

Department of Legislative Services
Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1365
Ways and Means

(Delegate Lisanti)

County Student Loan Refinancing Authorities

This bill authorizes a county to create a student loan refinancing authority (authority), subject to specified conditions. An authority created by a local government under the bill is incorporated into the Local Government Tort Claims Act (LGTCA), contingent on a county creating an authority through enactment of an ordinance and providing notice to the Department of Legislative Services (DLS) of that fact *by June 30, 2020*; otherwise this provision of the bill is null and void. The bill does not affect the authorization of Montgomery County to establish the Montgomery County Student Loan Refinancing Authority in accordance with current law.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: Assuming the State does not appropriate any funds for start-up costs or other support for one or more authorities, the bill does not affect State expenditures or capital debt. The creation of one or more authorities is not anticipated to materially affect State revenues.

Local Effect: Local government expenditures increase to the extent that one or more counties *choose* to begin the process of creating an authority (which includes required expenditures for feasibility and demand studies) and, if one or more counties choose to create an authority, to provide start-up and/or operating funding. Local government revenues may increase in future years from repayments made by authorities for any county support provided.

Small Business Effect: None.

Analysis

Bill Summary: The purpose of a student loan authority is to provide a system of financial assistance, consisting of affordable grants, loans, and other aids to enable county residents, graduates of the county public school system, individuals employed by the county government or public school system, and other individuals, as determined by the authority, to obtain a postsecondary education. Before a county may establish an authority, it must:

- study aspects of implementing the authority in accordance with State and county law, including (1) performing a feasibility and demand study; (2) assessing the potential benefit to recruitment and retention of county and school system employees; and (3) studying the operation of similar programs in other systems, including operating costs;
- hold public hearings; and
- provide an opportunity for public comment.

If a county decides to establish an authority, the county's governing body must pass an ordinance to do so in accordance with the bill. An authority must be subject to the county's public ethics law and the State Open Meetings Act. The provisions of a county charter or other governing document do not apply to the authority unless the governing body of the county expressly provides by law that a provision applies.

If an authority is authorized to issue bonds for the purpose of making loans to finance postsecondary education, any bonds issued by the authority must be obligations of the authority only and not of the county or the State.

If an authority is created by a county and DLS is notified as specified in the bill by June 30, 2020, it is incorporated into LGTCA as a "local government." If not, then this provision (but not the rest of the bill) terminates.

Current Law/Background:

Student Loan Authorities – Statewide

No statewide entity or program for refinancing student loans currently exists in Maryland. The Maryland Higher Education Loan Corporation, a nonprofit corporation that provided loans to students for higher education expenses, was dissolved in 1996 and repealed from statute in 2005.

However, several other states have established student loan financing and/or refinancing programs, including Connecticut, Rhode Island, and Minnesota.

Chapter 290 of 2016 requires the Maryland Higher Education Commission (MHEC) and the Maryland Health and Higher Educational Facilities Authority (MHHEFA), in consultation with DLS and any other appropriate agencies, to study the expansion or creation of an appropriate bonding authority for the refinancing of student loans in Maryland. By September 30, 2017, MHEC and MHHEFA must report their findings and recommendations to the Governor and the General Assembly.

The agencies have conferred over the direction of the study and are conducting independent research in their areas of expertise in preparation for additional discussions and the reporting deadline. Initial research topics include (1) the population served by a student loan refinancing program; (2) the role of the State in administration and/or oversight of a student loan refinancing program; and (3) a profile of other states' programs. As discussed in the fiscal and policy note for Chapter 290, the agencies believe that a consultant must be hired to accurately assess the demand for and potential costs of a State refinancing program.

Student Loan Authorities – Local

Chapter 296 of 2016 authorizes Montgomery County to create the Montgomery County Student Loan Refinancing Authority, a body corporate and politic, subject to similar conditions as those in this bill. The county must conduct a feasibility and demand study and assess the potential benefit to recruitment and retention of county and school system employees as well as study the operation of other similar programs. A study is being undertaken by the county as this time, but as of March 3, 2017, is not complete.

Chapter 704 of 1986 authorized Prince George's County to establish the Supplemental Higher Education Loan Authority, subject to specified conditions, which the county subsequently did; however, little to no evidence of the Prince George's Supplemental Higher Education Loan Authority exists on the Internet.

Student Loans and Associated Debt

Many students finance higher education through loans from the federal government or private financial institutions, such as banks or credit unions. Federal loans made directly to the student have, compared to privately sourced loans, generous repayment terms. By default, new federal loans enter a 10-year loan repayment plan. If a student can demonstrate a partial financial hardship, using criteria set by the U.S. Department of Education, the student is eligible to enroll in more generous loan repayment plans, with payments based on income and family size.

Federal loans constitute the majority of student loan debt. The Federal Reserve Bank of New York in the fourth quarter of 2016 reported the federal government had issued about \$1.3 trillion in total outstanding student loans, 11.2% of which are delinquent.

Maryland – Student Loan Debt Continues to Grow

The most recent Maryland data reported for undergraduates at public and private, nonprofit four-year institutions by the Project on Student Debt, covering 2015 graduates, reports that 56% had student debt with an average debt (of those with loans) of \$27,672. Maryland [ranks](#) thirty-sixth in the country for the percent graduating with debt and twenty-eighth for the per student amount of debt.

Local Government Tort Claims Act

LGTCGA defines local government to include counties, municipalities, Baltimore City, and various agencies and authorities of local governments such as community colleges, county public libraries, special taxing districts, nonprofit community service corporations, sanitary districts, housing authorities, and commercial district management authorities.

Local Fiscal Effect: Local government expenditures increase to the extent that one or more counties *choose* to begin the process of creating an authority (which includes required expenditures for a feasibility and demand study) and, if one or more counties choose to create an authority, to provide start-up and/or operating funding. It is unclear whether and to what extent a county would choose to do so. Local government revenues may increase in future years from the repayment by authorities of any county support provided. Absent expenditures and revenues related to creating/supporting an authority, local government finances are not materially affected.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Maryland Higher Education Commission; Baltimore City; Harford and Montgomery counties; U.S. Federal Reserve; Project on Student Debt; Department of Legislative Services

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