LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

May 11, 2009

TO: Honorable Dan Branch, Chair, House Committee on Higher Education

FROM: John S. O'Brien, Director, Legislative Budget Board

IN RE: **SB1443** by Zaffirini (Relating to the academic costs charged to resident undergraduate students by general academic teaching institutions, to student financial assistance funded by tuition set-asides, and to certain reports regarding certain costs of those institutions.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1443, As Engrossed: a negative impact of ($31,575,140) through the biennium ending August 31, 2011.The bill would limit the amount of designated tuition and fees a general academic teaching institution could charge. The impact on institutional funds would be significant.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2010	($137,570)
2011	($31,437,570)
2012	($36,437,570)
2013	($41,837,570)
2014	($47,937,570)

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue (Loss) from *Institutional Funds* 997	Probable (Cost) from *General Revenue Fund* 1
2010	($16,750,067)	($137,570)
2011	($61,616,480)	($31,437,570)
2012	($122,131,615)	($36,437,570)
2013	($138,357,873)	($41,837,570)
2014	($124,127,066)	($47,937,570)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	2.0
2011	2.0
2012	2.0
2013	2.0
2014	2.0

Fiscal Analysis

The bill limits increases in total academic costs a general academic teaching institution can charge to resident undergraduate students and the amount of student financial assistance funded by tuition set asides. The bill also requires certain reports reqarding core operational costs to be submitted to the legislature. Each of these provisions will be covered in detail. The impact on designated tuition and fees will be shown under Institutional Funds.

SECTION 1

Under Section 54.016(b) of the bill, general academic teaching institutions are authorized to raise total academic costs to make up the difference between core operational costs and unrestricted general revenue appropriations subject to limitations under (c) and (d). Under (c) institutions whose per student total academic costs are above the state median, the increase in total academic cost charged in an academic year to a resident undergraduate student is no more than the consumer price index, based on a three year rolling average. Under (d) general academic teaching institutions whose per student academic costs are above the state median, the increase is limited to not more than five percent in each academic year. Under (e), the legislature is authorized to specify in the General Appropriations Act an amount that an institution may increase total academic costs per student and to reduce general revenue to any institution that exceeds that limit, if such a limit is established nothwithstanding the provision under (c). Subsections (c) and (d) are tied to information included in the biennial report by the LBB required under SECTION 5 of the bill.

Under (e-1), there is a one-year transition period for total academic costs charged to students for the 2009-10 academic year, except for those institutions subject to (e-3), to raise total academic costs the greater of five percent or $315. Subsections (b), (c) and (d) would not apply to those costs charged by an institution to which this subsection applies. In addition to the transition period under (e-1), an additional one -year transition period (academic year 2010-11) for institutions that did not raise tuition for the 2008-09 academic year authorizing those institutions to raise total academic costs the greater of five percent or $315 per year. Subsections (b), (c) and (d) would not apply to those costs charged by an institution to which this subsection applies. Under (e-3), institutions that established tuition rates before April 15, 2009 that exceed a five percent increase are prohibited from raising total academic costs for the 2009-10 and 2010-11 academic years by more than $630 for the biennium.

SECTION 2

Under provisions of this section, a general academic teaching institution may not charge a student for any course in which the student enrolls after the student's freshman year tuition at a rate that exceeds the rate in effect for that course during the student's freshman year or, for a course that was not offered during the student's freshman year, a rate that exceeds the rate in effect for an equivalent course during the student's freshman year if certain conditions are met. The limitations on total academic costs that may be charged to a student under Section 54.16(c), (d), (e-1), (e-2) or (e-3), as applicable to the institution, do not apply to a student who elects to pay tuition and academic fees under this section during the applicable time period. Beginning with the 2010-11 academic year, the amount of tuition and academic fees charged by an institution to a freshman student under this section for an academic year may not exceed the amount of tuition and academic fees that the institution would have charged to a similarly situtated freshman student under this section in the preceding academic year by more than five percent. The section would expire January 1, 2015.

SECTION 3

Amends current statute to indicate that designated tuition shall not be accounted for in the general appropriations act in such a way as to reduce the general revenue appropriation to particular institution except as provided by Section 54.016(e). The section would also require governing boards of each institution to take into account the reduction in the percentage of tuition that will be set aside for student financial assistance under Subchapter B, Chapter 56, in setting the tuition rates.

SECTION 4

Under this section, the Legislative Oversight Committee will oversee the Legislative Budget Board's development of the methodology used for estimating core operational costs and the list used to determine those institutions whose total academic costs are above the median. The section also expresses legislative intent that no later than the 2014-15 academic year, the portion of tution charged under Section 54.0513 to be set aside for student financial assistance be phased out.

SECTION 5

Under provisions of the bill, not later than September 1 of each even-numbered year, the Legislative Budget Board shall submit to the Senate Finance Committee, the House Appropriations Committee, and the standing committee of each house with primary jurisdiction over higher education, for consideration by the members of those committees in determining the amount of general revenue appropriations to general academic teaching institutions and tuition rates at those institutions, the Legislative Budget Board's estimate of the core operational costs for the next state fiscal biennium for each general academic teaching institution, based on a methodology that: (1) projects for each year of the next biennium: (A) changes in student enrollment for each institution; and (B) a rate of inflation; and (2) uses data from each institution's annual financial report regarding costs for instruction, academic support, institutional support, operations and maintenance of physical plants, and student services. The report would also include a certified list of all general academic teaching institutions ranked according to the amount of total academic costs charged per student in the academic years covered by the current state fiscal biennium, including an indication of the institutions to which Sections 54.016(c) and (d) apply.

Beginning in 2013, the Legislative Budget Board shall submit with its estimate a comparison of each institution's actual core operational costs for the preceding state fiscal biennium to the board's previous estimate of the institution's core operational costs for that biennium.

SECTION 6 and 7

Section 6 changes the designated tuition set aside from 20 percent to 15 percent. Section 7 repeals the five percent set aside for the B-On-Time program.

SECTION 8

This section would require general academic teaching institutions to submit to the Legislative Budget Board, Senate Finance Committee, House Appropriations Committee and the standing committee of each house with primary jurisdiction over higher education a detailed plan for reducing the institution's operational costs by at least 5 percent.

The remaining sections deal with the effective dates of each section. Under SECTION 11, the various sections dealing with the B-On-Time program would only take effect if the 81st Legislature appropriates general revenue to replace the portion of the tuition set aside for the program that would be eliminated.

Methodology

The fiscal note will be broken out by each Section that has a fiscal impact.

SECTION 1

To calculate the impact of the provision, the Higher Education Coordinating Board calculated the statewide designated tuition and fee costs for institutions above the median the tuition and fee costs for institutions below the median. Based on tuition information provided to them by the general academic institutions for Fall 2008, they found the statewide average tuition and fees for institutions below the median was $1,951 and the statewide average for institutions above the median was $2,849. They used the same information for Spring 2009 resulting in the fiscal year 2009 totals for institutions below the median totaling $3,903 and for institutions above the median totaling $5,698. These amounts were increased by 6.64% in the subsequent years based on historical increases resulting in the fiscal year 2010 amounts of $4,162 for institutions below the median and $6,077 for institutions above the median and $4,439 and $6,481 respectively for fiscal year 2011. For fiscal year 2007, 75,098 resident undergraduates attending institutions below and median and 263,534 attended institutions above the median.

For fiscal year 2010, under provision (e-1), the Higher Education Coordinating Board subtracted the amount of designated tuition and mandatory fees for institutions above the median allowing for a $315 increase (this amount was projected to be higher than a 5% increase) from the anticipated amount of designated tuition and mandatory fees (without regulation). For fiscal year 2010, the projected lost revenue (institutional funds) is estimated to be $16.8 million . This was based on the following calculation, the number of students, which was 263,534, multiplied by $64, the designated tuition and fee differential for fiscal year 2010 between $6,077 and $6,013($5,698 +$315). For institutions below the median, the estimated tuition allowed under the bill, $4,218 ($3,903 + $315) was above the estimated tuition without regulation ($4,162) so there was no loss revenue for the institutions.

For fiscal year 2011, none of the institutions qualified under the provisions (e-2) or (e-3). It is unclear whether the provisions under (c) or (d) would apply therefore it was assumed for purposes of this fiscal note, the designated tuition rate for 2010 was increased by 5%($6,013 to $6,313). Based on these calculations the tuition differential was $168 for institutions above the median ($6,481-$6,313) and $11 for institutions below the median resulting in the estimating tuition losses of $44.9 million. A similar methodology was used for fiscal year 2012-2014 except designated tuition and fee costs were based on the consumer price index average.

SECTION 2

The Higher Education Coordinating Board applied the 6.64% increase to the fiscal year 2009 estimated tuition and fee rates for all general academic teaching institutions and derived estimates for fiscal year 2009-14. During that time, the Higher Education Coordinating Board estimated that designated tuition at general academic teaching institutions would increase from $4,775 in fiscal year 2009 to $5,092 in fiscal year 2010 and $5,431 in fiscal year 2011. The tuition would continue to increase to $6,586 by fiscal year 2014. The Board than calculated the number of students that would be impacted.

In fall 2007, the number of full-time student equivalent (FTSE) resident, freshmen enrolled in general academic teaching institutions was 56,722. The first-time entering freshman retention rate for universities was 86.70%. The Higher Education Coordinating Board multiplied the numbers of freshmen equivalents by the retention rates to derive the number of students impacted by the provisions. They assumed the retention rates decreased by 8% each year and made the same calculation for each year. For purposes of this fiscal note, all freshman enrolled were assumed to take advantage of the tuition program.

In order to derive the amount of tuition revenues lost by the schools they multiplied the number of FTSE freshmen by the persistence rate, and the result of that calculation by the change in designated tuition each student would have paid if rates were held constant. They subtracted this amount from the anticipated amount of designated tuition (without regulation).

In fiscal year 2010, the freshman would be charged $5,092 in designated tuition and fees. For fiscal year 2011, when the freshman return the estimated tuition rate would be $5,431 and the constant rate is $5,092. This difference ($339) was multipled by 49,178 (56,722 multiplied by .8670) to calculate the lost revenue for fiscal year 2011. Similar calculations were done for the remaining years.
Based on these assumptions the decrease in designated tuition revenue for fiscal year 2011 would be $16.6 million. The revenue losses would continue to increase in the remaining years as more freshman cohorts enter the institutions.

For purposes of this fiscal note, the calculations for Section 1 and Section 2 were done independently of one another since it is unknown how many students would take advantage of the tuition program.

SECTION 4 and 5

The Legislative Budget Board would need to hire an additional analyst at a total cost for salaries and benefits of $73,285 per year and a new programmer at a total cost for salary and benefits of $64,285 per year to implement provisions of the bill. The total administrative costs would be $137,570 per year.

SECTION 7 and 11

For purposes of this fiscal note it is assumed that the Legislature will appropriate funding to replace the tuition set asides for the B-On-Time Program. The Higher Education Coordinating Board has estimated that $45.3 million in tuition set asides will come in fiscal year 2010 based on a historical increases of 31% per year. It is assumed that the tuition set asides will level off as tuition rates decrease so this percentage has been reduced to an increase of 10% per year for fiscal year 2011-2014. Based on these assumptions, the projected tuition set asides in fiscal year 2011 is $49.5 million increasing to $66.3 million by fiscal year 2014. In fiscal year 2008-09, the Legislature appropriated $18.5 million per year in general revenue for program. These amounts have been subtracted from the estimated set asides losses beginning in fiscal year 2011.

Local Government Impact

No significant fiscal implication to units of local government is anticipated.

Source Agencies: 710 Texas A&M University System Administrative and General Offices, 720 The University of Texas System Administration, 758 Texas State University System, 769 University of North Texas System Administration, 781 Higher Education Coordinating Board, 783 University of Houston System Administration

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