Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 1576 (Prince George's County Delegation)
Ways and Means Education, Health, and Environmental Affairs

Prince George's County - Student Loan Refinancing Authority
PG 419-17

This bill requires Prince George’s County, by December 1, 2018, to (1) review and study the Prince George’s County Supplemental Higher Educational Loan Authority (County Authority); (2) perform a feasibility and demand study for a student loan refinancing program in the county; (3) assess the potential benefit to recruitment and retention of county and school system employees of a student loan refinancing program in the county; (4) study the operation of student loan refinancing programs in other systems, including operating costs; and (5) hold public hearings on a student loan refinancing program in the county and provide an opportunity for public comment.

The bill takes effect July 1, 2017, and terminates June 30, 2019.

Fiscal Summary

State Effect: None.

Local Effect: Prince George’s County expenditures increase by about $78,000 annually in FY 2018 and 2019 to complete the required studies and provide an opportunity for public comment. Of this amount, $75,000 annually is for contractual services related to the feasibility and demand study (FY 2018) and program financing/operation and potential implementation (FY 2019). The county also anticipates significant staff time will be allocated to the bill’s requirements. If the county reestablishes the County Authority or a similar refinancing authority, county expenditures may further increase to provide start-up and/or operating funding. County revenues may increase in future years from repayments made by the authority for any county support provided. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: None.

Analysis

Bill Summary: It is the intent of the General Assembly that Prince George's County study whether a program of financial assistance consisting of affordable grants, loans, and other aids should be offered in the county to enable individuals, as determined by the county, to obtain a postsecondary education.

The study related to the County Authority must include (1) determining the functions the County Authority performed and the actions the authority took when it was a functioning entity; (2) determining the reasons why the County Authority is now defunct; and (3) determining whether changes could be made to the County Authority that would enable it to be a functioning entity that meets the needs of the county or whether the provisions of law for the County Authority should be repealed and, if so, whether another entity should be created that would better meet the needs of the county.

The feasibility and demand study for a student loan refinancing program in the county must include a determination of categories of individuals who might benefit from the program such as county residents, graduates of the county public school system, and individuals employed by the county government or public school system.

If the county reestablishes the County Authority or a similar student loan refinancing authority (1) the authority must be subject to the county public ethics law and the State Open Meetings Act and (2) the provisions of the county charter do not apply to the authority unless the governing body of the county expressly provides by law that a charter provision applies to it.

Current Law/Background:

Student Loan Authorities – Local

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 County Authority exists on the Internet. In addition to other powers, the County Authority may make education loans and refinance education loans.

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 8, 2017, is not complete.

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 the Department of Legislative Services 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 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.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Prince George's County; Montgomery County; U.S. Federal Reserve; Project on Student Debt; Department of Legislative Services

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