

## 128th MAINE LEGISLATURE

### **SECOND REGULAR SESSION-2018**

**Legislative Document** 

No. 1834

H.P. 1276

House of Representatives, February 12, 2018

An Act To Authorize a General Fund Bond Issue To Provide for Student Loan Debt Relief

Reference to the Committee on Appropriations and Financial Affairs suggested and ordered printed.

ROBERT B. HUNT

R(+ B. Hunt

Clerk

Presented by Representative GROHMAN of Biddeford. (GOVERNOR'S BILL)

1 2 3 4	<b>Preamble.</b> Two thirds of both Houses of the Legislature deeming it necessary in accordance with the Constitution of Maine, Article IX, Section 14 to authorize the issuance of bonds on behalf of the State of Maine to provide funds as described in this Act,
5	Be it enacted by the People of the State of Maine as follows:
6	PART A
7 8 9 10 11	<b>Sec. A-1. Authorization of bonds.</b> The Treasurer of State is authorized, under the direction of the Governor, to issue bonds in the name and on behalf of the State in an amount not exceeding \$50,000,000 for the purposes described in section 5 of this Part. The bonds are a pledge of the full faith and credit of the State. The bonds may not run for a period longer than 10 years from the date of the original issue of the bonds.
12 13 14 15	<b>Sec. A-2. Records of bonds issued; Treasurer of State.</b> The Treasurer of State shall ensure that an account of each bond is kept showing the number of the bond, the name of the successful bidder to whom sold, the amount received for the bond, the date of sale and the date when payable.
16 17 18 19 20 21 22 23	<b>Sec. A-3. Sale; how negotiated; proceeds appropriated.</b> The Treasurer of State may negotiate the sale of the bonds by direction of the Governor, but no bond may be loaned, pledged or hypothecated on behalf of the State. The proceeds of the sale of the bonds, which must be held by the Treasurer of State and paid by the Treasurer of State upon warrants drawn by the State Controller, are appropriated solely for the purposes set forth in this Part. Any unencumbered balances remaining at the completion of the project in this Part lapse to the Office of the Treasurer of State to be used for the retirement of general obligation bonds.
24 25 26	<b>Sec. A-4. Interest and debt retirement.</b> The Treasurer of State shall pay interest due or accruing on any bonds issued under this Part and all sums coming due for payment of bonds at maturity.
27 28 29 30	<b>Sec. A-5. Disbursement of bond proceeds from General Fund bond issue.</b> The proceeds of the sale of the bonds authorized under this Part must be expended as designated in the following schedule under the direction and supervision of the agencies and entities set forth in this section.
31	FINANCE AUTHORITY OF MAINE
32 33 34	Maine Student Loan Debt Relief Program
35 36 37	Provides funds for low-interest student loans and interest rate reductions for student loan consolidation or refinancing for certain Maine residents who agree to live and work in Maine for at least 5 years.

1 Total \$50,000,000

**Sec. A-6. Contingent upon ratification of bond issue.** Sections 1 to 5 do not become effective unless the people of the State ratify the issuance of the bonds as set forth in this Part.

- **Sec. A-7. Appropriation balances at year-end.** At the end of each fiscal year, all unencumbered appropriation balances representing state money carry forward. Bond proceeds that have not been expended within 10 years after the date of the sale of the bonds lapse to the Office of the Treasurer of State to be used for the retirement of general obligation bonds.
- **Sec. A-8. Bonds authorized but not issued.** Any bonds authorized but not issued within 5 years of ratification of this Part are deauthorized and may not be issued, except that the Legislature may, within one year after the expiration of that 5-year period, extend the period for issuing any remaining unissued bonds for an additional amount of time not to exceed 5 years.
- Sec. A-9. Referendum for ratification; submission at election; form of question; effective date. This Part must be submitted to the legal voters of the State at a statewide election held in the month of November following passage of this Act. The municipal officers of this State shall notify the inhabitants of their respective cities, towns and plantations to meet, in the manner prescribed by law for holding a statewide election, to vote on the acceptance or rejection of this Part by voting on the following question:

"Do you favor a \$50,000,000 bond issue to provide funds for low-interest student loans and interest rate reductions for student loan consolidation or refinancing for certain Maine residents who agree to live and work in Maine for at least 5 years?"

The legal voters of each city, town and plantation shall vote by ballot on this question and designate their choice by a cross or check mark placed within a corresponding square below the word "Yes" or "No." The ballots must be received, sorted, counted and declared in open ward, town and plantation meetings and returns made to the Secretary of State in the same manner as votes for members of the Legislature. The Governor shall review the returns. If a majority of the legal votes are cast in favor of this Part, the Governor shall proclaim the result without delay and this Part becomes effective 30 days after the date of the proclamation.

The Secretary of State shall prepare and furnish to each city, town and plantation all ballots, returns and copies of this Part necessary to carry out the purposes of this referendum

36 PART B

Sec. B-1. 20-A MRSA c. 441 is enacted to read:

1	CHAPTER 441
2	MAINE STUDENT LOAN DEBT RELIEF PROGRAM
3	§12941. Definitions
4 5	As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.
6	1. Authority. "Authority" means the Finance Authority of Maine.
7 8	<b>2. Fund.</b> "Fund" means the Maine Student Loan Debt Relief Fund established in section 12943.
9 10	3. <b>Program.</b> "Program" means the Maine Student Loan Debt Relief Program established in section 12942.
11 12 13 14	4. Qualified institution of higher education. "Qualified institution of higher education" means an accredited institution of higher education eligible to receive federal assistance under a federal student assistance program authorized under the federal Higher Education Act of 1965, 20 United States Code, Chapter 28, Title IV.
15 16 17 18 19 20 21 22 23 24 25	5. Student. For purposes of participation in the loan component of the program, "student" means an undergraduate or graduate student who is a resident of the State, is enrolled at an in-state qualified institution of higher education and has been selected by the authority to receive a loan. "Student" includes a high school senior who is committed to study at an in-state qualified institution of higher education and has been selected by the authority to receive a loan. For purposes of participation in the loan consolidation or refinancing interest rate reduction component of the program, "student" means a resident of the State who has incurred student debt as a result of study at any in-state or out-of-state qualified institution of higher education and has been selected by the authority to participate in the loan consolidation or refinancing interest rate reduction component of the program.
26	§12942. Maine Student Loan Debt Relief Program
27 28 29 30 31	1. Program established; loans. The Maine Student Loan Debt Relief Program is established to increase the number of individuals in the State pursuing undergraduate and graduate degrees and to encourage them to subsequently reside and work in the State. The authority shall provide loans in amounts up to \$10,000 per year for a maximum of 5 years to selected students.
32 33 34	A. A student may receive a loan bearing an annual interest rate of 0% if the student studies at an in-state qualified institution of higher education and upon graduation with an undergraduate or graduate degree agrees to:
35	(1) Remain in the State as a resident; and
36 37	(2) Be employed in the State for a period of at least 5 years following graduation.

- A student may continue to receive a loan bearing an annual interest rate of 0% beyond the expiration of the 5-year period for as long as the student continues to reside and work in the State.
  - B. A student may receive a loan bearing an annual interest rate of the prime rate of interest, as determined by the authority, plus 2% if the student does not remain in the State, either as a student or as an employee, to reside and work for a minimum of 5 years or does not thereafter continue to reside and work in the State.
  - 2. Consolidated or refinanced loan rate reduction. The authority may use program funds to reduce interest rates on consolidated or refinanced loans to students made by participating lenders through the Higher Education Loan and Loan Insurance Program set forth in chapter 417-C and administered by the authority. Interest rate reduction payments may be made to or on behalf of students who reside and work in the State for a minimum of 5 years following the entering into of the applicable agreement with the authority and as long thereafter as the student continues to reside and work in the State.
  - 3. Participation. An individual may participate in the loan component of the program for in-school students or the loan consolidation or refinancing interest rate reduction component of the program for an individual no longer in school or both.
  - 4. Program administration; rules. The authority shall administer the program and may adopt rules to carry out the purposes of the program. Rules adopted pursuant to this subsection are routine technical rules pursuant to Title 5, chapter 375, subchapter 2-A.

#### §12943. Maine Student Loan Debt Relief Fund

- 1. Fund established. The Maine Student Loan Debt Relief Fund is created as a nonlapsing, interest-earning, revolving fund to carry out the purposes of this chapter.
- 2. Funds. The authority may receive, invest and expend on behalf of the fund money from gifts, grants, bequests and donations in addition to money appropriated or allocated by the Legislature to the fund and any federal funds received by the State for the benefit of students in the State who have outstanding education loans. Money received by the authority on behalf of the fund must be used for the purposes of this chapter. The fund and any earnings of the fund may be used for the designated purpose or to pay administrative costs incurred by the authority in administering the program, as determined appropriate by the authority. Any unexpended balance in the fund carries forward for continued use under this chapter.

#### §12944. Agreement; repayment

- A student applying for a loan or for an interest rate reduction under section 12942 shall enter into an agreement with the authority that includes the following provisions.
- 1. Loans. For a loan recipient under the loan component of the program, upon completion of postsecondary education, the recipient shall repay the entire principal of the loan plus simple interest, if any, as described in section 12942, subsection 1. Interest does not begin to accrue until 6 months following completion of the loan recipient's

education, withdrawal from school or discontinuance in school. Loans must be repaid over a term no longer than 10 years, except that the authority may extend a loan recipient's term as necessary to ensure repayment of the loan.

2. Rate reductions. Loan terms and conditions on consolidated or refinanced loans under the program must be as determined by participating lenders and the students. A recipient of an interest rate reduction under the loan consolidation or refinancing interest rate reduction component of the program shall enter into an interest rate reduction agreement with the authority. The agreement must provide that the authority will make interest rate reduction payments to the lender or the student, at the discretion of the authority, for the term of the loan, as long as the student resides and works in the State for a minimum of 5 years and the loan is not in default. The agreement also must provide that these payments may not be made for a term exceeding 15 years.

#### §12945. Default

- 1. Loans. If a loan recipient under the loan component of the program does not remain residing and working in the State for a minimum of 5 years, the interest rate on the loan held by that recipient is subject to change retroactive to the date of loan origination in accordance with the interest rate set forth in section 12942 and that recipient shall pay the authority the interest rate differential within 90 days. If a recipient no longer resides and works in the State after the initial 5-year period, that recipient's interest rate converts, effective on the date the recipient no longer resides and works in the State, to the higher rate set forth in section 12942, subsection 1.
- 2. Rate reductions. If a recipient of an interest rate reduction under the loan consolidation or refinancing interest rate reduction component of the program does not remain residing and working in the State for a minimum of 5 years, all rate reduction payments made by the authority must be repaid by that recipient within 90 days. If a recipient no longer resides and works in the State after the initial 5-year period, that recipient's interest rate reduction payments cease, effective on the date the recipient no longer resides and works in the State.

A recipient of a loan or an interest rate reduction who fails to repay the interest rate differential or interest rate reduction payments as required is liable to the authority for such amounts, plus interest on those amounts at the highest interest rate set forth in section 12942, subsection 1, plus costs of collection and the authority's attorney's fees. Exceptions may be made by the authority at its own discretion.

**Sec. B-2.** Contingent effective date. This Part takes effect only if the General Fund bond issue proposed in Part A is approved by the voters of this State.

36 PART C

**Sec. C-1. 36 MRSA §5122, sub-§2, ¶NN,** as amended by PL 2015, c. 388, Pt. A, §7, is further amended to read:

NN. For taxable years beginning on or after January 1, 2015, an amount equal to the net increase in the depreciation deduction allowable under the Code, Sections 167

and 168 that would have been applicable to that property had the depreciation deduction under the Code, Section 168(k) not been claimed with respect to such property placed in service during the taxable year beginning in 2014 for which an addition was required under subsection 1, paragraph II, subparagraph (2) for the taxable year beginning in 2014.

Upon the taxable disposition of property to which this paragraph applies, the amount of any gain or loss includable in federal adjusted gross income must be adjusted for Maine income tax purposes by an amount equal to the difference between the addition modification for such property under subsection 1, paragraph II, subparagraph (2) and the subtraction modifications allowed pursuant to this paragraph.

The total amount of subtraction claimed under this paragraph for all tax years may not exceed the addition modification under subsection 1, paragraph II, subparagraph (2) for the same property; and

# **Sec. C-2. 36 MRSA §5122, sub-§2, ¶OO,** as enacted by PL 2015, c. 388, Pt. A, §8, is amended to read:

OO. For taxable years beginning on or after January 1, 2016, an amount equal to the net increase in the depreciation deduction allowable under the Code, Sections 167 and 168 that would have been applicable to that property had the depreciation deduction under the Code, Section 168(k) not been claimed with respect to such property placed in service during the taxable year for which an addition was required under subsection 1, paragraph KK, subparagraph (2) for the taxable year.

Upon the taxable disposition of property to which this paragraph applies, the amount of any gain or loss includable in federal adjusted gross income must be adjusted for Maine income tax purposes by an amount equal to the difference between the addition modification for such property under subsection 1, paragraph KK, subparagraph (2) and the subtraction modifications allowed pursuant to this paragraph.

The total amount of subtraction claimed under this paragraph for all tax years may not exceed the addition modification under subsection 1, paragraph KK, subparagraph (2) for the same property-; and

#### Sec. C-3. 36 MRSA §5122, sub-§2, ¶PP is enacted to read:

- PP. To the extent included in federal adjusted gross income, student loan or interest rate reduction payments made by the Finance Authority of Maine in accordance with the Maine Student Loan Debt Relief Program under Title 20-A, chapter 441.
- **Sec. C-4. 36 MRSA §5217-D, sub-§2-A,** as enacted by PL 2015, c. 267, Pt. QQQ, §5 and affected by §6, is repealed and the following enacted in its place:

#### **2-A.** Limitations. The following limitations apply.

A. A credit claimed by a qualified individual based on eligibility under subsection 1, paragraph G, subparagraph (1), division (b) or (c) may be claimed only on returns filed for tax years beginning on or after January 1, 2016. A credit based on loan

- payments made prior to January 1, 2016 is not available to any individual based on eligibility under subsection 1, paragraph G, subparagraph (1), division (b) or (c).
  - B. An individual who received student loan debt relief during the taxable year through student loans or interest rate reduction payments made under the Maine Student Loan Debt Relief Program pursuant to Title 20-A, chapter 441 does not qualify for the credit under this section.
    - **Sec. C-5. Contingent effective date.** This Part takes effect only if the General Fund bond issue proposed in Part A is approved by the voters of this State.

9 SUMMARY

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The funds provided by this bond issue, in the amount of \$50,000,000, will be used to provide funds to the Finance Authority of Maine for zero-interest student loans and loan consolidation or refinancing interest rate reductions for certain Maine residents who agree to live and work in Maine for at least 5 years. The bill creates the Maine Student Loan Debt Relief Program. Under the program, zero-interest loans up to \$10,000 per year for a maximum of 5 years are available to certain Maine residents who study at qualified instate institutions of higher education and agree to live and work in Maine for at least 5 years following graduation. Loans bearing an annual interest rate of the prime rate of interest plus 2% are available to those who do not live and work in the State upon graduation. The Finance Authority of Maine may provide interest rate reduction payments to residents who use the authority's existing loan consolidation and refinancing program. This option is available to individuals who studied in Maine or outside of Maine and agree to live and work in Maine for at least 5 years. The bill exempts from Maine income tax any benefits received under the program to the extent included in federal adjusted gross income and prohibits individuals who have received benefits under the program from receiving the Maine educational opportunity tax credit.