LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

May 2, 2003

TO: Honorable Florence Shapiro, Chair, Senate Committee on Education

FROM: John Keel, Director, Legislative Budget Board

IN RE: **SB4** by Zaffirini (Relating to the establishment and operation of the Texas B-On-time student loan program.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for SB4, Committee Report 1st House, Substituted: a negative impact of ($10,395,313) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	($2,588,555)
2005	($7,806,758)
2006	($15,641,626)
2007	($23,111,885)
2008	($28,099,808)

All Funds, Five-Year Impact:

Fiscal Year	Probable (Cost) from *GENERAL REVENUE FUND* 1	Change in Number of State Employees from FY 2003
2004	($2,588,555)	9.2
2005	($7,806,758)	9.2
2006	($15,641,626)	9.2
2007	($23,111,885)	9.2
2008	($28,099,808)	9.2

Fiscal Analysis

The bill would establish the Texas B-On-time Loan Student Loan Program, which would provide zero interest loans for eligible students at institutions of higher education. The Higher Education Coordinating Board would administer the program, determine the repayment and other terms of a Texas B-On-time loan, and adopt rules to implement the program.

The bill would authorize the issuance of bonds to fund the student loans and would increase to $125 million (from $100 million) the amount of General Obligation bonds which may be issued annually by the Coordinating Board.

The bill would authorize the Coordinating Board to collect a loan origination fee to pay for operating expenses associated with the Texas B-On-time student loans.

In order to be eligible for a Texas B-On-time loan a student must be a Texas resident, graduate high school graduate not earlier than the 2002-03 academic year with a minimum 3.0 grade point average on a four-point scale or have received an associate degree not earlier than May 1, 2005, with at least a 3.0 grade point average. Also, the student must be enrolled for at least three-fourths (3/4) of a full undergraduate course load and be eligible for federal financial aid (although not required to meet any financial need requirement). A student must maintain a minimum 3.0 grade point average and be enrolled at least three-fourths time in order to maintain loan eligibility.

The amount of a Texas B-On-time Student Loan is the amount equal to the average amount of tuition and required fees charged to a full-time resident student at a public or private institution, as determined by the Coordinating Board. Students would need to maintain a "B" average in college in order to continue to be eligible for the loan.

The amount of a student's loan would be forgiven if the student is awarded an undergraduate certificate or degree with a cumulative grade point average of at least 3.0 on a four-point scale. To be eligible for loan forgiveness the student must graduate within two years after initially enrolling in a public junior college or technical institute, within four years after the date the student enrolled in a four-year institution, or within five years if the degree is in engineering or architecture.

The bill would create the new General Revenue-dedicated Texas B-On-time Student Loan Account in the General Revenue fund. Legislative policy, implemented as Government Code 403.094, consolidated special funds (except those affected by constitutional, federal, or other restrictions) into the General Revenue Fund as of August 31, 1993, and eliminated all applicable statutory revenue dedications as of August 31, 1995. Each subsequent Legislature has reviewed bills that affect funds consolidation. The fund, account, or revenue dedication included in this bill would be subject to funds consolidation review by the current Legislature.

Methodology

The Higher Education Coordinating Board assumes that they would issue $25 million in General Obligation Bonds in fiscal year (FY) 2004, $50 million in FY 2005, and $75 million annually thereafter for Texas B-On-time Student Loans. The bonds will have a twenty year maturity with semi-annual debt service payments. Debt service payments calculated by the Coordinating Board would be $2.6 million in fiscal year 2004 and $7.8 million in fiscal year 2005, up to $28.1 million by fiscal year 2008.

Based on the amount of funding above, it is estimated that approximately 13,003 students would receive loans in fiscal year 2004, of which 43 percent would be enrolled at community colleges and 57 percent would be at four-year institutions. An additional 11,764 students would receive loans in fiscal year 2005. Estimates of the number of students that would meet the academic provisions of the loan program were made based on the number of high school students expected to complete the recommended or distinguished curriculum, have a GPA of B or higher, would enroll in college immediately after high school, and would maintain a B average or higher in college. For the second year of the biennium, retention rates for sophomores at community colleges, public universities, and four-year private institutions were applied. The analysis includes retention rates for college juniors in the third year and retention rates for college seniors in the fourth year and beyond. The average annual cost of tuition and required fees is $977 at community colleges, $3,152 at public universities, and $11,707 at four-year private institutions.

The Higher Education Coordinating Board indicates a need for 9.2 Full-Time Equivalents for computer support and loan processing related to this program. Administrative costs for the Coordinating Board are estimated at $337,000 for fiscal year (FY) 2004, $469,000 for FY 2005 and FY 2006, and $531,000 for fiscal year 2007 and beyond. As authorized in the bill, it is assumed that these administrative costs would be paid from revenue collected as loan origination fees.

If a portion of the bond issuance is used to make the debt service payments, this would reduce the cost to General Revenue and result in a fewer number of students receiving loans.

This analysis does not include assumptions related to revenue generated from loan repayments.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 352 Bond Review Board, 781 Higher Education Coordinating Board
LBB Staff: JK, WP, JO, CT, PF, MG