrower is no longer enrolled, and a one percent interest rate during repayment. The loan may not exceed the eligible student’s cost of attendance less all gift

aid received. Eligible students shall be awarded the Washington Student Loan before other loans, such as federal and private student loans (Sec. 4(3)). WSAC is required to collect data specified in Section 6.

Annual and lifetime loan limits are:

- Undergraduate students - \$3,000 with a maximum total loan limit of \$12,000.
- Graduate students - \$5,000 with a maximum total loan limit of \$10,000.
- Students who receive undergraduate loans may also receive loans for an eligible graduate program.

Based on Section 1(4), a one-time \$300M appropriation would be transferred to a new Washington student loan account (Section 7(1)) to cover annual student loan expenditures and from which program administration expenses will be made until repayments are sufficient to support the program on an ongoing basis. Beginning in the 2024-25 academic year, \$34M will be used to award the state student loans to eligible students. (Section 7 (2))

Washington Student Achievement Council (WSAC) would be the program administrator and have the following responsibilities (Section 3):

(a) Ensure institutions of higher education have a policy for awarding student loans under the program that prioritizes funding for eligible students who have greater unmet financial need, are lowest income, are first generation college students, and who have received a student loan under the program in prior years;

(b) Issue low-interest student loans;

(c) Define the terms of repayment;

(d) Collect and manage repayments from borrowers;

(e) Establish an appeals process;

(f) Exercise discretion to revise repayment obligations in certain cases, such as economic hardship or disability;

(g) Publicize the program; and

(h) Adopt necessary rules.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

Section 7 creates the Washington student loan account in the custody of the state treasurer. All receipts from the Washington student loan program must be deposited in the account.

This fiscal note assumes receipt in FY23 of a one-time \$300 million general fund-state appropriation for transfer into the new student loan account, from which all program expenditures would be made beginning in FY23 for administrative expenses and loan disbursements to students beginning in FY25.

Future cash receipts into the fund are indeterminate. Cash receipts would include investment income (proportionate share of earnings on the treasurer's trust fund as provided in Section 8) and borrower repayment of principal and interest, but amounts would be dependent on the number of borrowers, loan amounts, repayment terms, interest rate, default rate, and number of borrowers eligible for income contingent repayment.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Overall expenditures are indeterminate, as they are dependent on the amount appropriated, investment income (Section 8), number of applicants, number of borrowers, interest rate, loan terms, loan amounts and contracted expenses to be determined through a competitive bid process. This fiscal note and expenditure summary assume a one-time appropriation of \$300M in FY23 from general fund-state (Section 1(4)) for transfer into a new student loan account created in the legislation. All expenditures for loan disbursement and administrative costs would be made from the non-appropriated

account.

ASSUMPTIONS

WSAC assumes contracting for both loan origination, with one or more state-based financial institutions (securing of promissory notes, borrower disclosures, compliance with federal lending regulations, etc.) and loan servicing (deferments, borrower disclosures, repayments), as a reasonable alternative to providing those complex aspects of student loan administration through in-house staffing with the necessary expertise and experience. If WSAC was required to originate loans with in-house staff, we do not have information necessary to estimate those costs, as a loan program at this scale is not a current competency. However, we make the assumption it would cost more than a contractor would charge.

Contracted costs are indeterminate as they are dependent on program design elements, still to be determined, market rates for these services and the degree to which the contractor would be utilized to implement and execute the state loan program. The administrative expenses described below are limited to WSAC expenses related to contract management and developing the IT infrastructure needed to interface with contractors and make payments to colleges for disbursement to borrowers.

WSAC also assumes demand for low interest loans will exceed available funding on an annual basis and that WSAC will partner with colleges in selecting recipients based on priorities defined in the program, including high demand fields. WSAC assumes the awarding will be done by colleges, based on program guidelines, so that students can consider the loan as a part of their overall student financial aid package. WSAC assumes annual loan disbursements to students of \$34 million beginning in FY25.

LOAN EXPENDITURES

Loan amounts are dependent on eligible students' enrollment patterns and other financial aid they have received, as maximum annual award amounts are based on cost of attendance less all gift aid as determined by the institution of higher education.

It is assumed that borrowers' repayment can extend past standard 10-year repayment terms, due to deferments (allowable under Sec. 4(6)). The length of time can vary per borrower based on several factors including time to degree, time to employment, number of deferments and repayment terms. Borrowers experiencing financial hardship, as determined by WSAC, and who are unable to pay under the standard 10-year repayment plan, may repay under an income-based repayment plan that allows borrowers to pay no more than 10 percent of their discretionary income over 20 years with loan forgiveness occurring after 20 years in repayment (Sec. 4(5)(b)).

In the 2020-21 academic year, 99,091 undergraduate students (with median income less than or equal to 100% MFI) received some Washington College Grant (WCG) funding. It is unknown how many of these applicants would be eligible and interested in utilizing a student loan, nor who is in a high demand program, but this number provides some estimate of potential demand.

For example, if \$34 million is allocated each year for loans beginning with the 2024-25 academic year with a maximum of 20 percent used for graduate students (\$7 million), \$27 million would be available to UG students. \$27 million divided by \$3,000 maximum annual UG origination allows approximately 9,000 students to receive a WA state student loan. If the \$7 million divided by \$5,000 maximum annual origination is used for GR students, approximately 1,400 students could receive a state student loan. However, if annual expenditures were capped at \$34 million per year, WSAC's office of student financial aid would consider ramping up the number of borrowers over time so the program could serve new and continuing borrowers (who have priority per Sec. 3(2)(a)), taking four years to have a full cohort.

ORIGINATION AND SERVICING EXPENDITURES

Assumptions relative to the origination and servicing student loans are based on national estimates. It is unknown if these would be actual costs, as these services would be procured through a competitive bid process. These amounts are provided

to illustrate possible rates and charges that a third party could charge, which were obtained by WSAC by one expert familiar with origination and servicing pricing.

Origination

One-time set up	\$20,000
Applicant processing fee	\$9.00 per application (charged for both approved and denied loans)

Servicing

One-time set up	\$70,000
On-going servicing fee	\$5.00 - \$9.00 per borrower per month
Delinquency Surcharge	\$4.00 - \$20.00 per borrower per month (amount tied to delinquency)

Section 5 directs WSAC to contract with one or more state-based financial institutions to originate state student loans and authorizes WSAC to contract with third-party entities to provide servicing for student loans issued under the program. The cost for loan origination and servicing is indeterminate until such time as the program is fully developed and market rates for these services are better understood through a competitive procurement process.

WSAC staffing details are as follows for administration. These cost estimates are limited to procurement and contract management and the IT development and maintenance for contractor interfaces and payments to colleges. Indeterminate costs also may be incurred during the procurement to contract with an entity that has expertise creating an RFP to identify eligible third-party servicers and with expertise to manage a state loan program. WSAC staffing would include the need to convene a workgroup and contract for program design and financial modeling. It is assumed that WSAC would engage the established financial aid workgroup for some of this at no additional cost. It is likely that additional workgroups would be needed, but those are indeterminate at this time and likely would not be more than four meetings per year for the first two years, estimated to cost \$750 each. Additionally, WSAC IT staff would be tasked with creating software processes to support any interfaces between WSAC, participating institutions, and third-party loan originators and loan servicers. The scope and complexity of this development is indeterminate.

The costs associated with staff to carry out the work described above would be as follows:

FY23: \$434,000 for 1.0 FTE Associate Director, 0.8 FTE Program Manager A, 0.8 FTE Programmer, 0.3 FTE Program Coordinator.

FY24: \$565,000 for 1.0 FTE Associate Director, 1.0 FTE Program Manager, 1.0 FTE Programmer, 1.0 FTE Program Coordinator.

FY25 and ongoing: \$336,000 for 0.1 FTE Associate Director, 1.0 FTE Program Manager, 0.5 FTE IT Programmer, 1.0 FTE Program Coordinator.

Staff time estimates are rounded to the nearest .1 FTE and staff-related and other costs are rounded to the nearest \$1,000.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
001-1	General Fund	State	0	300,000,000	300,000,000	0	0
NEW-6	Washington Student Loan Account	Non-Appropriated	0	434,000	434,000	34,901,000	68,672,000
Total \$			0	300,434,000	300,434,000	34,901,000	68,672,000

In addition to the estimates above, there are additional indeterminate costs and/or savings. Please see discussion.

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years		2.9	1.5	3.3	2.6
A-Salaries and Wages		233,000	233,000	456,000	322,000
B-Employee Benefits		84,000	84,000	179,000	140,000
C-Professional Service Contracts					
E-Goods and Other Services		114,000	114,000	259,000	204,000
G-Travel		3,000	3,000	7,000	6,000
J-Capital Outlays					
M-Inter Agency/Fund Transfers		300,000,000	300,000,000		
N-Grants, Benefits & Client Services				34,000,000	68,000,000
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total \$	0	300,434,000	300,434,000	34,901,000	68,672,000

In addition to the estimates above, there are additional indeterminate costs and/or savings . Please see discussion.

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Associate Director	101,000		1.0	0.5	0.6	0.1
Program Coordinator	47,000		0.3	0.2	1.0	1.0
Program Manager A	60,000		0.8	0.4	1.0	1.0
Programmer	87,000		0.8	0.4	0.8	0.5
Total FTEs			2.9	1.5	3.3	2.6

III. D - Expenditures By Program (optional)

Program	FY 2022	FY 2023	2021-23	2023-25	2025-27
Financial Aid & Grant Programs (030)		300,434,000	300,434,000	34,901,000	68,672,000
Total \$		300,434,000	300,434,000	34,901,000	68,672,000

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules .

The Washington Student Achievement Council would need to establish rules, per Section 3(2)(h).